SEMESTER-IV

ଓଡ଼ିଶା ରାଜ୍ୟ ମୁକ୍ତ ବିଶ୍ୱବିଦ୍ୟାଳୟ, ସମ୍ବଲପୁର

ODISHA STATE OPEN UNIVERSITY, SAMBALPUR

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Odisha State Open University

Sambalpur

BACHELOR OF COMMERCE (HONOURS) (BCOM)

GENERIC ELECTIVE - 4

GECO-04: PRINCIPLES OF MARKETING

Credit: 6

Block-1,2,3 & 4

GECO 04: PRINCIPLES OF MARKETING

Brief Contents

ODISHA STATE OPEN UNIVERSITY, SAMBALPUR

Programme Name: **Bachelor of Commerce (B.Com)** Programme Code: **BCO**

Course Name: **Principles of Marketing** Course Code: **GECO-04**

Semester: **IV** Credit: **6** Block No. **1 to 4** Unit No. **1 to 16**

This study material has been developed by Odisha State Open University as per the State Model Syllabus for Under Graduate Course in Commerce (Bachelor of Commerce Examinations) under Choice Based Credit System (CBCS).

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MATERIAL PRODUCTION

Registrar
Odisha State Open University, Sambalpur

Printers by:

GECO 04: PRINCIPLES OF MARKETING

Contents

BLOCK-1: INTRODUCTION TO MARKETING

UNIT-1: NATURE AND SCOPE OF MARKETING

Structure

LEARNING OBJECTIVES

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

- explain the concept of Market
- explain the concept of Marketing Management
- discuss the Exchange Process
- explain core Concepts of Marketing
- describe functions of Marketing
- explain importance of Marketing
- describe marketing Orientations

1.1 INTRODUCTION

Marketing of goods and services is the essence of economic life in any society. It is the life-blood of organizations and every organization performs the function of marketing to satisfy the needs of their stakeholders. Marketing activity is often linked to the financial success and health of an organization which makes marketing an important activity for organizations. This chapter will throw light on the basic marketing concepts and will provide a comprehensive understanding of the marketing function.

Marketing encompasses everything from product development to advertising, sales, distribution, and post-sales service. It involves understanding your target audience, crafting compelling messages, choosing the right channels to reach customers, and constantly analyzing and adjusting your strategies.

In today's digital age, online marketing, social media, and data analytics play significant roles. The scope of marketing extends beyond traditional boundaries, incorporating elements of psychology, sociology, economics, and technology.

1.2 MARKETING

What is Marketing?

Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user. Marketing occupies a prime position in the organization of a business unit.

It is one of the important and core activities of all business operations. It consists of those activities which lead to the transfer of ownership of goods and also some aspects of physical distribution.

Thus, Marketing is a functional area of business management which has to do with the broad problem of consumer satisfaction.

Definitions of Marketing:

Marketing is the performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user

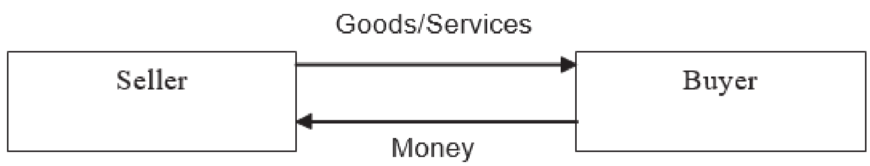
Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

A societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.

Marketing is the combination of activities designed to produce profit through ascertaining, creating, stimulating, and satisfying the needs and/or wants of a selected segment of the market.

Market:

The term ‘market’ originated from the Latin word “Marcatus” which means “a place where business is conducted”. In layman’s terms “market” is a physical place where buyers and sellers gather to buy and sell goods. Economists define market as a collection of buyers and sellers who transact over a particular product or product class. According to Perreault and Mc Carthy, market is defined as a group of potential customers with similar needs or wants who are willing to exchange something of value with sellers offering various goods and/ or services to satisfy those needs or wants. The exchange can be done at some physical location face-to-face or it can be done indirectly through complex networks that link buyers and sellers. In simple terms, a market can be represented as follows:



However, as market is a congregation of group of sellers and buyers, market can be better represented as follows:

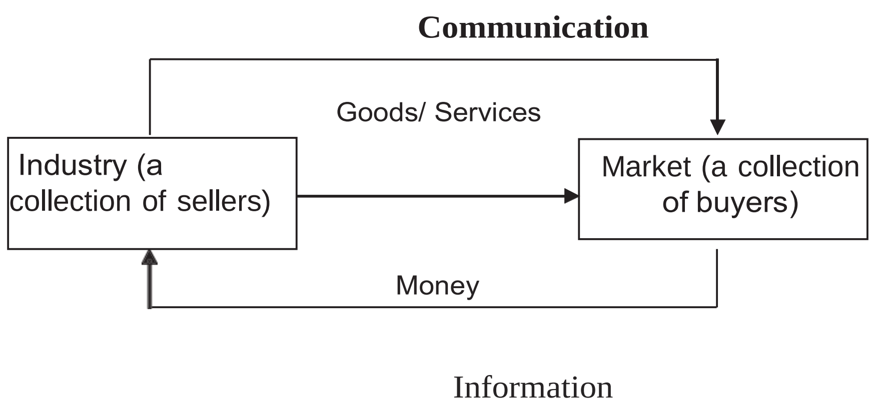


Figure 1.1: A Simple Marketing System

The following are the key customer markets:

(a) Consumer,

(b) Business,

(c) Government,

(d) Global, and

(e) Non-profit.

(a) Consumer Markets: In this market, the consumers obtain what they need or want for their personal or family consumption. In this market companies sell mass consumer goods and services such as toothpaste, soft drinks, and equipments. Companies give a lot of effort in building a superior brand image.

(b) Business Markets: In this market, the industrial or business buyers purchase products in order to make or resell a product to others at a profit. The products may include raw materials (crude oil, iron ore, etc.), components (tyres, microprocessors, etc.), finished products (packaging machine, generators, etc.), office supplies (paper, pen, etc.), and maintenance and repair items (lubricating oil, grease, etc.).

(c) Government Markets: The central, state, local governing bodies form a large segment of the buyers and they also are the biggest provider of services to the people. In a developing country like India railways, post and telegraph, roadways, etc. are services provided by the Central and State Government.

(d) Global Markets: Several companies are selling goods and services in the global marketplace to sustain and increase their sales and profit. Globalization, rapid advances in information technology, and the efforts by WTO have diminished the regional boundaries thereby making business easier. However, companies face additional challenges too in serving a global market.

(e) Non-profit Markets: Non-profit organizations work for a particular cause and create awareness among general public towards these causes. Companies selling goods to no-profit organizations such as charitable organizations and religious institutions need to price carefully, because these buyers have limited purchasing power.

This makes it clear that market is not necessarily a place. It is an atmosphere or a region in which forces of demand and supply interact directly or by means of any kind of communication that are sufficient to bring about transfer in the title of goods. Market is, thus, an arrangement providing an opportunity to exchange goods.

1.3 CORE CONCEPTS OF MARKETING

A core set of concepts forms the base for understanding the foundation of marketing management and developing holistic marketing orientation. As a basic step, marketers need to understand customer needs and wants, market offerings, value and satisfaction, and exchanges and relationships.

a. Customer Needs, Wants and Demands:

The basic underlying concept of all marketing activities is human needs. Needs are the basic human requirements and are states of felt deprivation. People need food, air, water, clothing and shelter to survive. Apart from these basic needs, people also have strong needs for education, entertainment and recreation. These needs become wants when they are directed to specific objects that might satisfy the need. For example, a consumer in India needs food but may want rice, lentils and vegetables. On the other hand, a consumer in Italy needs food but may want a pizza. Wants are thus, shaped by our society. Marketing activities are directed to satisfy the human needs and wants.

Demands are wants for specific products backed by an ability to pay. Many people want a BMW for a car; only few are willing and able to buy one. Marketers must measure not only how many people want their product, but also how many would be willing and able to buy the product.

b. Product or Market Offerings:

Companies or marketers address the needs of people by putting forth a product. People satisfy their needs and wants with products or offerings. The offering is also called value proposition which means a set of benefits that they offer to customers to satisfy their needs. The intangible value proposition is made tangible by the offering. The basic types of offerings are goods, services, experiences, events, and information.

The term brand signifies an offering from a known source. A brand name such as KFC carries many associations in people's mind that make up the brand image. All companies strive to create a strong brand image in the minds of the consumer.

c. Customer Value and Satisfaction:

The product or offering will be successful if it delivers value and satisfaction to the customer. Value reflects the sum of the perceived tangible and intangible benefits and costs to the customers. The buyer chooses between different offerings on the basis of his/her perception of value. Value is, therefore, the ratio between what the customer gets and what he gives. Value is a central marketing concept and primarily is a combination of quality, service and price, also called the "customer value triad".

Satisfaction reflects a person's judgements of perceived performance of a product in relationship to expectations. If the performance matches the expectations, the customer is satisfied. If the performance falls short of expectations, the customer is dissatisfied. And when performance exceeds expectations, the customer is delighted.

d. **Marketing Channels:**

Marketing channel refers to the path taken by the marketers to reach the target market. The marketer uses three kinds of marketing channels to reach the target market: communication channels, distribution channels and service channels. Communication channels deliver and receive messages from the target buyers. Examples of communication channels include newspapers, magazines, radio, television, internet, billboards, posters, fliers, etc. Distribution channels are used by marketers to display, sell or deliver the product or service to the customer. These include distributors, wholesalers, agents and retailers. The marketer also uses service channels to carry out transactions with potential customers. Service channels include warehouses, banks, insurance companies, transportation companies, etc. which facilitate the transaction.

e. Supply Chain:

Supply chain is the channel starting from raw materials to components to the final product that is delivered to the customer. Each company captures only a certain percentage of the total value generated by the supply chain.

f. Competition:

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. Competition is increasing as several marketers are trying to increase the value of their offerings to the customers.

g. Marketing Environment:

The marketing environment includes task environment and broad environment. Task environment includes the factors engaged in producing, distributing and promoting the offering. The broad environment consists of six components: demographic environment, economic environment, physical environment, technological, environment, political-legal environment, and social-cultural environment. Marketers must pay close attention to the trends and developments in these environments and make necessary adjustments in their marketing strategies.

1.4 FUNCTIONS OF MARKETING

Marketing is linked with the exchange of goods and offerings. It is through the medium of marketing that goods and services are brought to the consumers, which then satisfies the needs and desires of consumers. However, marketing is not a simple activity of exchange. This exchange of goods and services consists of several activities. From the view point of management, following are the functions of marketing:

i. Gathering and analyzing market information: One of the important functions of marketer is to gather and analyze market information to identify the needs of the customers and take various decisions for the successful marketing of the products and services. Market information not only provides the needs and desired of the customers but also helps the organization in determining its strengths and weaknesses and analyzing the opportunities and threats in the environment.

ii. Marketing planning: Another important activity or area of work of a marketer is to develop marketing plans. This is necessary to achieve the marketing objectives of the organization.

iii. Product designing and development: Another important function of marketing is product design and development. The design of the product makes it attractive, determines its performance and may become a source of competitive advantage. Sufficient time must be given in planning the design of the product.

iv. Standardization and grading: Standardization refers to producing goods of predetermined specification and grading is the process of classification of products into different groups on the basis of certain important characteristics. Standardization is an important marketing function as it ensures that goods conform to predetermined standards of quality or price or packaging and grading ensures that goods belong to a particular quality and helps in realizing higher prices for higher quality products.

v. Packaging and labelling: Packaging and labelling has assumed significant importance in marketing. Packaging not only serves as protective tool but also serves as a promotional tool. Buyers most often judge the quality of the product from packaging and labelling.

vi. Branding: Marketer of the products must also decide whether to market the product under the generic name or under a brand name. The brand name helps to distinguish the product from its competitors and helps in creating product differentiations.

vii. Customer support services: A very important function of marketing is customer support services such as after sales service, technical services, customer grievance handling, maintenance services, and customer information. These services help develop brand loyalty and also prove effective in bringing repeat sales.

viii. Pricing of product: Price is an important factor which affects the sales of the product. The marketers need to properly analyze the factors while determining the price of a product.

ix. Promotion: Promotion of products and services involves informing the customers about the firm's product and persuading them to buy the product. A marketing manager has to take several crucial decisions regarding promotion mix, promotion budget and so on.

x. Physical distribution: Managing the distribution of the products is another important decision criterion for marketing managers. Mainly, two major decisions need to be taken: (a) decision regarding channel of distribution and (b) physical movement of the product from where it is produced to the place where it is consumed.

xi. Transportation: As the producers and consumers are geographically separated it is necessary to move the products from one place to another. Organizations must analyze the transportation needs and take decisions with respect to mode of transportation, cost of transportation and other such related issues.

xii. Storage or warehousing: In order to maintain smooth flow of product in the market, there is a need for proper storage of the products. Moreover, storage is also required to meet the demands of the customers in the market and therefore, it is an important function of marketing. The function of storage however, may be performed by different agencies such as the manufacturers, wholesalers, and retailers.

1.5 IMPORTANCE OF MARKETING

Marketing is indispensable in today's business world. It plays a significant role in smooth transfer of goods and services from the place of production to the place of consumption. The following points highlight the importance of marketing:

- **Marketing facilitates exchange of goods:** Marketing helps in the possession of goods and transfer of ownership from seller to buyer. Marketing through promotion brings together the buyers and sellers and facilitates sale of goods as per need and wants of the consumers. It creates possession, place and time utilities in goods and services. Through transportation, goods are provided to the consumers who may be scattered throughout the geographical area or region. Warehousing provides time utilities by holding the stock of goods when they are not in demand.
- **Marketing increases market base:** Marketing locates the untapped areas, stimulates demand and creates demand for new product and services. Banking, insurance and financing facilities ensure smooth flow of goods to distant markets. It, thus, widens the market. The manufacturers are able to increase production as well as sale of their products.
- **Marketing gives boost to other activities**: Marketing increases demand of various related activities like banking, insurance, warehousing and transport. Advertising, sales promotion and direct marketing efforts also get a boost as they are needed more to accelerate sales.
- **Marketing raises standard of living of people**: A society enjoys a better standard of living when necessities, comforts and luxuries are within the reach of a large number of people. Large scale production and availability of wide variety of products have become possible due to marketing. Transportation and warehousing functions have facilitated the transfer of goods to distant places. People living in remote areas or other places are able to use a variety of goods at affordable prices. Thus, people are enjoying a better standard of living.
- **Marketing provides satisfaction of human wants**: Marketing informs and guides the people about product availability and its utility. People come to know about variety of products. They are able to select the product which can satisfy their need and wants in best possible manner. Marketing makes possession of goods easier for consumers and thus provides satisfaction.
- **Marketing creates job opportunities:** In the highly competitive market, only organized marketing programs can be implemented. It calls for the need of services of people who are specialized in their fields. Marketing of goods has become complex. Therefore, organisation creates a separate department for marketing which is headed by a marketing manager. Other staff is also appointed to assist him. Thus, gainful employment is provided to large number of people. Apart from this, demand for product has been extended to a larger region. During the process of

transfer of goods, services of various agencies are required. The increasing volume of trade has increased demand for these specialized services. Many people are now employed in insurance sector, banking sector and advertising companies.

- **Marketing creates stable economy**: Marketing creates a link between production and consumption. Goods are easily available at any part of the country or even in other countries due to fast means of transportation, communication and warehousing facilities. There is no shortage of goods. Goods are produced in abundance and stored to supply as per their demand. Hence, prices of goods do not fluctuate. Marketing creates and maintains demand for product through various promotion tools. Large scale production, higher demand, more employment and minimum price fluctuation create a stable economy.
- **Marketing helps in optimum use of resources**: The unused plant capacity increases cost per unit as that portion of plant does not contribute anything but consumes resources in the form of maintenance charges, rent of plant, insurance charges and depreciation. Marketing creates more demand. To meet this demand, plants are used at maximum capacity. Standing charges are justified due to increase in volume of production and as a result cost per unit reduces. Thus, men, machinery, money and plant are optimally utilized and benefit (in the form of less cost) is passed to consumers.
- **Marketing helps in increasing national income:** Marketing activities help in more production of goods and services and increase in sales. It also improves earning capacity of people due to employment opportunities. The net effect of marketing efforts is thus increase in per capita income as well as national income.
- **Marketing provides base for making production decisions**: Marketing research is an important marketing function. Customer needs and wants are assessed through market surveys. Consumer demands are forecasted on the basis of surveys as well as retailers and wholesalers' estimates. The buying pattern of customers is analyzed. This provides valuable information to producer regarding what to produce, when to produce and how to produce. Thus, decision regarding production becomes more effective.
- **Marketing serves various sections of society**: Marketing helps producer in increasing sales. Consumers are benefited as they get products and services to satisfy their wants. Government

gets more revenues in the form of taxes. NGO gets more funds to carry on welfare activities. Society at large is benefited in terms of more employment opportunities, optimum utilization of resources, better services, innovations and reasonable cost of products.

Thus, marketing is the driving force of the economy. No economic activity can be imagined without marketing. It provides invaluable services to various sections of society. It is responsible for the progress of the nation.

1.6 MARKETING ORIENTATIONS

Companies have to put in a lot of effort to market their products. The company needs to clarify the concepts which they apply while selecting a market. It is important for the company to understand, what philosophy should guide a company's marketing efforts? There are basically five different orientations which a company takes towards the marketplace.

The Production Concept:

The production concept is one of the oldest concepts and the crux of the concept is based on the premise that, if the product is really good and the price is reasonable there is no need for marketing effort. Organizations operating under a production- oriented concept focus on achieving high production efficiency, low costs, and mass distribution.

Fig. 1.2 : Production Concept

The Product Concept:

The product concept lays emphasis on the fact that consumers favour only those products which offer the highest quality, performance and innovative features. Managers in these organizations focus on making superior products and improving them over time. However, managers must understand that an improved product may not necessarily be successful unless it is priced, distributed, marketed, and sold properly.

Fig. : Product Concept

The Selling Concept:

The selling concept holds that merely making available the best product is not enough as consumers, if left alone, won't buy enough of the organization's product. The organization, therefore, must undertake aggressive selling and promotion effort. The essence of the selling concept is "goods are not bought but sold". The selling concept is practiced most aggressively with unsought goods like insurance. Many companies also practice the selling concept when they have overcapacity. However, hard selling may have its own risks as customers may not like the product and may bad mouth the company later on.

Fig. 1.3: Selling Concept

The Marketing Concept:

The marketing concept emerged in the 1950s, and points out that the fundamental task of an organization is to study and understand the needs, wants and desires of potential consumers and to produce goods in the light of these findings. Thus, from the "make-and-sell" philosophy business organizations shifted to "sense-and-respond" philosophy. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your chosen target market.

Fig.1.4: Marketing Concept

The Holistic Marketing Concept:

Organizations, over a period of time, have realized that the forces and trends are dynamic and there no single best way of approaching problems. Today's best marketers recognize the need to have a more complete, comprehensive and cohesive approach that goes beyond the traditional marketing concepts. Holistic marketing concept is based on development, design, and implementation of marketing programs, processes and activities. "Everything matters" in holistic marketing and a broad and integrated outlook is required to market goods and services.

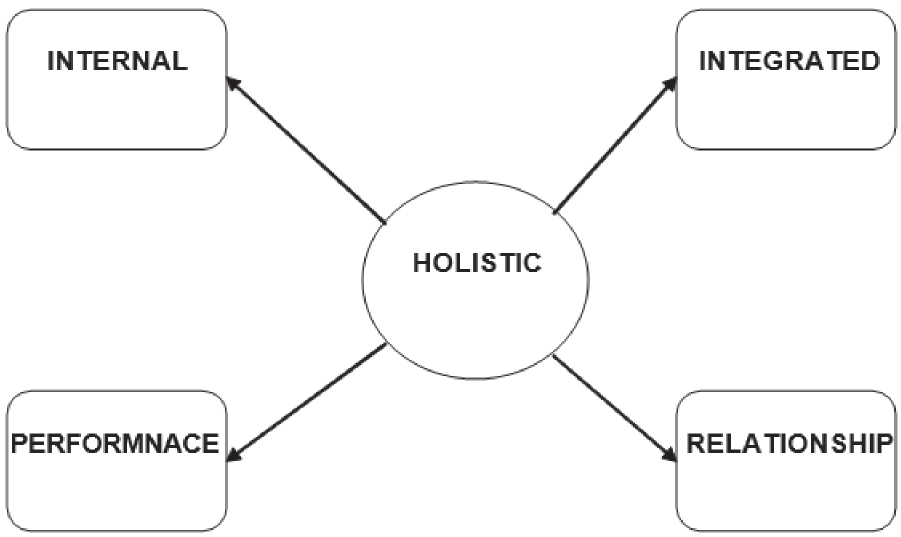


Fig.1.5: Holistic Marketing Concept

1.7 LET'S SUM-UP

The nature and scope of marketing encompass a dynamic and customer-centric field focused on creating, communicating, delivering, and exchanging value. Marketing is characterized by its emphasis on understanding and satisfying customer needs, creating value for both customers and the organization. It involves the exchange of goods, services, or ideas and is influenced by external factors such as economic conditions and technological advancements.

The scope of marketing is extensive and includes product management, pricing strategies, promotion and advertising, distribution and channel management, market research, and an understanding of consumer behavior. Marketing also addresses ethical and social responsibility considerations, extends globally, incorporates digital strategies, and increasingly emphasizes sustainability. It is an integrated process that evolves over time in response to changes in consumer behavior, technology, and the broader business environment. Successful marketing strategies align with organizational goals, consider diverse market factors, and aim to create long-term value in the marketplace.

1.8 REVIEW QUESTIONS

Q1. Define the terms ‘market’ and ‘marketing’.

Q2. What is the importance of marketing?

Q3. What are the functions of marketing?

Q4. Explain the various waves of thoughts in marketing management.

Q5. Explain the basic concepts of marketing.

Q6. Differentiate between selling orientation and marketing orientation.

UNIT: 2 MARKETING ENVIRONMENT

UNIT STRUCTURE

- Learning Objectives
- Introduction
- Environmental Scanning
- Micro Environment
- Macro Environment
- Differences between Micro and Macro Environment
- Techniques of Environmental Scanning
- Let us Sum up
- Further Readings
- Answers to Check Your Progress
- Model Question

LEARNING OBJECTIVES

Upon completing this unit, you will have the capability to:

- articulate the necessity of Environmental Scanning
- elucidate the company's Micro and Macro Environment
- engage in discussions regarding the techniques of Environment Scanning

2.1 INTRODUCTION

In the preceding section, we gained a solid understanding of the process involved in creating and executing marketing plans. The development and execution of marketing plans entail numerous decisions, and for companies to make well-informed choices, they need to have thorough and current information. Effective marketers recognize the ever-changing nature of the marketing landscape and appreciate the significance of consistently monitoring and adjusting to these changes. Consequently, the effective management of marketing activities is contingent upon a deep understanding of the marketing environment.

In the upcoming section, we will delve into the elements of an organization's macro and micro environment, exploring various techniques for environmental scanning.

2.2 ENVIRONMENTAL SCANNING

Numerous environmental factors exert an impact on a company's marketing system. As stated by Philip Kotler, "A company's marketing environment encompasses internal factors and forces that influence the company's capacity to establish and sustain successful transactions and relationships with its target customers." Consequently, the marketing environment signifies the entities and forces that influence a firm's capability to form and uphold relationships with its customers. The marketing environment can be categorized into:

- Micro-environment
- Macro-environment

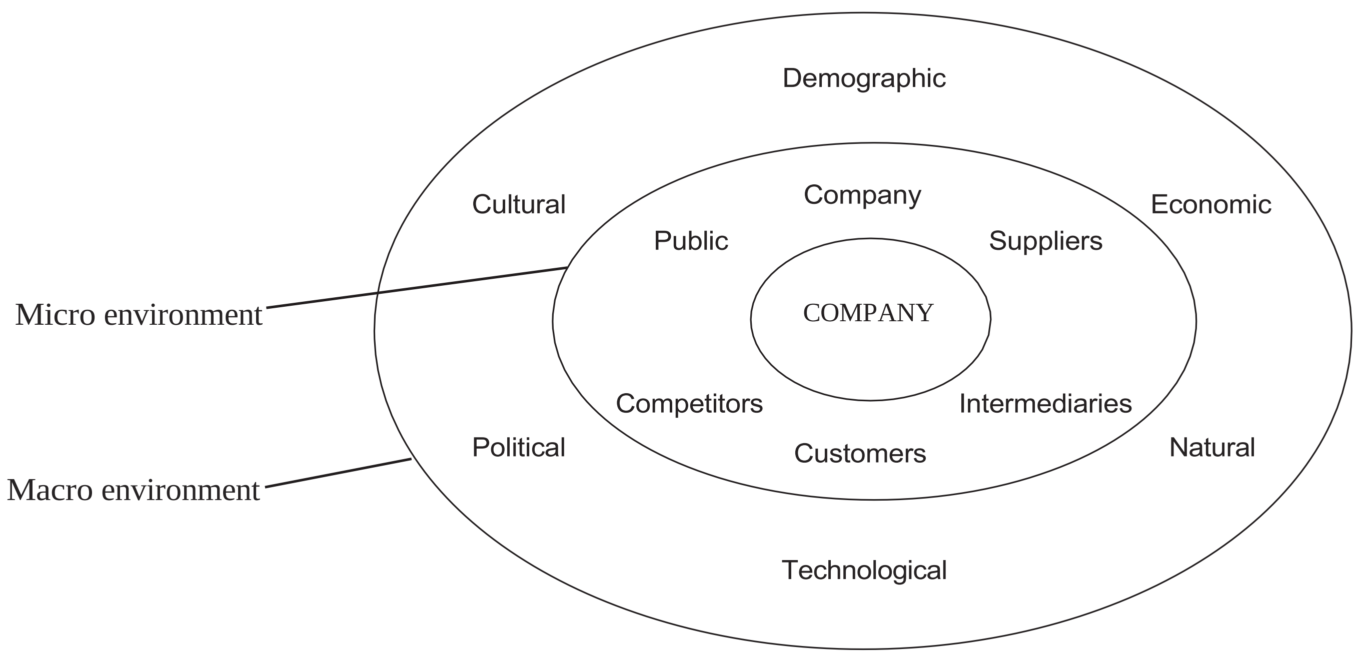


Figure 2.1: Marketing Environment: Micro-Environment and Macro-Environment

Certain environmental factors are within control, while others are not. The environment holds a pivotal role in marketing, and establishing the right alignment between the environment and the firm is at the core of marketing. It is imperative for the firm to understand the direction in which the environment is evolving, recognize significant marketplace changes, and determine appropriate responses to these shifts. The responsibility of observing these subtle changes falls on the marketing manager. The scrutiny of the marketing environment and staying attuned to its changes can be accomplished through both environmental scanning and environmental analysis.

Environmental scanning involves the collection of data about various elements of the marketing environment. This process relies on diverse data sources, whether secondary (such as business publications) or primary (such as personal observation). On the other hand, environmental analysis is the examination and interpretation of the data gathered through environmental scanning. The marketing manager must evaluate the collected data in terms of accuracy, credibility, relevance, and comprehensiveness.

The subsequent sections delve into the micro-environment and the macro-environment. The concluding section of this unit will touch upon the techniques of environmental scanning.

2.3 MICRO ENVIRONMENT

The micro-environment encompasses the factors in close proximity to the company that impact its capacity to cater to its customers. The components of the micro-environment comprise key participants engaged in significant business activities. In the marketing micro-environment, these participants include the company itself, suppliers, intermediaries, customers, competitors, and the public.

These micro-environmental entities are delineated as follows:

a) **Company**: The initial component of the micro-environment is the company itself. While marketing is undeniably crucial, it constitutes just one facet of an organization's multifaceted activities. Marketers collaborate with individuals within the organization engaged in non-marketing functions and tasks. For instance, in a large manufacturing organization, departments such as manufacturing, engineering, purchasing, personnel, accounting, and finance all form part of the internal environment. All these functional areas and the individuals within them exert an influence on marketing activities. Marketers, for example, operate within the parameters of the corporate mission established by the organization's top management. Hence, the entire company has a substantial impact on marketing endeavors.

b) **Suppliers**: These individuals furnish the resources essential for the production of goods and services, constituting a crucial segment of the organization's overall value delivery system. The organization's policies influence suppliers, and conversely, the policies of suppliers impact the organization and the entire value delivery system. Consequently, it is imperative for marketers to cultivate and nurture amicable relationships with suppliers.

c) **Intermediaries**: These individuals aid the company in promoting, selling, and distributing its goods to end consumers. This category encompasses those who facilitate the flow of products from producers to consumers, typically involving wholesalers, retailers, agents, and others. It is crucial for companies to strategically choose an efficient chain of marketing intermediaries to ensure timely delivery of goods to the market. Marketing intermediaries provide essential market information to manufacturers and are also responsible for conveying product details to customers. Failure to satisfy these intermediaries may result in their neglect of the company's products and potentially favoring a competitor's offering.

d) **Customers**: The primary purpose of production is to fulfill the needs and desires of consumers. Consequently, consumers constitute the central focus of all marketing activities. Before making any significant decisions, it is imperative to consider the needs and wants of consumers. Managers should also be mindful of the evolving needs and demands of consumers. Ultimately, a company's marketing strategy is shaped by its target consumer.

e) **Competitors**: Competitors comprise organizations that cater to a target market with comparable products and services, against which a company must strive to attain a strategic advantage. A vigilant marketing manager must consistently stay informed about information pertaining to the strategies employed by competitors. Marketers should pinpoint the strategies of competitors, formulate plans to outperform them in the market, and entice the competitor's consumers towards their own products.

f) **Public**: The term "public" refers to any group that sees itself as having an interest in a company's capacity to accomplish its objectives. The company's responsibility extends beyond meeting consumer demands to include maintaining favorable public relations. A positive engagement with the public enhances the company's goodwill, leading to the widespread adoption of public relations departments by nearly all companies nowadays.

2.4 MACRO-ENVIRONMENT

The macro-environment comprises extensive societal forces that impact the overall micro-environment. These overarching societal factors shape the endeavors of every marketer. The macro-environment encompasses demographic forces, economic forces, natural forces, technological knowledge, political factors, and cultural forces.

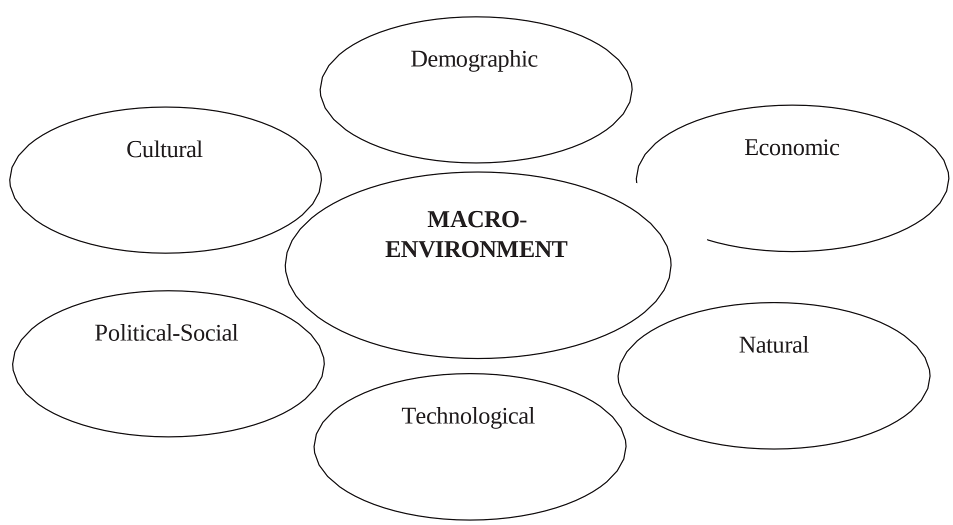


Figure 2.3: The Marketing Macro-Environment

The macro-environmental factors are outlined below:

a) **Demographic Forces:** Demography involves the statistical study of the human population and its distribution, significantly influencing the marketing macro-environment by addressing the people who constitute the market. Marketers closely examine population size, growth rates in cities and nations, educational levels, household patterns, age distribution, and regional characteristics. Companies must analyze population-related factors, such as distribution, age composition, ethnicity, racial makeup, educational groups, and household patterns, to formulate effective marketing strategies. Ethnic groups, for instance, exhibit specific wants and buying habits, influencing the targeted marketing approach of certain companies. Additionally, evolving household patterns, including single-parent families and childless couples, demand increased consideration due to their rapid growth compared to traditional households.

b) **Economic Forces:** Economic forces impact consumer purchasing power and spending patterns. The ability of a company to sell its products successfully is contingent upon people having sufficient disposable income. Economic fluctuations, such as inflation, affect the value of money, making it challenging for consumers to make purchases. Income distribution across nations also varies, impacting purchasing power. Marketers must attentively monitor trends influencing purchasing power, as these trends can significantly affect business operations.

c) **Natural Forces:** Companies must align their policies with the constraints imposed by nature. While mankind can enhance nature, no alternative can replace it. Nature provides resources in limited quantities, and efficient utilization is crucial. Companies must find the optimal production combination to prevent resource shortages, such as those related to petroleum products, power, and water. Environmental degradation, including concerns about pollution and greenhouse gases, prompts the formulation of regulations to address these issues. Marketers need to be aware of threats and opportunities associated with shifts in the natural environment.

d) **Technological Forces**: The technological environment encompasses forces that generate new technologies, leading to the creation of innovative products and market opportunities. Technology profoundly shapes people's lives, creating new markets and customer groups with each invention. New technologies can generate new needs, dismantle old industries, and have enduring consequences. Marketers must identify technological changes, understand their pace, and capitalize on the opportunities they create. Ongoing technological progress offers limitless possibilities for product innovation, and companies often collaborate to fund research that benefits the entire industry.

e) **Political-Social Forces:** The political and legal environment encompasses governmental agencies, laws, and pressure groups influencing and restricting business organizations. Globalization exposes companies to political forces not only in their own countries but also in countries with which they have trade relations. Business legislation worldwide, including India, covers fair trade practices, environmental protection, and product safety. The increasing influence of social codes beyond written laws necessitates businesses to practice social responsibility and build positive images. Marketing transactions have moved into the public domain, with companies tying products to social causes.

f) **Cultural Forces:** The cultural environment consists of institutions and bodies influencing a society's fundamental values, perceptions, preferences, and behaviors. Societies comprise various groups with diverse cultures and subcultures, each contributing to a distinct form of behavior. Cultural differences, such as lifestyle, values, and beliefs, shape consumer preferences and impact marketing strategies. Marketers must recognize the cultural diversity within a society, considering factors like tastes, preferences, and beliefs of different cultural groups. While core values and beliefs remain consistent, marketers must monitor slow cultural shifts to identify and explore marketing opportunities regularly.

2.5 DIFFERENCE BETWEEN MICRO AND MACRO ENVIRONMENT

We have thoroughly examined the distinct factors constituting both the micro-environment and the macro-environment. While both micro and macro-environments collectively constitute the comprehensive marketing environment for organizations, there are specific distinctions between these two realms. The table provided below illustrates the differences between the micro-environment and the macro-environment.

Table2.1: Differences between Micro and Macro environment

BASIS FOR COMPARISON	MICRO-ENVIRONMENT	MACRO-ENVIRONMENT
Meaning	Micro-environment is defined as the nearby environment, under which the firm operates.	Macro-environment refers to the general environment that can affect the working of all business enterprises.
Alternatively known as	Internal environment.	External environment.
Elements	The elements of the micro-environment: organization itself, suppliers, market intermediaries, competitors, and public.	The elements of the macro-environment: demographic, economic, cultural, natural, technological, and political.
Nature of elements	Specific	General
Influence	Directly and regularly	Indirectly and distantly
Control	Micro-environment factors are controllable	Macro-environment factors are not controllable

2.6 TECHNIQUES OF ENVIRONMENTAL SCANNING

A company's marketing system operates within the framework of environmental forces. Continuous environmental scanning is essential for marketers to identify changes and adapt accordingly. The following section explores various techniques for environment scanning that managers can employ to analyze both their internal and external environments.

a) Internal Records and Marketing Intelligence:

i. **Order-to-Payment Cycle:** Crucial records for marketing include the order-to-payment cycle, where sales representatives, dealers, and customers submit orders. Efficient order processing, facilitated by the use of the internet and extranets, ensures timely delivery and cost savings.

ii. **Sales Information Systems**: Marketing managers utilize reports on current sales, relying on data capturing sales and inventory information for every item sold. Analyzing this data is crucial for drawing accurate marketing conclusions.

iii. **Databases, Data Warehousing, and Data Mining**: Companies organize information into databases, combining data from various sources. Data warehousing and mining help categorize customers and offer product offerings, providing valuable insights into customer trends and segments.

iv. **Marketing Intelligence System**: This system involves procedures and sources managers use to obtain daily information about developments in the marketing environment. Methods include training and motivating the sales force, hiring specialists, using mystery shoppers, external networking, setting up customer advisory panels, leveraging government data sources, and purchasing information from external suppliers. Online customer feedback systems, review boards, forums, and blogs also serve as valuable sources of competitive intelligence.

b) **Needs and Trends:** Trends, directional sequences of events with momentum and durability, reveal future shapes and opportunities. Megatrends are described as significant, slow-to-form changes influencing various aspects of society. Successful marketers identify trends or megatrends and incorporate them into their offerings to tap into market opportunities.

c) **SWOT Analysis:** SWOT analysis monitors both external and internal marketing environments. It involves evaluating a firm's strengths, weaknesses, opportunities, and threats. Key macro-environment forces (demographic, economic, natural, technological, political, and cultural) and micro-environment factors (customers, public, intermediaries, suppliers, and competitors) are assessed. The purpose of environment scanning is to identify opportunities and threats. Marketing opportunities represent areas of buyer need and interest where a company can profitably satisfy that need. Environmental threats are challenges posed by unfavorable trends or developments that could lead to lower sales or profits. SWOT analysis aims to identify key micro and macro-environmental factors crucial for achieving organizational objectives, forming the basis for business policy formulation.

d) **PEST Analysis:** PEST analysis is an examination of the external macro-environment within which a firm operates. It encompasses Political, Economic, Social, and Technological (PEST) factors, providing a framework for the analysis of these components. Political factors include government regulations and legal considerations that define the formal and informal rules governing the firm. Examples include environmental regulations, taxation policies, and employment laws. Economic factors encompass the purchasing power of buyers and the firm's cost of capital, including elements such as interest rates, exchange rates, and inflation rates. Social factors involve demographic and cultural aspects shaping customer needs, including age distribution, population growth rate, and health consciousness. Technological factors focus on advances influencing cost, production, and outsourcing decisions, such as R&D activity, automation, and technology incentives.

PEST analysis is valuable for identifying business opportunities within the broader environmental context. It reveals the direction of change in the macro-environment, aiding companies in recognizing trends and adapting to change. It fosters an objective understanding of the business environment, moving away from reliance on assumptions. While often associated with SWOT analysis, PEST analysis and SWOT analysis have distinct focuses:

PEST analysis considers the broader picture, whereas SWOT analysis concentrates on specific product lines.

e) **Porter's Five Forces Model:** Porter's Five Forces Model is a tool for industry analysis, focusing on companies producing similar products within a particular industry. The examination of key stakeholders is crucial as they form an integral part of the environment. Competitive concerns are paramount, and assessing the level and intensity of competition is essential. Porter's Five Forces Model identifies five forces determining competitive power in a business situation:

Supplier Power: This evaluates the ease with which suppliers can increase prices, influenced by factors such as the number of suppliers, product uniqueness, and switching costs. Limited supplier choices enhance supplier power.

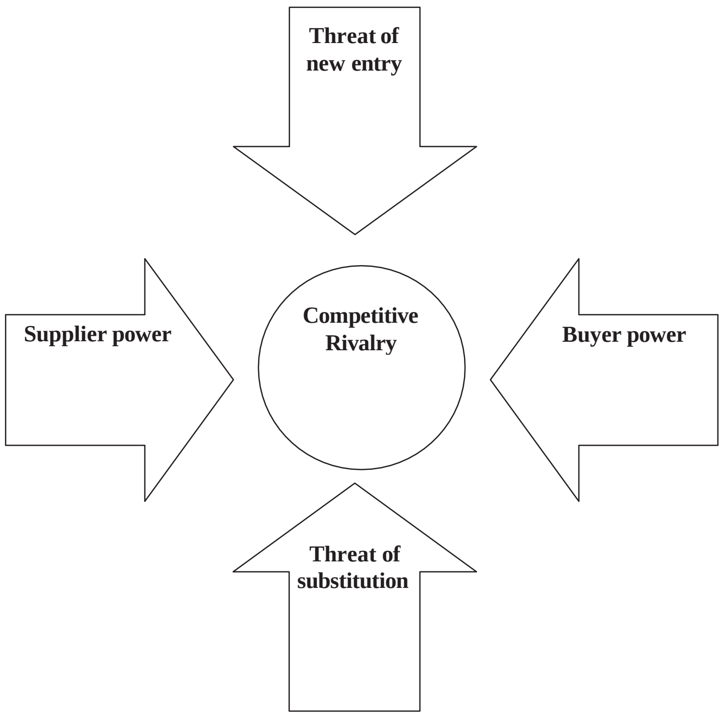
Buyer Power: This assesses the ease with which buyers can lower prices, considering factors like the number of buyers and switching costs.

Competitive Rivalry: This analyzes the number and capability of competitors, with a focus on unique offerings that provide a competitive advantage.

Threat of Substitution: This examines the availability of alternative products and factors influencing customer switching, such as relative performance, switching costs, and price performance.

Threat of New Entrants: Lucrative markets offering high returns often attract numerous new firms, leading to increased competition and diminished profitability for existing companies. Factors influencing the threat of new entrants include capital requirements, government regulations, the presence of entry barriers (such as patents and rights), and more..

Figure 2.4: Porter's Five Forces Model



Porter's Five Forces model is a straightforward yet potent tool for assessing the distribution of power in the business environment. It aids in comprehending the strength of a firm's existing competitive position and evaluating the potential strength of a position the firm is considering entering.

2.7 LET'S SUM UP

The marketing operations of a firm are influenced by numerous internal and external factors. Some of the factors are under control of the firm while others are not controllable. The combination of these factors forms the marketing environment. Marketing environment consists of the micro and macro environment. Micro environment consists of customers, suppliers, competitors, the public, and shareholders. Macro environment consists of the demographic environment, economic environment, political environment, legal environment, and technological environment. In order to sustain in the competitive world, marketers should be aware of the political aspects while conducting business because politics has a great impact on the economy. Factors such as FDA , tax benefits, employment laws, health and safety requirements. The economy of a country affects every business. At the time of recession, marketing strategies should be different from the strategies used during an inflationary environment. This affects the performance of a firm and the purchasing decision of the customers. Factors affecting consumer purchasing behaviour and a company's performance are referred to as the economic environment. Due to the development in technology, marketing firms are able to meet the demands of the customers efficiently. Individuals' attitudes, beliefs, conventions, values, and lifestyles are referred to as socio-cultural forces. In a demographic group, it addresses the age, race, and gender of potential clients. The marketer can develop goods, focus advertising, and change marketing plans by having a thorough understanding of the company's demographic context.

2.8 CHECK YOUR PROGRESS

1. What is a Marketing Environment? Explain the importance of the marketing environment.
2. What are the micro and macro environment factors?
3. What are various techniques of Environmental scanning?

2.9 FURTHER READING

- Kotler,P. & Keller, K.L. : Marketing Management, Pearson.
- Kotler, P., Armstrong, G., Agnihotri, P.Y., &UL Haq, E.: Principles of Marketing: A South Asian Perspective, Pearson.
- Ramaswamy, V.S & Namakumari, S.: Marketing Management: Global Perspective-Indian Context, Macmillan Publishers India Limited.
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UNIT 3: CONSUMER BEHAVIOUR

UNIT STRUCTURE

3.1 LEARNING OBJECTIVES

Upon completion of this unit, you will be capable of:

- Elucidating the meaning and characteristics of consumer behavior.
- Outlining the diverse types of buying decision behavior.
- Enumerating the steps involved in the consumer buying decision process.
- Articulating the buyer decision process specifically for new products.
- Describing various buying motives.
- Summarizing some of the buyer behavior models.

3.2 INTRODUCTION

Consumer Behavior can be defined as the actions that consumers exhibit throughout the process of searching, purchasing, using, evaluating, and disposing of products and services with the expectation that these goods will fulfill their needs and desires. It involves studying how individuals decide to allocate their available resources—money, time, and effort—towards consumption-related items. This field encompasses an examination of what consumers buy, why they make purchases, how they make purchases, when they make purchases, where they make purchases, and how frequently they engage in buying activities.

The emergence of consumer behavior as a distinct marketing discipline can be attributed to several factors. Marketing scientists observed that consumer actions and reactions often deviated from predictions based on economic theory. The consumer market is vast, continually expanding, and marked by diverse and evolving consumer preferences. As researchers delved into studying consumer buying behavior, they recognized that, despite overarching similarities, consumers exhibited distinct tastes, preferences, and purchasing habits. Marketers came to the realization that comprehending consumer behavior and buying patterns is crucial for survival in the marketplace. In this unit, we will explore all facets of consumer buying behavior.

3.3 CHARACTERISTICS OF CONSUMER BEHAVIOUR

Consumers are currently acknowledged as the key players in the market. It is the marketer's responsibility to address the needs of the consumer, as a contented customer consistently contributes to profit. Therefore, marketers must possess a thorough understanding of their customers, particularly their behavior during the purchasing process. Various characteristics define consumer behavior, including:

- **Consumer behavior is an integral aspect of human behavior:** It is inseparable from human behavior, as human actions determine what to buy and when to buy. This aspect is inherently unpredictable, making it challenging to anticipate an individual's next move. While past behavioral patterns can provide some estimation, predicting future behavior remains uncertain.

- **Consumer behavior is a complex phenomenon**: Understanding consumers is intricate and challenging due to the complexity of studying human beings. Each individual responds differently in various situations, and every day presents new insights into consumer behavior. Purchase decisions can be influenced by diverse factors, such as the product's scent today and a different reason tomorrow.

- **Consumer behavior is dynamic**: Consumers' behavior is continually evolving as their tastes and preferences change. Modern advancements contribute to shifts in consumer behavior, necessitating adaptability on the part of marketers.

- **Consumer behavior is influenced by psychological, social, and physical factors**: A consumer's attitudes, perceptions, beliefs, and intentions can impact their decision-making. Additionally, societal status values or economic considerations may influence product loyalty. Marketers must comprehend these psychological, social, and physical factors before introducing a product to consumers.

- **The study of consumer behavior is critical for marketers**: Prior to production or launch, marketers must conduct a comprehensive analysis of consumer behavior. Continuous adaptation is necessary, as this process begins before the purchase and extends beyond it. Potential customers may experience confusion and expectations before buying, and post-purchase satisfaction or dissatisfaction influences future consumption decisions. If a product is rejected by the target audience, modifications are essential to align with consumer preferences.

3.4 TYPES OF BUYING DECISION BEHAVIOUR

During the consumer purchasing process, various buying decisions are evident, with complex and costly purchases typically involving more deliberation and decision participants. Involvement, in this context, refers to the perceived importance or personal relevance of a product or event, indicating the consumer's attachment and loyalty toward it. Consumer Buying Behaviour encompasses four decision-making processes that vary based on the type of buying decision:

- Complex Buying Behaviour: This occurs when consumers are highly involved in a purchase, recognizing significant differences among brands. High involvement is associated with expensive, infrequent, risky, and self-expressive products. Consumers may lack knowledge about the product category and need to learn more. For instance, someone purchasing a personal computer may be unfamiliar with terms like "16K memory," "disc storage," and "screen resolution."

- Dissonance-Reducing Buying Behaviour: In this scenario, consumers are highly involved in a purchase but perceive minimal differences among brands. High involvement stems from the purchase being expensive, infrequent, and risky. Although buyers shop around to explore available options, they make a relatively quick decision because brand distinctions are not prominent. The decision may be influenced by factors such as a good price or purchase convenience.

- Habitual Buying Behaviour: Many products are bought with low consumer involvement and minimal brand differences. Low-cost and frequently purchased items typically elicit low consumer involvement. In such cases, the traditional belief-attitude-behavior sequence is not followed. Consumers do not extensively seek information, evaluate brand characteristics, or make weighty decisions. Instead, they passively receive information through television or print ads.

- Variety-Seeking Buying Behaviour: Certain buying situations involve low consumer involvement but substantial brand differences. Consumers in such cases tend to switch brands frequently. For example, when purchasing cookies, consumers may have existing beliefs, choose a brand without thorough evaluation, and later switch for variety rather than dissatisfaction, seeking a different taste or overcoming boredom.

3.5 CONSUMER BUYING DECISION PROCESS

The conventional model of consumer behavior follows a systematic and organized process, comprising five distinct steps in the Consumer Buying Decision Process:

- **Problem recognition** - The initial step involves recognizing a need or want that remains unfulfilled. For instance, a consumer discovering that repairing her car exceeds its value may prompt her to consider purchasing a new car.

- **Information search** - Subsequently, the consumer engages in gathering relevant information to address the identified problem. In our example, the consumer may conduct online research to explore available vehicle types and their features.

- **Evaluation** - Once information is amassed, it undergoes assessment against the consumer's needs, wants, preferences, and available financial resources. In our scenario, the consumer may narrow down her choices to three cars based on factors like price, comfort, and fuel efficiency.

- **Purchase** - At this stage, the consumer reaches a purchasing decision, influenced by factors such as price and availability. For example, the consumer may choose a specific car model due to its favorable price negotiation and immediate availability.

- **Post-purchase evaluation** - In this final step, the consumer evaluates whether the purchase effectively fulfills her needs and wants. The key question is whether the consumer is satisfied with the purchase. If dissatisfaction arises, the consumer may reflect on the reasons behind it.

3.6 BUYER DECISION PROCESS FOR NEW PRODUCTS

A new product refers to a good, service, or idea perceived as novel by potential customers. The adoption of a new product involves a specific process that buyers undergo. The adoption process is the mental journey an individual takes from learning about an innovation to ultimately embracing it. Consumers navigate through five stages during the adoption process:

1. **Awareness**: In the initial stage, consumers become exposed to the product innovation. This exposure is neutral, as they have not yet developed sufficient interest to actively seek additional information about the product.

2. **Interest**: As consumers develop an interest in the product or product category, they begin searching for information on how the innovation can benefit them.

3. **Evaluation**: Drawing conclusions based on the information they have, consumers assess the innovation. This stage represents a "mental trial" of the product. If the evaluation is satisfactory, consumers may proceed to try the product; if unsatisfactory, the product may be rejected.

4. **Trial**: In this stage, consumers actually use the product on a limited basis. Their firsthand experience provides critical information that influences their decision to either adopt or reject the product.

5. **Adoption**: Based on their trials and/or favorable evaluation, consumers make the decision to use the product on a full, rather than limited, basis or to reject it.

3.7 BUYING MOTIVES

A buying motive is the impetus to fulfill a desire or need that drives individuals to purchase goods or services. It underlies every acquisition, encompassing the thoughts, feelings, emotions, and instincts that kindle a buyer's inclination to make a purchase. The act of buying is not solely influenced by persuasion from a salesperson; rather, it is driven by the awakened desire within the buyer. It is important to distinguish motives from instincts. Motives represent the rationale behind a specific behavior, distinct from automatic responses to stimuli that are inherent and involuntary, known as instincts. Buying motives can be categorized as illustrated in the diagram.

(a) **Product Buying Motives**: Product buying motives encompass the influences and reasons that lead a buyer to select a specific product over others. These motives include the physical allure of the product, such as its design, shape, dimensions, size, color, packaging, performance, and price. Additionally, psychological factors, like the product's impact on the buyer's social prestige or status, the desire to mitigate or eliminate risks or harm to the possessor's life or body, contribute to product buying motives. In essence, these motives pertain to the characteristics of a product that persuade a buyer to choose it over alternatives. Product buying motives can be categorized into two groups, namely, Emotional Product Buying Motives and Rational Product Buying Motives.

i. Emotional Product Buying Motives: Emotional product buying motives come into play when a buyer makes a purchasing decision without thorough and logical deliberation, primarily guided by emotions.

ii. Rational Product Buying Motives: Rational product buying motives are evident when a buyer carefully considers and consciously thinks through the decision, relying on logical reasoning.

(b) **Patronage Buying Motives**: Patronage buying motives refer to the considerations or reasons that drive a buyer to choose a specific shop over others when purchasing a desired product. These motives are the factors that influence a buyer to patronize a particular shop while making a purchase. Patronage buying motives can also be divided into two groups, namely, Emotional Patronage Buying Motives and Rational Patronage Buying Motives.

i. Emotional Patronage Buying Motives: Emotional patronage buying motives come into play when a buyer patronizes a shop without much thought or reasoning, driven by emotions.

ii. Rational Patronage Buying Motives: Rational patronage buying motives are evident when a buyer patronizes a shop after careful consideration, involving logical reasoning and thoughtful analysis.

3.8 BUYERS BEHAVIOUR MODELS

The influence of social sciences has led marketing experts to formulate various models explaining buyer behavior, classified into two broad categories: microeconomic and macroeconomic models. The microeconomic approach centers on types and quantities of consumer purchases, while the macroeconomic approach considers the monetary value of goods and resources and their changes over time. Several models elucidate buyer behavior, and key ones are discussed below:

(a) Economic Model: According to the economic model, a buyer is a rational individual, and purchasing decisions are guided by the concept of utility. The buyer allocates resources to a set of services to maximize utility. While people are limited by skills, habits, and knowledge, the imperfect world prompts buyers to focus on utility or benefits rather than intricate economic considerations.

(b) Learning Model: This model draws inspiration from Pavlovian stimulus-response theory, emphasizing the influence of manipulating drives, stimuli, and responses on buyer behavior. Learning occurs through stimuli and responses, shaping buyer decisions. The process involves drives, cues, responses, and reinforcement, leading to habit formation.

(c) Psycho-Analytical Model: Stemming from Freudian psychology, this model considers buyers as complex entities with deep-seated motives. Buyer actions are influenced by hidden fears, suppressed desires, and subjective longings. Marketers can appeal to these psychological elements to understand and cater to consumers' genuine motives for purchases.

(d) Nicosia Model: Part of systems models, the Nicosia model, proposed by Francesco Nicosia, establishes a relationship between a firm and its buyers. The model explores how a firm's message influences a buyer's predisposition, leading to attitude development, search or evaluation, and ultimately a purchase decision.

(e) Howard and Sheth Model: Proposed by John Howard and Jagdish Sheth, this model views humans as systems with stimuli as inputs and outputs culminating in a purchase. It considers variables affecting perception and learning between inputs and outputs, although these variables are hypothetical and cannot be directly measured.

(f) Engle-Blackwell-Miniard Model: Developed in 1968 and expanded by Engle, Kollat, and Blackwell, this model, later contributed to by Miniard, is a popular representation of buyer behavior. It comprises decision-process stages, information output, information processing, and variables influencing the decision process, offering insights into motivation, information search, alternative evaluation, purchase, and outcomes. These models provide valuable perspectives on complex and dynamic buyer behavior, aiding marketers in developing effective strategies. Understanding various dimensions of buyer behavior remains crucial for shaping successful marketing approaches.

3.9 Let Us Sum Up

Consumer Behavior can be defined as the actions that consumers exhibit throughout the process of searching, purchasing, using, evaluating, and disposing of products and services with the expectation that these goods will fulfill their needs and desires. The emergence of consumer behavior as a distinct marketing discipline can be attributed to several factors. It is the marketer's responsibility to address the needs of the consumer, as a contented customer consistently contributes to profit. Therefore, marketers must possess a thorough understanding of their customers, particularly their behavior during the purchasing process. During the consumer purchasing process, various buying decisions are evident, with complex and costly purchases typically involving more deliberation and decision participants. . The adoption process is the mental journey an individual takes from learning about an innovation to ultimately embracing it.

3.10 Model Questions

1. Explain the different kinds of buyer behavior models.
2. What do you mean by Patronage Buying Motives?
3. ‘Consumer navigate through five stages during the adoption processes. Discuss in details.
4. State the conventional Model of Consumer Behavior.

3.11 Further Readings

- Kotler,P. & Keller, K.L. : Marketing Management, Pearson.
- Kotler, P., Armstrong, G., Agnihotri, P.Y., &UL Haq, E.: Principles of Marketing: A South Asian Perspective, Pearson.
- Ramaswamy, V.S & Namakumari, S.: Marketing Management: Global Perspective- Indian Context, Macmillan Publishers India Limited.
- Zikmund, W.G & D” Amico, M.: Marketing, Ohio:South -Western College Publishing.

UNIT 4: MARKET SEGMENTATION

UNIT STRUCTURE

LEARNING OBJECTIVES

Upon completing this unit, you will possess the ability to:

- articulate the concept of market segmentation
- elucidate the significance of market segmentation
- outline the prerequisites of market segmentation
- identify the foundations of market segmentation

- define the essence of market targeting
- clarify the concept of market positioning

4.1 INTRODUCTION

The purchasing processes of two distinct buyer groups vary due to factors like income, education, age, and habits. Achieving success in marketing necessitates a thorough understanding of product and service features. As a marketer, it's crucial to identify buyer groups or market segments with promising potential for your products. This is imperative because in a competitive market, a single marketer cannot cater to all diverse market segments. In this unit, you will delve into the study of market segmentation, market targeting, and market positioning.

4.2 CONCEPT OF MARKET SEGMENTATION

Market segmentation involves dividing a market into distinct customer subsets, each of which could potentially be chosen as a target market to be approached with a unique marketing mix. The fundamental concept behind market segmentation is that in highly competitive environments, individual sellers can thrive by tailoring offerings to specific market segments with unmet needs. A market segment comprises buyers grouped based on common characteristics such as income, age, gender, qualifications, geographical location, etc., ensuring that their needs are more effectively addressed.

4.2.1 Definition of Market Segmentation

The concept of 'Market Segmentation' has been defined in various ways by different authors. Some of the definitions are outlined below:

(a) According to Philip Kotler, market segmentation is the process of dividing a market into distinct groups of buyers who may require separate products and/or marketing strategies.

(b) R. S. Davar defines market segmentation as the grouping of buyers or segmenting the market.

(c) W. J. Stanton describes market segmentation as the division of the total heterogeneous market for a product into several submarkets or segments, each of which is homogeneous in significant aspects.

(d) Alan A. Robert sees market segmentation as the strategy of dividing markets in order to conquer them.

From these definitions, it becomes evident that market segments involve the grouping of buyers who share common characteristics as consumers of a product or service. This grouping enables a more effective meeting of their needs and desires, leading to the development of distinct marketing mixes and strategies for each market segment.

4.2.2 Importance of Market Segmentation

Here are some of the significance or advantages of market segmentation:

(a) Enhances the ability to better satisfy customers.

(b) Provides diverse information valuable for product development, marketing research, and assessing marketing activities.

(c) Allocates resources (money and effort) to the most potentially profitable segments.

(d) Tailors the production of goods and provision of services according to customer demand.

(e) Aids in the formulation of effective and efficient marketing policies.

(f) Facilitates the identification of suitable promotional activities for specific market segments.

(g) Assists producers in determining and comparing the market potential of products and services.

(h) Equips marketers with demographic market information, allowing for innovative and effective applications.

(i) Enables the development of each element of the marketing mix based on the requirements of the target market.

4.3 Basis for Market Segmentation

Before initiating market segmentation, an organization should choose a target market based on the needs of that specific group. The selection of target markets involves three key steps:

I. Assessing the needs and characteristics of individuals within the market, typically achieved through market research.

II. Grouping customers into different segments based on these characteristics. The segmentation should reveal meaningful differences among customers, allowing the company to design a unique value proposition that can be exploited.

III. Selecting one or more markets as targets, which can be done through three strategies:

Undifferentiated targeting: Adopting a mass-market philosophy, where the company uses a single marketing mix for the entire market, leading to cost savings in production and marketing.

Concentrated targeting: Choosing a specific market segment to serve, understanding the needs and motives of the segment's customers, and designing a specialized marketing mix.

Multi-segment targeting: Serving two or more well-defined segments and creating a tailored marketing mix for each segment.

Markets can be broadly categorized into two types: consumer markets and organizational markets. Consumer markets encompass ultimate users who typically make smaller quantity purchases. Organizational markets include the Industrial Market, Reseller

Market, and Government Market. These markets are further segmented for in-depth studies, as discussed below.

4.3.1 Segmentation of Consumer Markets

Segmentation can occur based on four variables: geographic variables, demographic variables, psychographic variables, and buyer behavior variables. The chart illustrates the detailed characteristics of these variables.

Table 4.1: Market Segmentation

A. Demographic	B. Geographic	C. Psychographic	D. Behavioral
Age	Regions	Social class	Occasions
Gender	Villages	Life Style	User status
Income	Cities	Personality	Usage rate
Occupation	Climate		Loyalty Status
Education	Geographic terrain		Attitude
Religion			

A. **Demographic Variables**: Demography, the study of population, serves as a foundational element for segmenting consumer markets, particularly for frequently purchased goods like tea, toothpaste, soap, and detergents. The characteristics of various demographic variables are explained below:

(a) **Age**: Buyer needs, wants, and purchasing ability differ with age. Marketers analyze which age groups their product or service is most suitable for and plan marketing policies accordingly. For example, books for kids represent a distinct segment.

(b) **Gender**: Many products are bought by one gender or the other. Females typically purchase cosmetics, jewelry, and lipsticks, while males buy shaving blades, cream, and razors. However, gender-based segmentation applies only to certain products, as male and female consumers do not differ significantly for general consumer products.

(c) **Income**: Purchasing ability is directly related to income. A detailed study of income is valuable for marketers to understand their customers' spending potential.

(d) **Occupation**: Occupations serve as the source of income for individuals, influencing their buying behavior and lifestyle. Marketers should consider these factors when undertaking sales promotional activities.

(e) **Education**: Based on educational qualifications and areas of specialization, consumers can be classified into groups such as uneducated, educated (up to graduate or master's degree), doctors, lawyers, economists, etc. Publishers, drama troops, and film producers, for example, need to consider the educational levels of their target customers for effective market segmentation.

(f) **Religion**: In India, various religious beliefs influence consumer choices. Analyzing the population based on religion is useful for certain products, such as clothing preferences for Christian, Muslim, and Hindu ladies. While the impact of religion on products and services has decreased after globalization, it still plays a role to some extent.

B. **Geographic Variables**: The first form of segmentation was geographic, where sellers distinguished between regions based on their operational reach and comparative advantage. Geographic units become the basis for differentiated marketing efforts. For example, a local fertiliser salesman might distinguish between city and rural customers. Climate can also be a basis for segmentation, creating high altitude and low altitude markets or hill area and plain area markets.

C. **Psychographic Variables**: Psychographic variables encompass social class, lifestyle, and personality factors such as gregariousness, authoritarianism, and compulsiveness. Buyers can be divided into various groups based on psychographic variables, and goods can be produced and distributed accordingly.

(i) **Social Class**: Different social classes, created based on occupation, education, and income, exhibit similar living styles, habits, and requirements. Marketers need to pay close attention to the various social classes.

(ii) **Lifestyle:** Lifestyle influences how individuals live, spend time, and money. Consumers' preferences for goods and services are influenced by their lifestyle, and marketers nowadays prefer segmenting the market based on consumer lifestyles.

(iii) **Personality**: Personality traits like dominance, aggressiveness, objectivity, and achievement influence buyer behavior. Marketers should design their products and services considering the personality of potential consumers.

D. **Behavioral Variables:** Many marketers consider behavioral variables as the best starting point for constructing market segments. Behavioral segmentation divides consumers into groups based on their attitude, use, knowledge, expectations from the product, usage rate, and usage habits.

Behavioral Segmentation:

(a) Occasion: Regular occasions, such as having fruit juice after breakfast, or special occasions, such as buying new dresses during religious celebrations.

(b) User Status: Non-user, ex-user, potential user, regular user.

(c) Usage Rate: Light user, medium user, heavy user.

(d) Loyalty Status: Soft loyals, hard loyals, shifting loyals, switchers, etc.

(e) Attitude towards Products & Services: Positive, indifferent, negative, hostile, etc.

4.3.2 Segmentation of Organization Markets

The principles of segmenting consumer goods can also be applied to organizational markets, typically utilizing three common bases: (a) Type of customer, (b) Size of customer, and (c) Type of buying situations.

(a) **Type of Customer or Type of Business Activity**: Based on business activity, segmentation can occur across various segments. The standard industrial classification system, widely used by government agencies, categorizes business activities into ten divisions:

(i) Agriculture, Forestry, and Fisheries

(ii) Construction

(iii) Finance, Insurance, and Real Estate

(iv) Mining

(v) Manufacturing

(vi) Distribution Channel - Wholesale and Retail Trade

(vii) Transportation and Communication

(viii) Services

(ix) Government

(x) All Others

Each division can further be subdivided into major groups; for instance, the manufacturing division may include groups such as Textile, Printing, Publishing, and Automobile.

(b) **Size of Customers or Size of Users**: Industries or trading houses may vary in size, classified as small, medium, or large, with corresponding differences in purchase orders. Marketers may implement distinct marketing policies for bulk purchasers and small buyers.

(c) **Type of Buying Situations**: Based on buying situations, marketers can classify markets or customers as (i) New buyers, (ii) Modified buyers, and (iii) Straight re-buyers. Different marketing strategies can be devised for each buyer type. Additionally, buyers can be categorized as urgent, specific, or general buyers based on the situations.

Market segmentation is crucial for devising successful marketing strategies, with many companies adopting varied approaches for different market segments. The determination of the number and type of segments is often influenced by the degree of competition for products and services. Analyzing the attractiveness of different segments becomes essential in deciding the type and number of segments.

4.4 MARKET TARGETING

Market targeting involves the decision-making process concerning the selection of market segments to serve. The marketer identifies significant market segments, chooses one or more of these segments, and formulates products and marketing programs specifically designed for each selected segment.

4.4.1 Evaluating Market Segments and Target Market Selection

When assessing market segments, the firm needs to consider two critical factors:

(a) The relative attractiveness of the market segments.

(b) The company's capability to effectively serve and compete in various segments.

(a) **Relative attractiveness of the market segments:** Determining the potential profit when entering a market segment is crucial, and this involves analyzing the size and growth rate of both customers and the industry.

(i) **Segment size:** A larger segment is more favorable when economies of scale from large-scale production and sales are essential. Smaller companies may find it challenging to compete in large segments and may prefer smaller ones.

(ii) **Segment growth rate**: Growing segments are preferable, but the analysis should consider the degree of competition and the additional investment required.

(iii) **Price sensitivity**: Segments with lower price sensitivity may lead to competition based more on quality and service, particularly where customers are less price-sensitive.

(iv) **Nature of competition**: Strong, aggressive competition is less favorable. The quality of competition holds more significance than the sheer number of competitors in a segment.

(v) **Social trends**: Changes in society present new opportunities to enter new segments; for instance, the increasing number of working women has heightened the demand for processed food and fast food items.

(vi) **Political issues**: Political forces can open up new market segments by encouraging and providing incentives for starting new enterprises in different geographical areas, especially in backward regions and hilly areas.

(b) **Company's capability to serve and compete in various segments**: A market segment may be profitable, but serving it effectively can be challenging due to a lack of resources and competencies. The company must ensure that it possesses the necessary resources, including exploitable marketing assets, cost advantages, technological edge, and managerial capabilities and commitment.

4.5 MARKET POSITIONING

After deciding which segments of the market to enter, a company must then determine the positions it aims to occupy within those segments. Positioning refers to the perception or image that customers hold about the company and its products. It encompasses customers' beliefs regarding the company's products, such as being perceived as very expensive, high quality, durable, or well-designed. This perception influences customer attitudes and behavior towards the company's products, and positive perceptions contribute to the success of the business. Managing these customer perceptions is a responsibility of the marketer, who should clearly define the desired perceptions in the minds of customers for the product, service, and the company.

A product's position is how consumers define the product on important attributes and its place in consumers' minds relative to competing products. For example, Lux is positioned as the beauty soap of cine stars, Lifebuoy is positioned as an antiseptic soap, and Vicks is positioned as an ointment for cold relief.

Buyers have access to numerous information sources about products and services, and during the decision-making process, they categorize products and services into various groups based on this information, forming their own positions. Marketers should not leave their products and services' positions to chance. Instead, they exert their best efforts to position their products and services to gain a competitive advantage in selected target markets, adjusting their marketing mix accordingly.

In summary, positioning is the process of distinguishing a brand from its competitors to make it the preferred brand in the chosen target market.

4.5.1 Definitions

"Positioning involves crafting the company's offer and image to secure a unique and esteemed position in the minds of the target customers." - Philip Kotler

"Positioning is the skill of choosing, from various unique selling propositions, the one that will yield the highest sales." - Rosser Reeves

"The most crucial decision you will make regarding your product is, 'How should I establish the positioning of my product?'" - David Ogilvy

4.5.2 Positioning Strategies

There are numerous strategies, and some of them are discussed below:

i. **Positioning on Product Attributes**: Marketers can position a product based on specific attributes, as seen with BPL emphasizing technical and performance features.

ii. **Positioning on Benefits:** Another approach involves positioning a product based on the benefits it offers. For instance, Colgate is positioned as cavity-reducing, and Clinic Shampoo as an all-clear shampoo.

iii. **Positioning According to Usage Occasions**: Products can be positioned based on specific usage occasions, such as casual dressers, formal dressers, or ornaments for specific events.

iv. **Positioning for Certain Classes of Users**: Tailoring products for specific user classes, like movies for children or adults only, or publishers focusing on comic series for children's needs.

v. **Positioning Directly Against a Competitor**: Companies may directly position their product against a competitor, as demonstrated by Texas Instruments in its "dare to compare campaign" against IBM.

vi. **Positioning Away from Competitors:** Alternatively, a product can be positioned away from competitors, like 7-Up, becoming the third choice in cola drinks as the "Un-Cola," a fresh and distinct alternative to Coke and Pepsi.

vii. **Positioning as Different Product Classes**: Products can also be positioned concerning different product classes, such as Mediker Shampoo being associated with lice clearance rather than merely as a shampoo.

Criteria for Successful Positioning:

i. **Clarity**: The positioning must offer a distinct value proposition and be clear to the target audience.

ii. **Consistency**: The positioning should remain factual over time, with the flexibility to adapt to changes in the environment.

iii. **Credibility**: The firm must deliver a trustworthy and believable value proposition, ensuring a perfect match between promises and actions.

iv. **Competitiveness**: Surviving in a competitive and dynamic environment requires innovative resources, a talented workforce, a competitive advantage, and strong financial backing.

Dilution of Positioning:

Effective positioning links a company's product to a specific segment, appealing to a limited customer base with benefits tailored to that market. Diluting positioning allows a company to sell to a larger customer base by broadening its appeal and providing a variety of benefits.

4.6 Let Us Sum Up

Market segmentation is a commercial practice in which brands divide their target market into smaller, more manageable groups of people based on shared interests in order to optimize their marketing, advertising, and sales efforts. Simply said, clients in each market group share qualities that organizations may use to their advantage. Market segmentation is a commercial practice in which brands divide their target market into smaller, more manageable groups of people based on shared interests in order to optimize their marketing, advertising, and sales efforts. Simply said, clients in each market group share qualities that organizations may use to their advantage. Market segmentation seeks to deliver a personalized message that is well accepted. This is useful for businesses that sell a product or service that has many benefits or uses for diverse types of clients. There are various bases for segmenting the consumer market.

Demographic segmentation, psychographic segmentation, behavioral segmentation are the bases that are used for segmenting the market. It is in this sense that market segmentation is a customer-based strategy. The market segmentation approach is now also being used by industrial marketer who use size, buying motives, end user characteristics, and geography as the bases to segment their markets. The level of competition in a segment also determines its attractiveness. A firm’s success depends upon the way they are doing branding, and positioning strategy.

4.7 Further Readings

- Kotler,P. & Keller, K.L. : Marketing Management, Pearson.
- Kotler, P., Armstrong, G., Agnihotri, P.Y., &UI Haq, E.: Principles of Marketing: A South Asian Perspective, Pearson.
- Ramaswamy, V.S & Namakumari, S.: Marketing Management: Global Perspective-Indian Context, Macmillan Publishers India Limited.

- Zikmund, W.G & D" Amico, M.: Marketing, Ohio:South -Western College Publishing.

4.8 Model Questions

1) What is Segmentation? What are the different levels of Segmentation?
2) Discuss the different basis for segmenting consumer markets.

BLOCK- 2 PRODUCT

UNIT -5: CONCEPT AND CLASSIFICATION OF PRODUCTS

UNIT STRUCTURE

LEARNING OBJECTIVES

Upon completing this unit, you will have the ability to:

- Articulate the notion of a product and its fundamental features or attributes
- categorize products or goods based on specific characteristics

5.1 INTRODUCTION

Within this unit, we will explore the concept of a product, its categorization, product planning, and development. The intended use of a product serves as the foundation for distinguishing it as a consumer or industrial product. Products undergo distinct life stages. Upon completion of this unit, you will comprehend that marketers must employ varied marketing strategies to promote different product types.

Marketing planning initiates with crafting a product offering tailored to satisfy the needs and desires of customers in the target market. Customers assess the market offering based on three fundamental elements: product features and quality, service composition and quality, and price. Consequently, the product stands out as a crucial component in the overall market offering.

Decisions pertaining to products constitute a significant aspect of the 4 Ps in the marketing mix. These decisions encompass the development and introduction of new products, enhancements to existing products, the strategic elimination of outdated products, and considerations related to packaging and branding. We will delve into the framework guiding these product decisions, covering aspects such as the nature and concept of the product, product levels, product classification to discern various types of products, product differentiation, and emerging concepts like product systems, product-mixes, and product line analysis.

5.2 NATURE AND CONCEPT OF PRODUCT

Traditionally, a product is often perceived as a tangible item, but its conceptual scope extends far beyond that. A product can be broadly defined as anything offered to the target market to fulfill a need or desire. This encompasses not only physical goods but also services, experiences, events, information, ideas, organizations, individuals, properties, and locations.

To be effective in sales and marketing, it is crucial to have a precise and comprehensive understanding of the concept of a product. Consider the following illustration: during a seminar attended by seasoned sales professionals, the facilitator posed the question,

What do you sell?

Different groups of participants provided diverse responses. One group responded with "Soaps," and upon being prompted to reiterate, the salespersons emphatically exclaimed, "Soaps, soaps, soaps," using gestures to vividly illustrate their point. Another group of seasoned salespersons, when asked the same question, promptly replied with "Smartphones." Despite repeated inquiries, they consistently reiterated, "Smartphones, smartphones, smartphones," employing sign language to convey their intended meaning. Yet another group of participating salespersons offered the response "Refrigerators" and echoed their answer in unison, saying, "Refrigerators, refrigerators, refrigerators," supplementing their response with gestures to help the facilitator visualize their perspective.

The question is, "Were the sales persons correct in their answers"?

5.3 PRODUCT LEVELS

When strategizing a product or service offering, marketers must take into account five distinct product levels, each contributing additional value to the customer. These levels encompass:

- Core benefit: The fundamental benefit or service that customers are truly acquiring.
- Basic product: The core benefit transformed into a foundational product.
- Expected product: A set of attributes that buyers typically anticipate when making a specific product purchase.
- Augmented product: A product that surpasses customers' expectations, going above and beyond their anticipated features.
- Potential product: Encompassing all potential changes and transformations the product may undergo in the future.

5.4 CONCEPT OF PRODUCT

A product encompasses anything capable of fulfilling consumers' needs, wants, or desires and can be exchanged. Thus, a product can take the form of a commodity, service, idea, or a combination of these elements. When consumers make a purchase, they consider both the tangible and intangible aspects of the product. For instance, while a car is a tangible product, its after-sales service and the manufacturer's reputation represent intangible elements. According to W. J. Stanton, a product comprises tangible and intangible attributes such as packaging, color, price, quality, brand, and the seller's services and reputation. It can manifest as a tangible good, service, place, person, or idea. Philip Kotler defines a product as anything offered to a market for attention, acquisition, use, or consumption to satisfy a want or need. This includes physical objects, services, individuals, places, organizations, and ideas. Products are categorized as either industrial or consumer products based on buyers' intentions.

5.5 THE CLASSIFICATION OF PRODUCTS

Products can be broadly categorized into the following types:

(A) **Products Based on Uses**:

(I) **Consumer Products**: These are products or services intended for final consumers for personal, family, or household use. Consumers use these products for consumption or resale but not for further processing. Examples include pens, watches, books, and newspapers. Consumer products can be further classified as follows:

(a) **Convenience Goods**: These products or services are purchased with minimal effort when buyers have sufficient information. Examples include bread and newspapers. Marketing these products requires intensive distribution, advertising, and in-store displays. Convenience goods are further categorized as:

(i) **Staple Convenience** Goods: Purchased routinely with little or no planning, such as perishable items like bread and vegetables.

(ii) **Emergency Goods**: Items needed urgently, allowing no time for selection, such as umbrellas during the rainy season or urgent TV repairs.

(iii) **Impulse Goods**: Purchases not pre-planned, but made spontaneously due to product exposure or attraction, like chocolate or novelty items.

(b) **Shopping Goods**: Durable consumer items that buyers select after comparing factors like suitability, quality, price, style, and durability. Examples include TVs, furniture, and mobile handsets.

(c) **Specialty Goods**: Products for which buyers make special purchasing efforts, often loyal to specific brands, stores, or individuals. Marketing focuses on maintaining unique features and reminder advertising.

(d) **Unsought Products**: Products unknown to buyers or those they do not wish to purchase, including regularly unsought items like insurance schemes or safety alarms, as well as completely new and unfamiliar products.

(II) **Industrial Products**: Goods used for commercial production or business activities, not for personal use. Industrial goods may overlap with consumer products based on their purpose. Industrial buyers are typically rational, considering cost, quality, and standards. Types of industrial goods include:

(a) **Installations**: Capital goods that determine production scope, capacity, and efficiency, such as plants, machinery, and buildings.

(b) **Raw Materials**: Primary inputs for final products.

(c) **Fabricated Materials and Parts**: Semi-processed goods requiring further processing before becoming part of final products, like pig iron for steel production.

(d) **Operating Supplies**: Items needed to sustain the production process, such as light bulbs, pens, paper, and computers.

(e) **Accessory Equipment**: Portable goods necessary to maintain the operation of capital goods, like plant bearings or machine wheels.

(B) **<u>Products Based on Durability</u>:**

(I) **Perishable Products**: Items with a short lifespan that cannot be stored for an extended period, such as newspapers.

(II**) Non-durable Products**: Items that last for a few uses and deplete upon consumption, like toothpaste or powder.

(III) **Durable Products**: Items with a long lifespan that consumers may use for several years, such as TVs, watches, furniture, and mobile handsets. Marketing high-involvement durable goods requires extensive personal selling, advertising, publicity, dealer aids, and after-sales services to satisfy and garner referral consumers.

(C) **Products Based on Tangibility**:

(I) **Tangible Products**: Items that can be touched, seen, and have their quality verified, such as pens, pencils, and books. In tangible products, sample verification is sufficient to ascertain quality standards.

(II) **Intangible Products**: Products or services that are intangible but provide satisfaction through their service, such as repair services, consultancy, or nursing. Maintaining uniformity in intangible products is challenging due to human variability, but efforts can be made to reduce variation.

5.6 LET US SUM UP

The product stands as the primary element in the marketing mix. Crafting a product strategy involves making cohesive decisions regarding product mixes, product lines, brands, and packaging and labeling. When planning the market offering, the marketing manager must account for five product levels: the core benefit, the basic product, the expected product, the augmented product, and the potential product, encompassing all potential augmentations and transformations.

Products can be categorized in various ways. Considering durability and reliability, they may be non-durable goods, durable goods, or services. In the consumer goods category, products can be convenience goods (staples, impulse goods, and emergency goods), shopping goods, or unsought goods. In the industrial goods category, they can be materials and parts (raw materials and manufactured materials and parts), capital items (installations and equipment), and supplies and business services (operating supplies, maintenance and repair items, maintenance and repair services, and business advisory services).

Differentiation of products can occur based on various dimensions such as product form, features, performance, conformance, durability, reliability, reparability, style, and design. Service dimensions, including ease of ordering, delivery, installation, customer training, and maintenance, also provide grounds for differentiation.

Many companies sell multiple products, and their product mix can be classified according to width, length, depth, and consistency. These dimensions guide the development of the company's marketing strategy, helping decide which products to grow, maintain, harvest, or divest. To analyze a product line and determine resource allocation, the marketing manager needs to consider sales, profits, and market profile.

Companies can alter the product component of their marketing mix by extending the product line through line stretching (down-market stretch, up-market stretch, and two-way stretch) or line filling. This involves modernizing products, featuring specific products, and pruning less profitable ones.

5.8 FURTHER READINGS

- Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), “Marketing Management”, Pearson Education.
- V. S. Ramaswami and S Namakumari (2003), “Marketing Management”, Macmillan India Limited
- Saxena Rajan (2007), Marketing Management 3rd Edition,Tata McGraw Hill Publication.
- Kaptan S.S. and Pandey S (2004), Brand Imitation, Himalaya Publishing House.

5.9 MODEL QUESTIONS

1) What is a product?
2) What are the differences between consumer and industrial goods?
3) What is product planning?
4) How do companies benefit from strategically classifying their products based on dimensions such as width, length, depth, and consistency in their product mix, and how does this classification influence their marketing strategies?"
5) Explain the following statement with the help of suitable example: “Consumers do not buy products; they buy the benefits or the utilities”.
6) Define product and discuss various classifications of products. Support your answer with relevant examples.

UNIT-6: PRODUCT MIX

UNIT STRUCTURE

6.1 LEARNING OBJECTIVES

Upon completing this unit, you will have the ability to:

- Understand and define the concept of product mix, including its various synonyms such as product assortment or product portfolio.
- Identify and differentiate between the key components of a product mix, including product lines, product items, product width, and product depth.
- Evaluate the significance of a well-designed product mix in the overall marketing strategy of a company, considering its impact on market coverage, risk mitigation, and revenue generation.
- Explore the factors that influence decisions related to the product mix, such as market demand, company objectives, competitive landscape, technological trends, and resource constraints.

6.2 INTRODUCTION

The product mix, also known as the product assortment or product portfolio, is a crucial element in a company's marketing strategy. It refers to the entire range of products and services that a business offers to meet the varying needs and preferences of its target market. A well-crafted product mix allows a company to diversify its offerings, optimize revenue streams, and build a competitive edge in the market.

The composition of a product mix involves decisions about the number of product lines, the variety of products within each line, and their relationships to one another. Product lines are groups of related items that share common characteristics, such as similar usage, customer needs, or distribution channels.

6.3 PRODUCT MIX

Product Mix, also known as Product Assortment, encompasses the array of products a company provides to its customers. For instance, a company may offer multiple product lines, like toothpaste, toothbrushes, and mouthwash, along with other related toiletries, all unified under the same brand. Conversely, a company might have diverse and distinct product lines, such as medications and clothing apparel, which exhibit notable differences.

Understanding Product Mix involves recognizing the entire range of products and services offered by a firm. It comprises product lines, which represent interconnected items that consumers may purchase.

Key Components of a Product Mix are:

1. Product Lines:

These are broad categories of related products offered by a company. For example, a technology company might have product lines for smartphones, laptops, and wearables.

2. Product Items:

These are individual products within a product line. In the case of the technology company mentioned earlier, specific smartphones or laptop models would be considered product items.

3. Product Width:

This refers to the number of different product lines a company offers. A company with a broad product mix has a wide product width, while a company with a narrow mix has a limited range of product lines.

4. Product Depth:

Product depth is the variety of products within a specific product line. A company with deep product depth offers numerous options or variations within each line to cater to different customer preferences.

6.4 EXAMPLE OF A PRODUCT MIX

A widely recognized and timeless illustration of Product Mix is exemplified by the Coca-Cola brand. For the sake of simplicity, let's consider that Coca-Cola manages only two product lines: soft drinks and juice (Minute Maid). Soft drinks encompass Coca-Cola, Fanta, Sprite, Diet Coke, and Coke Zero, while Minute Maid juices include Guava, Orange, Mango, and Mixed Fruit.

Coca-Cola's product mix demonstrates a high level of consistency, given that all the products within each product line are beverages. Furthermore, the production and distribution channels for these products remain similar.

Let's take the example of Apple Inc. to illustrate a diversified product mix:

- **iPhone (Smartphones):**
  Apple's flagship product, the iPhone, comes in various models with different features and price points to cater to a wide range of consumers.
- **iPad (Tablets):**
  The iPad line includes different models such as the standard iPad, iPad Air, iPad mini, and iPad Pro, offering options for various user preferences and needs.
- **Mac (Computers):**
  Apple's Mac product line consists of a variety of computers, including MacBook Air, MacBook Pro, iMac, Mac mini, and Mac Pro, each designed for different user requirements.
- **Apple Watch (Wearables):**
  Apple offers a range of smartwatches under the Apple Watch brand, with different series and models, providing options for fitness enthusiasts, tech-savvy users, and those seeking a combination of style and functionality.
- **AirPods (Audio):**
  The AirPods product line includes wireless earbuds and headphones, addressing the growing demand for high-quality audio devices in a wireless format.

6.5 IMPORTANCE OF A PRODUCT MIX

Comprehending a firm's product mix is crucial, as it significantly influences the firm's brand perception. The following key considerations are vital for a company looking to broaden its product mix:

Increasing the breadth of the product mix enables the company to address the diverse needs and demands of various consumers, thereby diversifying risk.

Enhancing the depth of the product mix contributes to the company's capacity to better and more completely serve its existing customer base.

The product mix holds significant importance for a company and its overall business strategy. Here are key reasons why the product mix is crucial:

- **Market Coverage:** A well-designed product mix allows a company to cater to diverse market segments. By offering a range of products that appeal to different consumer needs and preferences, a company can achieve broader market coverage.
- **Diversification of Risk:** A diversified product mix helps mitigate risks associated with dependence on a single product. If one product faces challenges or declines in demand, other products within the mix can provide a buffer, spreading risk across different market segments.
- **Revenue Generation:** A strategically crafted product mix can contribute to revenue generation. Offering complementary products or expanding into new product lines can attract a larger customer base, increasing overall sales and revenue.
- **Competitive Advantage:** A unique and well-differentiated product mix can provide a competitive advantage. Companies that offer a diverse range of high-quality products have a better chance of standing out in the market and attracting a wider customer base.
- **Brand Image and Recognition:** The product mix contributes significantly to a company's brand image. A consistent and well-managed product mix enhances brand recognition and loyalty. Customers associate the brand with a variety of quality products, building trust over time.
- **Adaptability to Market Changes:** An adaptable product mix allows a company to respond to changing market conditions and consumer preferences. By regularly evaluating and adjusting the product mix, a company can stay relevant and meet evolving customer needs.
- **Customer Satisfaction and Loyalty:** Offering a comprehensive product mix increases the likelihood of satisfying a broader range of customer needs. This, in turn, enhances customer satisfaction and loyalty, as customers find all their desired products within the same brand.
- **Optimized Resource Utilization:** A carefully managed product mix ensures efficient use of resources, both in terms of production and marketing. Companies can streamline

their operations by focusing on products that align with their strengths and resources.

- **Market Expansion Opportunities:** A diverse product mix provides opportunities for market expansion. Companies can explore new markets and customer segments by introducing products that address specific regional or demographic preferences.
- **Strategic Planning and Decision-Making:** The product mix is a key element in strategic planning. It guides decision-making regarding product development, marketing strategies, and resource allocation. A clear understanding of the product mix helps companies make informed choices for sustainable growth.

6.6 FACTORS AFFECTING PRODUCT MIX

Expansion, contraction, or modification of the product mix is contingent upon various factors, including:

- Profitability: Companies strive to maximize profits by adjusting their product mix. Introducing new product lines or items within existing lines is a common strategy to enhance overall profitability. The product mix undergoes constant modifications to optimize profits.
- Objectives and Company Policy: The product mix is aligned with the company's objectives, with additions, subtractions, or replacements guided by the company's set targets. The formulation and adaptation of the product mix are aligned with the company's overarching policies.
- Production Capacity: Decisions regarding the product mix are closely tied to the production capacity of the company. The product mix is structured to ensure optimal utilization of the production capacity.
- Demand: Product mix decisions are predominantly influenced by consumer demand. Marketers analyze consumer behavior to gauge the popularity of products and adjust the mix to meet evolving preferences. Products with higher demand take precedence, and adjustments are made to align with changing consumer needs.
- Production Costs: The breadth of the product mix is adjusted based on the production costs of individual items. Companies prioritize products that can be produced within budget constraints. If production costs rise for certain products, companies may choose to discontinue them to manage costs effectively.
- Government Rules and Restrictions: The product mix is shaped by compliance with government regulations. Companies refrain from producing items that are restricted or banned. Changes in legality, influenced by government rules or social and religious

considerations, impact the composition of the product mix.

- Demand Fluctuation: Fluctuations in demand, caused by seasonal effects, population changes, or external factors like wars or natural disasters, necessitate adjustments to the product mix. Companies must adapt to meet evolving demands for specific products.
- Competition: The product mix is significantly influenced by competitive dynamics. Companies design their product mix to effectively respond to the strategies adopted by close competitors.
- Impact of Other Marketing Mix Elements: Consistency among various marketing mix elements, including price, promotion, and distribution, is crucial in shaping the product mix. Companies strive for a cohesive approach across all marketing activities.
- Overall Business and Economic Conditions: Macro-level factors, such as the state of the overall economy domestically and globally, play a vital role. Economic conditions and global factors are considered, especially in the context of liberalization and globalization, influencing a company's approach to its product mix, particularly for those engaged in international trade.

6.7 LET US SUM UP

Product mix refers to the entire range of products and services that a company offers to meet the diverse needs and preferences of its target market. It encompasses the combination of different product lines and individual products within those lines that a company brings to the market. A well-designed product mix is a fundamental component of a company's marketing strategy, influencing its market presence, competitiveness, and overall success.

The composition of a product mix is influenced by factors such as market demand, company objectives, competitive dynamics, and resource constraints. Companies regularly evaluate and adjust their product mixes to stay relevant in the dynamic business environment.

Product mix, also known as product assortment or product portfolio, refers to the complete range of products and services offered by a company. It encompasses all the different types of products within a company's offerings, designed to meet the diverse needs and preferences of its target market. A well-structured product mix is a fundamental aspect of a company's marketing strategy, influencing market positioning, brand image, and overall business success.

6.8 FURTHER READINGS

1. "Principles of Marketing" by Philip Kotler and Gary Armstrong
2. "Marketing Management" by Philip Kotler and Kevin Lane Keller
3. "Strategic Brand Management: Building, Measuring, and Managing Brand Equity" by Kevin Lane Keller
4. "Marketing: An Introduction" by Gary Armstrong and Philip Kotler
5. "Contemporary Marketing" by Louis E. Boone and David L. Kurtz
6. "Marketing Strategy: A Decision-Focused Approach" by Orville C. Walker, Jr., John Mullins, and Harper W. Boyd Jr.

6.10 MODEL QUESTIONS

1. Discuss the importance of a well-designed product mix in the context of a company's marketing strategy. How does a strategically managed product mix contribute to market coverage, risk diversification, and overall business success?
2. Explain the concept of product mix and elaborate on its key components. How do product lines, product items, product width, and product depth contribute to the overall product mix of a company?
3. Explore the various factors that influence decisions related to the product mix. Consider market demand, company objectives, competitive dynamics, technological trends, and resource constraints. How do these factors shape the composition and adjustments of a product mix?
4. Provide examples of companies with diverse product mixes. Analyze how these companies strategically leverage their product portfolios to meet consumer needs, gain a competitive advantage, and adapt to market changes.
5. Explore the relationship between consumer behavior and product mix decisions. How should companies analyze consumer preferences, buying patterns, and market trends to optimize their product offerings?

UNIT 7: BRANDING, PACKAGING AND LABELLING

UNIT STRUCTURE

7.1 LEARNING OBJECTIVES

Upon completion of this unit, you should be able to:

- Recognize the significance of branding and packaging decisions in product marketing.
- Comprehend branding decisions and the various approaches to branding products.
- Recognize the importance of packaging and its diverse functions.
- Acknowledge the application of packaging as a marketing tool.
- Acquaint yourself with essential legal requirements that impact packaging decisions.

7.2 INTRODUCTION

In the contemporary market, the majority of consumer products and a significant number of industrial products, in addition to their fundamental functionalities, require visually appealing packaging and an attractive nomenclature. Beyond safeguarding the product, packaging plays a dual role by augmenting its perceived value and often justifying a premium price, particularly in the realm of premium product classes. Simultaneously, a well-crafted brand name serves as a mnemonic device for consumers, facilitating instant recall and playing a vital role in distinguishing similar products in a competitive landscape. The domains of branding and packaging for products have witnessed substantial transformations in the Indian context, with ongoing evolution driven by advancements in packaging technologies and innovative brand name strategies, poised to revolutionize the business landscape.

Transitioning from an era dominated by predominantly international brand names, the Indian market now boasts a plethora of indigenous brand names. Moreover, there is a growing trend in the adoption of vibrant thermo-plastics and other sophisticated, high-quality packaging materials for various products. This unit aims to delve into the discussion of these two critical extrinsic attributes of a product – namely, the branding and packaging of products.

7.3 BRAND NAME AND TRADE MARK

A pivotal aspect of the branding strategy involves the selection of a specific brand name for the product being introduced. In earlier times, particularly during the nascent stages of branding when the concept was less refined, family names or surnames were frequently utilized. Some of these names endure today, exemplified by brands like Siemens or Ford. Another prevalent method of branding involved associating the product range with the company's name, as evidenced by well-known examples like General Motors and General Electric. Initially, the function of a brand was either to signify the source or origin of the product (family name) or denote the product range.

However, in recent times, a brand name has evolved into one of the most crucial elements in the merchandising function, gaining significance as competition intensifies in India. It is imperative to comprehend the conceptual meanings of the terms "brand" and "brand name."

Brand: A brand is a term, mark, symbol, device, or a combination thereof used to identify a product or service. The definition underscores the primary function of a brand, which is identification, regardless of the specific means employed for this purpose.

Brand Name: According to the American Management Association, a brand name is a component of a brand comprising a word, letter, or group of words or letters intended to identify the goods or services of a seller or group of sellers and differentiate them from competitors. This definition highlights that while the function remains the same as that of a brand, a brand name is just one of the means a brand can use for identification. A brand name consists of pronounceable words or letters, such as "Promise" toothpaste or "Rexona" soap.

Additional terms related to branding include "brand mark" and "trade mark." A brand mark is a symbol used for identification, which can include a mark, design, distinctive logo type, coloring scheme, or picture. It serves as a means of identification without necessarily being a name. Examples include the picture of an elephant used by the India Tourism Development Corporation Limited or the star-circle emblem of a Mercedes Benz car. A trade mark, on the other hand, is the legalized version of a brand, falling under industrial property rights. It can be registered and protected by law, making it exclusive to the brand owner. While brand and trade mark are often used interchangeably, a trade mark is a more specific legal concept within this context.

7.4 BRANDING DECISIONS

Establishing a suitable brand has become a pivotal activity in product marketing, particularly for consumer products. Several decisions, though not simultaneous, must be made regarding brand selection and utilization. These include:

1) Decision to Brand:

- Determining whether a product should be branded is contingent upon factors such as the nature of the product, the envisaged outlets, perceived branding advantages, and estimated brand development costs. Historically, brand development correlates with increased disposable income, a sophisticated distribution system, and potential market expansion, a trend also observable in India.
- Previously, the notion of selling branded essentials like rice, refined flour, and iodized salt seemed improbable. However, recent successes in these categories highlight that certain consumers are willing to pay more for a consistently high-quality product associated with a brand. The trend of branding has extended even to commodities like spices, indicating a strong and growing inclination toward branding.

2) Brand Sponsorship:

- The sponsorship decision revolves around whether it should be a manufacturer's brand (national brand) or a private brand (middleman's brand). In developed countries with dominant retail chains, this is a major decision. While India traditionally had fragmented retail distribution, the landscape has evolved with numerous MNCs, national, regional, and private brands in every product category. The proliferation of established brand names across various product categories has transformed the retail market.

3) Quality and Attributes:

- Deciding on the quality and attributes to incorporate into the product is a critical decision that influences product positioning. Marketers can position their products at various segments of the market, whether at the top, bottom, or somewhere in between. For instance, in the detergent market, Surf is positioned as a premium, high-priced product, while Nirma is positioned as a lower-priced option.

4) Family Branding vs. Individual Branding:

- Marketers must decide whether to adopt a family brand, under which all company products are sold, or brand each product separately. Companies like GE or Philips follow the family name strategy, while GM follows the individual brand strategy. In India, L&T and Kissan are examples of the former, with the note that Kissan was taken over by Hindustan Unilever, aligning with the latter strategy similar to other Hindustan Unilever brands.

The following are advantages in either approach:

a) Family Brand:

i. Utilizing a family brand provides a fundamental advantage by significantly reducing the costs associated with product launches and ongoing promotional efforts. With only one brand to promote, the firm can potentially sell the entire product line if the brand proves successful. Aligning distribution channel members also becomes relatively more straightforward. Notably, a family brand has proven to be cost-effective in the marketing of tires.

ii. If one product performs exceptionally well, positive outcomes may extend to other products marketed under the same brand.

iii. Caution is essential when employing this strategy, particularly if the products offered vary significantly in quality. Additionally, it may not be suitable if the markets differ significantly in terms of consumer profiles.

iv. A notable drawback of this strategy is its failure to acknowledge that each product can thrive with a distinct identity provided by a specific brand.

b) Individual Brand:

i. The weakness identified above becomes the primary strength of the individual brand strategy. Consumer research unequivocally indicates that a name can evoke varied associations and diverse images, influencing buying decisions significantly. The individual brand strategy adeptly addresses this psychological aspect of marketing.

ii. Another advantage of this strategy is that if a product experiences failure, the negative impact remains confined to that specific product and does not extend to the entire product line.

iii. The primary disadvantage lies in the economics of developing an individual brand, making it a costlier strategy compared to the family brand approach.

iv. Another drawback is that the brand does not directly leverage any benefits from the firm's overall reputation.

To address these challenges, some companies opt for a slightly modified strategy. This approach involves the use of individual brands while also prominently featuring the company name or logo in all promotional campaigns and on product packaging. For instance, until the 1990s, TOMCO (Tata Oil Mills Company) employed an individual brand strategy but prominently displayed the words "A TATA product." Additionally, in many cases, companies adopt a brand extension strategy, aiming to derive additional value from a particularly successful product by launching either similar or dissimilar products under the same brand. A recent successful example is the decision to introduce the Maggi range of sauces, capitalizing on the established image of the Maggi brand of noodles.

5) Alternatively, a company may opt for several brands of the same product that, to some extent, compete with each other. This choice is driven by the recognition that, particularly in consumer products, various benefits, appeals, and even marginal differences between brands can attract a substantial following.

Brand Repositioning

Throughout the product life cycle, various market parameters may undergo changes, such as the introduction of competing products, shifts in consumer preferences, the identification of new needs, and more. Each of these changes necessitates a reconsideration of whether the original positioning of the product remains optimal. Stagnant or declining sales also serve as indicators that prompt a reassessment of the initial product positioning. Numerous FMCG products, consumer durables, automobile brands, and others have undergone repositioning multiple times in the recent past and continue to do so. This adaptive approach ensures relevance and alignment with rapidly changing customer needs and preferences, allowing firms to effectively serve diverse market segments within a competitive market environment.

7.5 BRANDING: ADVANTAGES AND DISADVANTAGES

Branding, as a facet of product marketing, can be examined from two distinct perspectives: that of buyers and sellers. Additionally, a societal viewpoint can offer insights.

a) Buyers:

i) A brand typically signifies consistent quality.
ii) It simplifies the shopping process for buyers.
iii) Over time, competition among brands can drive improvements in quality.
iv) Purchasing a socially visible brand can provide psychological satisfaction to the buyer.
v) However, there are some drawbacks:
vi) Brand development incurs costs, leading to potential increases in product prices.
vii) Manufacturers may gradually reduce quality while leveraging the popularity of a brand.

b) Sellers:

i) Branding aids in product identification.
ii) In a fiercely competitive market, it facilitates product differentiation and the carving out of a niche.
iii) Successful promotion leading to brand loyalty allows the firm to exert quasi-monopolistic power.

To reap these advantages, manufacturers must invest resources in promoting the brand name.

c) Societal View:

From a macro perspective, a brand's role in enhancing and sustaining product quality is seen as positive. Brands contribute to better product knowledge dissemination, fostering more scientific and rational decision-making.

However, there is an opposing view. Critics argue that branding often results in higher costs and, consequently, prices. It can also enable manufacturers to achieve higher-than-normal returns through excessive or strong brand loyalty.

7.6 SELECTING A BRAND NAME

Finding an appropriate name for a new product poses a challenge primarily for two reasons. Firstly, the name must satisfy various marketing criteria, some of which are discussed below. Secondly, it should not already be in use by another firm, necessitating thorough investigations.

Marketing Criteria: There is no straightforward solution to the name selection decision. However, based on extensive research and accumulated experiences, market researchers have developed certain principles that should be adhered to:

1) Relevance: A brand name should directly or indirectly reflect some aspect of the product, such as benefits or functions. For example, the name 'Fair & Lovely' immediately conveys a connection to skin/beauty care.

2) Distinctiveness: A brand should be distinctive, especially if the product requires such distinction. For instance, a name like 'CHANCELLOR' for a cigarette evokes ideas of status, power, and opulent lifestyle.

3) Ease of Pronunciation and Memorability: A brand name should be easy to pronounce and remember. Examples include BRU, USHA, JAWA, etc.

4) Legal Protection: It should be such that it can be legally protected if necessary. Given the substantial investment in a brand, it's crucial to prevent unauthorized use. While trademark protection is not foolproof, the following steps can be helpful:

i. Use the generic name of the product in association with the trademark.
ii. Designate the brand name as a trademark with actual notice, preferably using the registered trademark symbol (®).
iii. Display the mark with some form of special graphic treatment to distinguish it.
iv. Avoid using the trademark in the wrong grammatical form, as a noun, verb, in the plural, or in the possessive.
v. The trademark should not be altered by additions or abbreviations.
vi. Use the trademark for a line of products.

7.7 PACKAGING

Packaging has been defined in various ways in both technical and marketing literature, with one of the most frequently cited definitions being, "Packaging is the art, science, and technology of preparing goods for transport and sale." This definition underscores two key aspects of packaging:

a) It must contribute to the physical handling, storing, transportation, and sale of the packaged products.

b) Packaging as a function encompasses two distinct elements—(i) the positive aspects, including the science and technology related to package design and the selection of packaging materials, and (ii) the behavioral aspects, such as the art of product design associated with consumer motivation research and buying research.

Another definition emphasizes the significance of properly designed packaging, stating that "the package should enhance the value of its contained product and impart that impression, either directly or subtly, to the customer." The role of packaging in value enhancement is increasingly crucial not only in consumer marketing but also across all categories of goods and products.

7.8 PACKAGING INDUSTRY

Understanding the packaging industry is essential to fully grasp the packaging revolution in the consumer and industrial goods sectors. The packaging industry comprises two main segments: companies manufacturing packaging materials like tin, paper, plastics, and those involved in packaging formation, converting these materials into unit/master packages. Additionally, there are firms in label printing and marketing research agencies conducting specialized packaging research for development and adaptation.

Constantly evolving materials in the packaging field often replace or pose a threat to older materials like wood and steel due to cost advantages or better performance characteristics. The key packaging materials today include:

a) Metals - Aluminium, Tinplate, and steel

b) Plastics - PVC, HDPE, etc.

c) Wood - Wood and cellulose film

d) Paper - Paper, board, corrugated board, etc.

e) Glass - Clear, tinted, etc.

f) Laminates - Aluminium foils, plastic film, etc.

g) Polyester - PET

Parallel to the diverse packaging materials, packaging formation has also undergone a revolution. Consumer goods' unit packages now come in a bewildering variety. To appreciate the new introductions that transformed the packaging function in the 90s, let's review exhibits 1 to 4. Exhibit 1 features unbreakable, food-grade jars, bottles, and containers. Exhibit 2 showcases polyester film, while Exhibit 3 focuses on lamitubes. Exhibit 4 highlights Kraft paper-lined HDPE bags.

7.9 FUNCTIONS OF PACKAGING

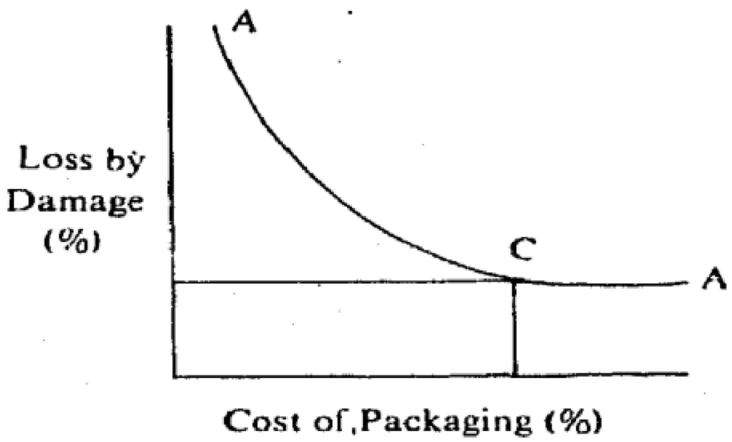
Packaging should fulfill the following fundamental functions: (a) protect, (b) appeal, (c) perform, (d) offer convenience to end-users, and (e) be cost-effective.

Protection is the oldest and most fundamental function among these. Its primary objective is to shield products from environmental and physical hazards during transportation from the manufacturer's plant to the retailer's shelves and while on display. Various hazards exist, and the specific types may vary by product, but universal hazards include:

i. Breakage/damage from rough mechanical or manual handling during transportation,
ii. Extremes of climatic conditions leading to melting or freezing,
iii. Contamination, whether bacterial or non-bacterial, such as by dirt or chemical elements,
iv. Absorption of moisture or odors from foreign elements,
v. Loss of liquid or vapor,
vi. Pilferage during transit or storage.

When considering packaging cost versus damage to goods, while it's technically feasible to identify a product's total risk profile in terms of its physical and distributional parameters, it may not be economically desirable to develop and adopt a zero-risk package. Beyond a certain point, the reduction in the probability of loss due to damages may not justify the increase in packaging costs. Firms are often willing to accept a certain level of risk from potential damage to goods rather than opting for fool-proof packing. The firm must make a managerial decision on the trade-off between the level of risks and the increase in packaging costs. The relationship between packaging costs and loss due to product damages is depicted in Figure 1.

Figure I: Trade-off between Damage and Packaging Costs



The vertical axis represents the loss due to physical damage to goods caused by insufficient packaging, expressed as a percentage of the total consignment value. The horizontal axis indicates packaging cost as a percentage of production cost.

The curve AA, illustrating the bilateral relationship, clearly demonstrates an inverse correlation between the two variables. More significantly, there seems to be a point (C in the figure) beyond which additional increases in packaging costs do not proportionately reduce losses. It may be advisable to halt at this point. However, other factors, such as the impact on consumer goodwill, availability of alternative packaging or materials ensuring higher protection at the same cost level, must be considered when making a final decision.

Appeal:

Packaging is increasingly utilized as a marketing tool, especially for certain consumer products like perfumes or gift articles. This significance is heightened by changes in the retail business structure, notably the rise of self-service stores.

In the case of consumer products, packaging acts as a silent salesman, regardless of whether the product is a luxury, semi-luxury, or an everyday item. The following characteristics enhance a package's self-selling capabilities:

a) The package must attract attention.
b) The package must convey the product story.
c) The package must instill confidence.
d) The package must present a clean and hygienic appearance.
e) The package must be convenient to handle, carry, store, and use.
f) The package must signify good value.

Packaging holds greater importance for specific types of articles. Studies across various countries reveal that packaging costs in the cosmetics industry far exceed those in other industries. This high cost is attributed not only to the packaging's protective function but also to making the product visually appealing, a status symbol, and ego-satisfying. Products like chocolates in gift packs also benefit from packaging's fundamental marketing role in enhancing appeal.

Consumer research on packaging primarily focuses on two aspects influencing purchase decisions: color and container design. Researchers universally conclude that each color has distinct characteristics, and the chosen color in packaging should align with expectations. The challenge lies in accommodating diverse color preferences in different countries due to varying socio-cultural and religious backgrounds. Container research emphasizes the desirable properties of containers, with slender and aesthetically pleasing containers often chosen for beauty-care products targeted at the feminine market to create an appropriate product image. Graphics and logotypes play a crucial role in designing and conveying the overall product image.

Packaging and Sales Promotion:

The role of product packaging in executing sales promotion campaigns is often significant. Promotion is defined as a short-term special measure aimed at boosting the sales of a specific product. Various accepted promotional packaging techniques include:

a) Money-off Pack: A distinctive flash in color is overlaid on the package, announcing a special price discount. This is widely utilized.

b) Coupon-pack: A coupon, either integrated into the package or placed separately, offers a certain value that can be redeemed post-purchase.

c) Pack-in-Premium: The gift is packed within the original product package, such as a handkerchief in a cosmetic product package.

d) Premium-package: Specially crafted packages with either reusability or prestige value. An example of the first type is instant coffee packed in glass tumblers with closures, while the second type is illustrated by a set of Tagore song audio cassettes released by the Gramophone Company of India in 1986, presented in a specially designed wooden box.

e) Self-liquidator: Buyers send evidence of purchasing the product to the company to avail reduced prices on additional quantity or be rewarded with a different product. Some companies in India, particularly in the processed foods and beverages industry, employ this technique.

f) Other Applications of Packaging as a Marketing Tool: Innovative uses of packaging for increased sales include ensuring a longer shelf-life of products. Tasty Bite Eatables, an Indian company specializing in frozen and pre-cooked foods, emphasizes its 18-month shelf-life as a major strength, attributed largely to improved packaging.

The introduction of a new package can be a promotional technique in itself. For instance, the shift from traditional tin cans to transparent one-litre PET (polyethylene terephthalate) bottles for edible oils in India has been utilized effectively by larger firms in their advertising campaigns. Similarly, the introduction of 'Panama' cigarettes in a soft packet of twenty in India two decades ago gained instant popularity due to this novelty.

Packaging can also cleverly avoid direct price comparison with competing products by deliberately choosing an odd size when other brands adhere to a standard size. A recent example in India is Maggi Ketchup, introduced in a 400-gram bottle, while the industry-standard size is 500 grams.

Performance:

Performance stands as the third crucial function of a package. It must effectively execute the task it is designed for. This becomes particularly vital in certain types of packaging. For instance, an aerosol spray not only serves as a package but also functions as an engineering device. Should the package fail to function, the product itself becomes rendered entirely useless.

Convenience:

The package must be designed for user convenience, extending not only to end-users but also to distribution channel members such as wholesalers and retailers. From their perspective, convenience relates to the handling and stocking of packages, including attributes such as ease of stocking and display, minimal shelf-space wastage, retention of appearance during shelf-life, and ease of disposal for master packages/cartons. With the increasing concern for solid-waste disposal, especially in developed countries, this factor gains significance in the context of transport packaging for export markets.

For domestic or institutional end-users, convenience encompasses aspects like ease of package use, including opening and closure, repetitive use value, and disposability.

Cost-effectiveness:

Ultimately, the package must be cost-effective. Packaging cost as a percentage of product cost varies widely across industries, ranging from less than one percent in the engineering industry to over 10 percent in the cosmetics industry. Analyzing packaging costs requires consideration of various elements in the cost chain, such as package costs during inward delivery, storage and handling costs of empty packages, filling costs, storage costs for filled packages, transport costs for distribution, insurance costs for the transit period, and losses due to breakage, spoilage, or spillage of the product. It is crucial to recognize that package costs constitute only one, albeit a significant one, element in the total costs associated with packaging.

7.10 LEGAL DIMENSIONS OF PACKAGING

Regulatory Compliance in Packaging Management:

In the oversight of packaging functions, continual attention must be dedicated to the diverse regulations that governments establish in this domain over time. Government regulations span various areas, encompassing the utilization of specific packaging materials for certain products, consumer protection, transportation of hazardous cargo, and more. Among these, a prominent aspect is the regulation pertaining to the information a manufacturer is obligated to furnish on the product's packaging itself. Commonly known as labeling requirements, this applies to a myriad of commodities, with primary focus on food products, cosmetics, pharmaceuticals, and the like. A label is defined as a display of written, printed, or graphic content on the container or package of the container.

However, a label serves a purpose beyond mere legal compliance. Effectively conceived, a well-crafted label can emerge as a potent sales instrument.

Given that a label serves as the most immediate source of information on a product, it can influence a buyer who might be unfamiliar with the product or loyal to another brand. In scenarios like supermarket or department store purchases, a well-designed label may entice a potential buyer to explore the product without prior intention. A proficient label aids a potential buyer in decision-making by offering pertinent and accurate information. Beyond statutory requirements, a label should ideally include:

1. An accurate depiction of the product, encompassing size, color, and appearance.
2. Details about raw materials used, coupled with processing methods.
3. Usage instructions, incorporating precautions against misuse.
4. Information on potential adverse effects.
5. Brand name.

Statutory requirements commonly involve:

1. Net weight at the time of packing.
2. Date of manufacture.
3. Expiry date.
4. Maximum retail price, inclusive or exclusive of local taxes.
5. Usage instructions, including dosage specifications.
6. Storage guidelines.

7.11 LABELLING

Labeling in Product Packaging:

Labeling plays a pivotal role in product packaging, serving as a crucial interface between consumers and products. It not only fulfills legal obligations but also serves as a powerful communication tool, providing essential information and influencing purchasing decisions. Understanding the significance of labeling is essential for effective product management. Here are key aspects related to labeling in product packaging:

1. Compliance with Regulatory Requirements:
   - Labels must adhere to government regulations regarding the information that manufacturers are mandated to disclose.
   - Compliance areas include the use of specific packaging materials for certain products, consumer protection, and transportation of hazardous materials.

2. Core Components of a Label:
   - Product Depiction: Accurate visual representation of the product, including size, color, and appearance.
   - Ingredient Information: Details about raw materials used and the methods of processing.
   - Usage Instructions: Clear and concise directions for product use, accompanied by cautions to prevent misuse.
   - Safety Information: Disclosures regarding possible adverse effects or precautions.
   - Brand Identity: Inclusion of the brand name for brand recognition.

3. Statutory Labeling Requirements:
   - Net Weight: The weight of the product at the time of packing.
   - Date of Manufacture: Providing transparency on when the product was produced.
   - Expiry Date: Clear indication of the product's expiration date.
   - Maximum Retail Price (MRP): Inclusive or exclusive of local taxes, ensuring price transparency.
   - Usage Directions: Including dosage specifications for clarity.
   - Storage Guidelines: Advising on appropriate storage conditions.

4. Sales and Marketing Tool:
   - Labels serve as a silent salesman, attracting attention and conveying the product story to potential buyers.
   - Well-designed labels contribute to brand identity, building consumer confidence and reflecting good value.
   - Labels can be leveraged for promotional activities, such as highlighting discounts or special offers.

5. Consumer Influence:
   - A strategically designed label can influence consumer behavior, prompting them to try a product even if they were not initially considering it.
   - In retail environments, where choices abound, labels play a crucial role in capturing consumer attention and driving purchasing decisions.

6. International Considerations:
   - Diverse color preferences and cultural nuances may influence label design, especially in a global market.
   - Export packaging must align with international standards and regulations.

Understanding and strategically utilizing labeling in product packaging is integral to creating a positive consumer experience, ensuring legal compliance, and fostering brand success in a competitive market.

7.12 LET US SUM UP

Branding stands out as a pivotal aspect of marketing, especially in the realm of consumer products. The name assigned to a product defines its distinct personality and often becomes so closely associated with the product that the brand name itself replaces the generic product name. Illustrating this, Surf and Bata serve as classic examples where the brand names signify the generic product categories, namely detergent and footwear.

The process of selecting a brand name is a significant decision. While the freedom to choose any name exists, it must meet specific criteria: uniqueness, ease of readability, pronunciation, memorability, and the absence of unfavorable or negative connotations. Whether opting for a common family brand name for all products or assigning distinctive brands to each product, each choice brings its own set of advantages and disadvantages, with numerous instances of success and failure to justify the chosen approach. Interestingly, even seemingly challenging brand names, such as Vicco Vajradanti, can succeed, while catchy and straightforward names may falter.

Packaging emerges as another critical facet of marketing, wielding considerable influence on a product's success. Unlike marketing decisions related to pricing and distribution, which may not be immediately evident to customers, the implications of packaging decisions are apparent as customers encounter them directly. Countless examples abound of otherwise excellent products facing failure due to subpar packaging. An effective package should safeguard the contents, appeal to customers, be convenient to handle, store, and use, and fulfill its intended functions.

The Indian market is currently inundated with innovative packaging materials that have supplanted traditional packages. These materials facilitate the marketing of products like potato wafers, snacks, and other delicate food items.

For manufacturers or marketers dealing with drugs, insecticides, pesticides, or hazardous chemicals, packaging must adhere to government-specified conditions. Compliance with legal requirements extends to labeling, necessitating the provision of complete and accurate information about product contents, usage instructions, potential side effects, and manufacturing and expiry dates.

7.13 FURTHER READINGS

- Kotler, Philip, 2008, Marketing Management Prentice-Hall of India Limited: New Delhi.
- S.Rarnesh Kumar, Managing Indian Brands:- Marketing, Concept and Strategies Vikas Publications-New Delhi

7.14 MODEL QUESTIONS

1) Identify the basic factors that prompt a company to brand its products. Select any well-advertised brand of your choice and define the personality of that brand.
2) What are the brands strategy options open to a firm? Discuss their relative strengths and weaknesses.
3) Select a branded consumer product of your choice. Analyze in detail the factors that have contributed to its success.
4) Do you consider branding to be of identical importance in marketing (a) industrial products, (b) consumer products, and (c) agricultural products? Give supportive arguments.
5) Sometimes even a well-established company tries to promote only the individual brand and keep its own name as inconspicuous as possible. Can you explain this strategy?
6) One marketing expert strongly urged every manufacturer to adopt a `nonsense word' as the brand. What can be the reason for this recommendation?

UNIT-8: PRODUCT LIFECYCLE

UNIT STRUCTURE

Learning Objectives:

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

- Understand the concept of the product life cycle
- explain the stages within the product life cycle, along with the distinct types of marketing mix essential at each stage
- bring out the necessity for product modifications
- understand the significance of a new product development strategy
- explain the stages encompassed in the new product development process, ranging from idea generation to the launch of the new product into the market.

8.1 INTRODUCTION

Many products experience a finite period of profitability. This unit provides a comprehensive understanding of the entire lifecycle, starting from the introduction of a new product until its decline. It illustrates how the decline phase can be delayed or extended to some extent. Successful product development requires meticulous planning and execution. In instances where organizations aim to rejuvenate declining products, they may opt for modifications or follow a series of steps, ranging from identifying market opportunities to launching new products as replacements for those in decline. The level of market competitiveness directly correlates with the imperative for product development.

8.2 THE PRODUCT LIFE CYCLE CONCEPT

A company launching a new product naturally anticipates long-term profitability and consumer satisfaction. However, this ideal scenario doesn't always unfold in practice. Forward-thinking organizations actively monitor the product's performance throughout its lifecycle, focusing on sales and resultant profits.

Let's delve into what occurs when a new product enters the market. Figure I presents three optimistic scenarios regarding the potential sales trend. In the case of a well-designed product, sales may experience a rapid surge after some time, as depicted in (b). Although cases where sales spike dramatically, as in (c), are rare, a poorly designed product might undergo a slow takeoff, as shown in (a). Consequently, (b) represents an ideal sales trend for a new product, characterizing the 'introduction' or 'innovation' stage in the product life cycle.

Given that the product is freshly introduced, it's natural to anticipate a gradual increase in sales as customers become aware of it. This stage requires time for the product to gain visibility, be made available at distribution/retail outlets, and fulfill other prerequisites. Hence, the likely sales trend in this stage aligns with scenario (b) I.

Activity I

In the introduction stage of a product what is likely to be the profit trend? Tick below what you think would be the profit picture at this stage:

i) Profits will rise rapidly [ ]

ii) Profits will rise gradually [ ]

iii) There will be a loss in the beginning [ ]

iv) There will be a loss throughout. [ ]

In the introductory stage, there is likely to be no profits or more likely a loss. This loss may continue for some time depending on the market factors. Thus, the correct answer could have been either (iii) or (iv). It is because at this stage, considerable amount of funds are being devoted to promotional expenses with a view to generate sales while the volume of the sales is low (as already seen in the Figure I). Thus in the beginning, there is likely to be a loss and later on, as the sales grow the profit might accrue.

The Growth Stage:

If the launched product proves successful, sales should begin to escalate or experience a more rapid rise, marking the transition to the 'growth stage.' During this phase, sales climb swiftly, and the profit landscape improves significantly. This is attributed to the spreading of distribution and promotion costs over a larger sales volume. With an increase in production volume, the manufacturing cost per unit tends to decrease, making this stage critical from a product strategy perspective.

The Maturity Stage:

While it is overly optimistic to expect perpetual sales growth, the likelihood of heightened competition becomes more apparent in the 'maturity stage.' In this phase, competitors may introduce similar products to vie with yours, leading to a potential decline in sales. Increased promotional efforts are necessary to sustain sales amidst competition, resulting in sales reaching a plateau. This stage is referred to as the 'maturity stage' or 'saturation.' Sales are challenging to push higher at this point, and from a profitability standpoint, profits may stabilize or begin to decline due to the intensified promotional efforts required to meet competition. The exception is if your product holds the largest market share and requires no additional marketing push.

The Decline or Obsolescence Stage:

Subsequently, sales are likely to decline, and the product may enter the 'obsolescence' stage. It becomes imperative to take steps to prevent obsolescence and counter the decline. The decline, often influenced by factors like changing consumer tastes, technological advancements, and the introduction of superior substitutes, leads to a rapid drop in profits. This phase represents the last stage, and maintaining profitability beyond this point may be risky and generally unprofitable for the organization.

Activity 2

Identify at what stages of their respective Product life cycle is the following products in Indian market context. 5 Product Stage

1) Premium Smart Phone ………………………….

2) Electric Bike ………………………….

3) Desk Top ………………………….

4) Photographic Camera ………………………….

5) Ready to cook food ………………………….

8.3 MARKETING MIX AT DIFFERENT STAGES OF PRODUCT LIFE CYCLE

Now, let's delve into the examination of the marketing strategy's 4Ps concerning these distinct stages. Prior to delving into the discussion, we encourage you to consider and provide suggestions on what aspects should be emphasized in relation to the 4 Ps at each stage.

Let's explore the marketing mix strategies at various stages of the product life cycle.

During the introductory stage, substantial investments are needed in physical distribution and promotion. The goal is to establish awareness, acceptance, and availability of the product. Adequate distribution arrangements should be made prior to the product launch to optimize organizational resources. Overcoming customer resistance to change established patterns is crucial, especially for a novel product. However, the curiosity factor may drive purchases for innovative offerings.

Moving to the growth stage, where sales escalate and profits are satisfactory, competition intensifies with new features introduced. To prevent a swift progression to the decline stage, product enhancements should be considered. Promotional expenditure is maintained or slightly increased to match competition.

The maturity stage, which typically lasts longer, presents challenges in sustaining sales levels due to a slowdown in growth. Product and promotional improvements can delay the decline. Concurrently, serious consideration should be given to a new product mix, involving the elimination or redesign of current products in the near future.

Finally, as the decline stage approaches, it may occur gradually or rapidly, influenced by factors like better substitutes, increased competition, and technological advancements. In this phase, the product becomes costly for the organization, prompting the consideration of elimination for marginal or unprofitable products. Lowering the price is a risky strategy at this juncture, as it requires additional promotional efforts to support sales. This move may lead the company into a loss situation.

8.4 POSSIBLE ALTERNATIVES IN DECLINE STAGE

After contemplating the product life cycle and acknowledging the inevitability of product decline, the question arises: what measures can be taken to prevent or delay this decline? Consider the following points:

1. Enhance product quality.
2. Introduce new product features for additional benefits.
3. Explore new market segments for penetration.
4. Provide incentives to distribution channels.
5. Expand the number of distribution channels.
6. Improve advertising and sales efforts.

The key to addressing this challenge often lies in the concept of 'innovation,' frequently referred to as the lifeblood of marketing. Innovation can manifest in any of the 4 Ps of marketing. Regarding the product, it could involve quality improvements, feature enhancements (e.g., automatic passenger car models), or stylistic updates, as seen in the changing collars of clothes due to fashion life cycles. Eventually, there may be a point where a product needs to be removed from the product mix.

In practice, there is often reluctance to do so, especially from senior members in the management hierarchy who may have developed strong attachments to such products. It's crucial to avoid emotional biases when making final decisions.

The product life cycle concept underscores the importance of periodic product reviews. The constant assessment of profitability and financial viability is essential. Unprofitable products not only affect sales morale but also impact distribution outlets. Retaining unprofitable products is justifiable only if they complete the product line, enabling distributors to compete. Unless there are compelling reasons, unprofitable products should be eliminated from the organization's product mix.

Considering the time period of the product life cycle, some products have an extremely short life, while others endure for a long time. Fads, for instance, have a brief life cycle; for instance, the hula hoop completed its cycle within a few months. On the contrary, traditional means of transportation like horse carriages continue to operate in certain cities despite the availability of more advanced alternatives.

8.5 LETS SUM UP

Engaging in product planning, making decisions about product lines, and formulating effective product strategies is an immensely stimulating and captivating domain. It poses challenges, and if not executed correctly, can lead to losses for the organization.

The concept of the product life cycle holds tremendous significance, often overlooked even by well-established companies. Recognizing the distinct marketing mixes employed in various stages of the product life cycle is crucial. Introducing new products well before the decline of existing ones is imperative for maintaining a stable overall sales scenario.

While the addition of new products to the company's product mix is a desirable objective, it's essential to acknowledge that this process can be costly. However, it is a necessary undertaking that requires adherence to proper steps. Generating new ideas is only the initial phase; thorough evaluation, including testing the 'concept' itself, is vital before committing further resources to product development.

Once a product is meticulously designed and deemed suitable for the market, real-world testing in the market is necessary before arriving at the final decision to launch the new product. Vigilance throughout the entire life cycle of the new product post-launch is equally crucial.

8.6 Model Questions

1) What are possible alternatives in decline stages?
2) What are the marketing mix strategies at various stages of the product life cycle?

BLOCK-3: PRICING, DISTRIBUTIONSCHANNELS AND PHYSICAL DISTRIBUTION

UNIT-9 PRICING: CONCEPT, SIGNIFICANCE AND FACTORS

UNIT STRUCTURE

9.1 INTRODUCTION

Price constitutes one of the four components of the marketing mix. Unlike the other elements, which incur costs, price is distinctive in that it serves as the sole revenue-generating element. Furthermore, it stands out for its adaptability to changes in the environment, making it the easiest to modify promptly. Conversely, elements such as product features, marketing communication, and distribution channels necessitate more time for adjustments. Consequently, in scenarios demanding swift decisions aligned with business dynamics, corporate entities often opt to initially adjust the price. Whether responding to inflation or deflation in the economy, price takes precedence as the foremost element of the marketing program to undergo adjustments. This unit delves into various facets of pricing, exploring the objectives and strategies associated with it. Additionally, we will examine the factors influencing pricing, along with strategies for adjusting prices.

9.2 CONCEPT OF PRICE

Price can be defined as the monetary amount assigned to a product or service, representing the cumulative values that customers are willing to exchange for the benefits derived from owning or consuming said product or service. In a broader sense, price encompasses the total monetary value that a customer is prepared to pay for the advantages associated with possessing or using a product or service.

Furthermore, price serves as a communication tool, conveying the company's intended value proposition for its product, service, or brand to the market. Companies with a strong brand image can command premium prices, leading to substantial profits. Even in the 21st century, for a significant portion of the global population, price remains a pivotal factor influencing purchasing decisions. The impact of a slight price alteration on sales can be significant, contingent on the price elasticity of the product. The strategic setting of prices profoundly influences a company's sales volume and profitability, emphasizing the critical role played by pricing decisions. A minor misstep in pricing strategy can result in substantial losses and a decline in sales.

Many managers perceive pricing as a formidable challenge and may prioritize other elements of marketing. However, astute managers recognize pricing as a powerful strategic tool to outmaneuver competitors, satisfy customers, and attract a broader customer base by creating exceptional value.

9.3 FACTORS INFLUENCING PRICING

Numerous factors play a role in pricing decisions, categorized as psychological, functional, logical, and economic. These factors fall into two groups, namely, internal and external.

Internal Factors:

These factors are specific to the firm and under its control, influencing its efficiency and competitiveness in the market.

a. **Cost**: The most crucial internal factor, as it establishes a pricing floor, covering all manufacturing and selling expenses. Different manufacturing or selling costs among firms can lead to significant pricing variations.

b. **Product Characteristics**: Enhanced features typically result in increased production costs and, subsequently, a higher price. For instance, products with superior characteristics command higher prices.

c. **Product Life Cycle**: Pricing varies at different stages of the product life cycle. A newly introduced product tends to have higher costs, while costs decrease during maturity.

d. **Company Goals:** The firm's pricing strategy aligns with its objectives, such as maximizing profits, penetrating the market, or projecting a premium image. Goals may change over time based on market penetration and profitability.

e. **Image Sought**: The perceived quality of a product, linked to its price, influences consumer behavior. Firms may set higher prices to establish a premium image.

f. **Uniqueness**: Unique products can command higher prices due to their distinctiveness and positive image in the market.

g. **Distribution Channel**: The length of the distribution channel affects distribution costs. Direct distribution from manufacturing hubs to consumers is often more cost-effective than through retail outlets.

h. **Promotion**: Increased promotion costs, particularly for unsought products, can lead to higher product prices.

Internal Factors:

- Costs include Inventory Cost, Production Cost, Marketing cost and Transportation Cost,
- Product characteristics/features,
- The PLC (Product life cycle) stage,
- Company goals,
- Image sought by the firm,
- Extent of distinctiveness and differentiation,
- Length of distribution,
- Degree of promotion

External Factors:

- Customer demand
- Competitions
- Price elasticity of demand of the product
- Marketing power of the members of marketing channel.
- Government control
- Buying behaviour of customers
- Income level of customer,

External Factors:

These factors are external to the firm but impact the entire industry:

a. **Consumer Demand:** While costs set the pricing floor, consumer demand establishes the ceiling. Factors like buying power, tastes, habits, cultural norms, and substitutes influence consumer demand.

b. **Competition**: Competitive situations across countries result in cross-border price differentials. The number and nature of competitors impact pricing decisions.

c. **Elasticity of Demand**: Price elasticity affects how changes in price impact product demand. Highly price elastic products may require cautious price adjustments.

d. **Marketing Power of Channel Members:** The power balance between manufacturers and distributors influences price setting, with retailers having more influence in larger retail chains.

e. **Government Control:** Government regulations, including taxes, can impact pricing mechanisms by setting maximum prices or influencing product demand.

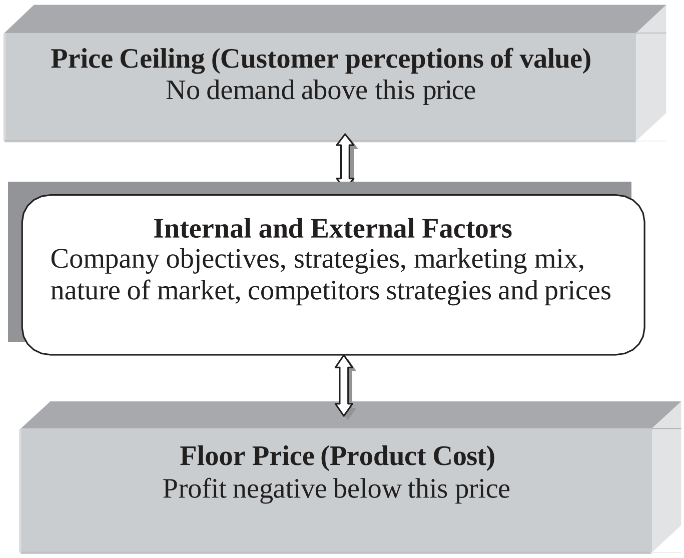
f. **Buying Behavior and Income Levels**: Brand loyalty and income levels influence consumers' willingness to pay premium prices for products.

g. **Inflation**: Companies may adjust prices based on economic trends, charging higher prices during inflation and lowering them during deflation or economic recessions.

9.4 CONSUMER PSYCHOLOGY AND PRICING

While consumers are generally considered price takers, their purchasing behavior is often influenced by actively processing price information based on previous experiences. Typically, consumers compare prices and assess the value of a product using information gathered from various sources such as friends, relatives, colleagues, online references, advertisements, sales calls, and promotional brochures. Thus, price perception significantly shapes purchase decisions.

Furthermore, for many individuals, price serves as a signal for product quality. Numerous studies have explored the relationship between price and quality. Zeithaml and Sjolander conducted a study revealing that, with the exception of products like wine and perfume, a general relationship between perceived quality and price does not universally apply. Consumer purchasing decisions are substantially guided by their perceived notion of a product's price. Consumers establish a specific range, comprising a floor price and a ceiling price, for all products. Setting a price below the floor price may lead consumers to hesitate due to concerns about low quality, while a price above the ceiling price is perceived as not providing value for money. This phenomenon is illustrated in the following figure.



Considerations in Price Setting

9.5 REFERENCE PRICES

What factors contribute to consumers perceiving certain product prices as fair and attributing higher value to some products over others? To effectively price goods or services based on customer preferences, it is essential to understand what customers consider a reasonable or fair price for a particular product, what they anticipate paying, and their perceptions of what others might pay.

Reference pricing falls under the umbrella of psychological pricing. It refers to the prices that buyers mentally retain and consult when seeking a specific product. These reference prices can be established by observing current prices, recalling past prices, or evaluating the buying context. Sellers can leverage or manipulate these consumer reference prices when determining the pricing strategy. For instance, supermarkets or department stores may organize products of the same range in one department while placing more expensive items in another department. The key points are outlined in the figure below:

Consumer Reference prices:

1. Fair Price (What product should cost)
2. Typical Price
3. Last Price Paid
4. Competitor Price
5. Expected Future Price
6. Usual Discounted Price
7. Upper–Bounce Price (What most consumers would pay)
8. Lower– Bounce Price (the least consumer would pay)

Figure 9.2: Consumer Reference Pricing

(Source: *Adapted from Russell S. Winter, "Behavioral Perspectives on Pricing: Buyers' Subjective Perceptions of Price Revisited," in Issues in Pricing: Theory and Research, edited by Timothy Devinney (Lexington, MA: Lexington Books, 1988), pp 35-57)*

9.6 SETTING THE PRICE

Determining the pricing for a product is among the most challenging responsibilities for marketers. As previously explored, numerous factors play a pivotal role in this process. The overall success of a business and its products hinges on the precision with which marketers establish their prices. Companies can only set prices within the range of the floor price (representing the product's cost) and the ceiling price (beyond which there is no demand), as previously explained.

9.7 PRICING OBJECTIVES

The pricing objective of a company determines the approach the company takes in pricing its products. Generally, these objectives can be financial, aiming to price offerings for maximum profit, sales, or to achieve a satisfactory level of profit or sales, including specific return on investment targets. Companies might establish prices by offering discounts to facilitate quick sales. Alternatively, pricing objectives could be marketing-oriented, such as market penetration, or positioning the brand to be perceived as a premium brand. It is crucial to ensure that pricing objectives are both reasonable and measurable. The clearer a firm's objectives, the easier it is to determine the right price for the company's product. There are five major pricing objectives for a firm, as illustrated in the following figure:

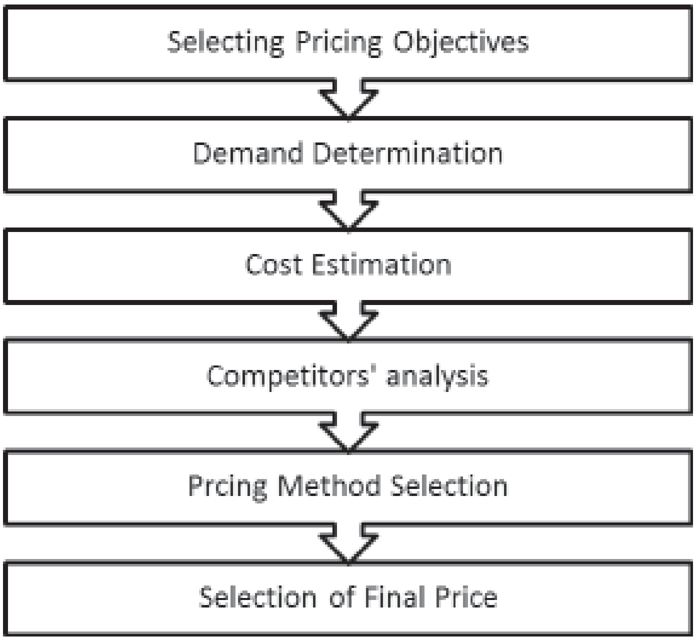


Figure 8.3: Steps to follow for Price Setting

a. Survival:

Survival can become a primary objective when a firm contends with intense competition, faces overcapacity, or experiences shifts in consumer taste and preference. However, survival is a short-term goal, and a firm cannot sustain itself with this objective in the long run. Here, the firm adopts a very low price strategy to cover variable costs and a portion of fixed costs.

b. Maximum Current Profit:

Once again, achieving maximum current profit is a short-term objective. For this pricing approach, a firm must thoroughly understand market dynamics, including product demand and production costs. The firm sets a price to ensure that it has no adverse impact on sales, leading to the generation of maximum current profit, an uninterrupted cash flow, and a healthy return on investment. However, there is a risk that the firm may prioritize current profit over long-term performance, potentially neglecting the impact of other marketing mix variables.

c. Maximum Market Share:

In this pricing strategy, a firm aims to maximize sales, subsequently increasing its market share. Higher sales volume provides advantages through economies of scale, contributing to an enhanced profit margin. The firm strategically sets the lowest price for its products, gaining a competitive edge that others cannot easily replicate. This objective is logical in a price-sensitive market where production and distribution costs decrease with increased production.

d. Maximum Market Skimming:

This pricing objective involves initially setting a high price for products and gradually reducing it over time. Market-skimming pricing is often employed by innovative electronic product manufacturers such as Sony. This approach is suitable when there is a substantial number of buyers with high current demand, low unit costs for small-scale production, and a high price signifies superior product quality.

e. Product-Quality Leadership:

A firm may choose to cultivate a premium image for its product by charging a higher value for superior-quality offerings that outclass most competitors. The goal is to establish the firm as the product-quality leader in the market. The strategy involves charging a higher price, but one that remains within the reach of customers. Luxury car manufacturers like BMW and Mercedes-Benz serve as exemplary instances of this approach.

9.8 DEMAND DETERMINATION, COST ESTIMATION AND ANALYSIS OF COMPETITION

Demand establishes the ceiling, representing the maximum price that marketers can charge customers, while cost sets the floor. The price of a product should encompass the essential costs of production, distribution, selling, advertising, and a profit margin to compensate marketers for their efforts and risks. However, practical considerations often prevent a company from charging a price that fully incorporates all these costs. In certain situations, a company may opt to sustain production by only charging the variable cost for survival.

A company's costs fall into two categories: fixed costs and variable costs. Fixed costs, also known as overheads, remain constant irrespective of production and sales levels and include expenses like land and building rent, equipment, machinery, and employee salaries. On the other hand, variable costs directly fluctuate with the product level and encompass expenses such as raw materials, energy, and wages.

Before determining the price, a firm needs to meticulously examine and assess the costs, prices, and offerings of its competitors. Firstly, among numerous competitors, the firm should identify the closest ones with similar products and markets. Secondly, the firm should align its features, offers, and prices with those of its competitors. If the firm's offer includes features not provided by the closest competitors, it should evaluate the added value of these features to the customer and incorporate that value into the competitor's price. Conversely, if the competitor's offer includes features not present in the firm's offering, the firm should subtract their value from its own price.

9.9 PRICING METHODS

Multiple techniques exist for establishing prices, but the most suitable pricing method involves considering three key factors: Cost, Competitor, and Customer. In this context, we will delve into the discussion of six pricing methods for better comprehension.

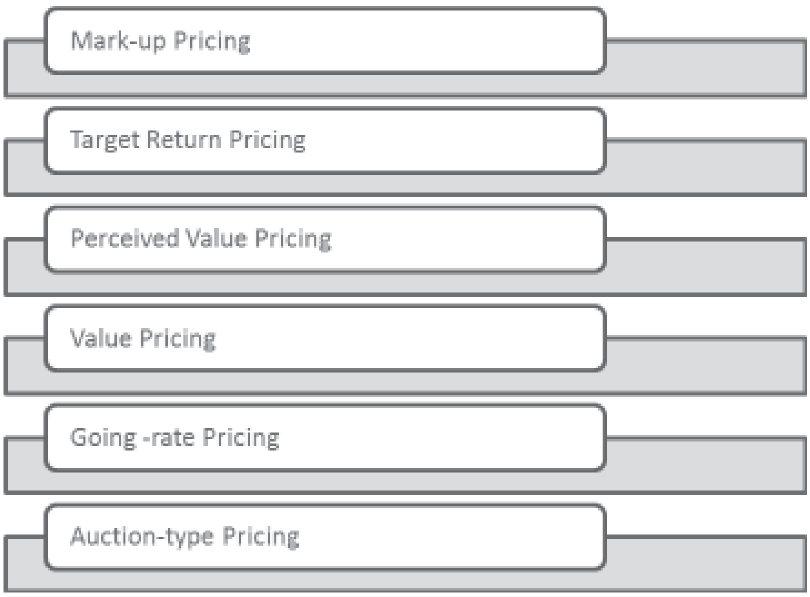


Figure 8.5: Pricing Methods

a. Mark-up Pricing:

This approach relies on a predetermined percentage mark-up, making it one of the most basic pricing methods. Calculating it involves simply adding a standard mark-up to the company's product cost. In British supermarket retailing, the mark-up is typically around 6-8 percent, whereas in American supermarket retailing, it is often less than 4 percent.

Suppose a pen manufacturer has the following costs and sales expectations:

Variable cost per unit Rs. 10

Fixed Cost Rs.200, 000

Expected Unit Sale 100, 000

The manufacturer's unit cost is given by:

Unit Cost = Variable cost + Fixed Cost/ unit cost

= Rs.10+ Rs.200,000/Rs.100,000

= Rs. 12.

Suppose, manufacturer wants to earn 20% mark-up on sale.

The mark-up price will be

Mark-up price = unit cost/ 1-desired return on sale

= Rs.12/1-0.2

= Rs.12/0.8

= Rs. 15

The manufacturer would charge dealer Rs.15 per pen and make a profitof Rs. 3 per unit.

b. Target- Return Pricing:

Many companies now-a-days focus mostly on return on their investment. General Motors target 15% to 20% return on their investment.

Suppose the pen manufacturer has invested Rs. 500,000 in the business and wants to set a price to earn a 20% ROI, specifically Rs.100, 000.So, the target Return Pricing will be:

Target-return pricing = unit cost+ desired return x invested capital/unit sale

= Rs.12 + 0.2 x Rs. 500,000/100,000

= Rs.12 +1

= Rs. 13.

The manufacturer can easily earn this 20% ROI when they can sell their 100,000 pieces of pen at Rs. 13 which will give them a total Rs.100,000 return on their sales.

c. Perceived-Value Pricing:

Effective pricing starts with a thorough understanding of the value a product or service creates for customers. In this method, buyers' perception of value, rather than the seller's cost, is the key to pricing.

Perceived value comprises elements such as the buyer's image of the product performance, channel deliverables, warranty quality, customer support, and softer attributes like the supplier's reputation, trustworthiness, and esteem. Companies must deliver the value promised by their value proposition, and the customer must perceive this value. The key to perceived-value pricing is to deliver more value than the competitor and demonstrate this to prospective buyers.

d. Value Pricing:

Value pricing is a pricing technique where the marketer charges a very low price for their offerings without compromising quality. It involves reengineering the company's operations to become a low-cost producer without sacrificing product quality to attract value-conscious customers or the bottom of the pyramid.

The fundamental concept of value pricing is to offer value at an affordable price. Wall-mart's EDLP (Every Day Low Pricing) strategy is a notable example of value pricing. In India, Big Bazaar, Vishal, Bata, Peter England, among others, use value pricing methods.

The differences between cost-based pricing and value-based pricing are indicated in the following figure.

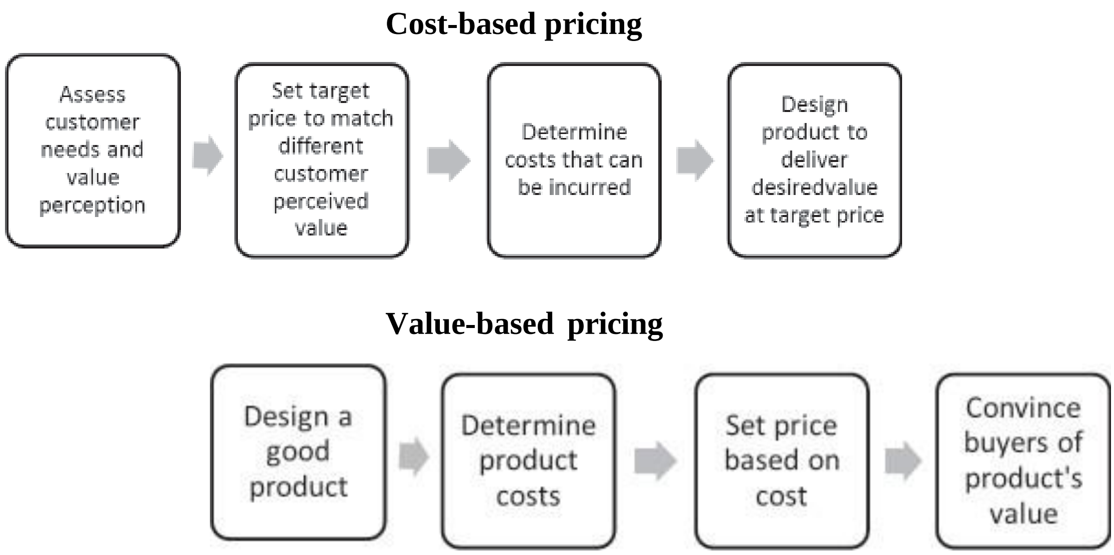


Figure 8.6: Cost-based pricing and value-based pricing

e. Going-rate Pricing:

Going-rate pricing is a straightforward pricing method where the seller sets a price similar to, or slightly different from, major competitors. In this approach, the emphasis is placed on the competitors' price rather than the cost of the product. In oligopolistic markets dealing with commodities such as paper, fertilizer, or steel, it is common for all firms to charge the same price. In such markets, everyone typically follows the pricing set by the market leader.

In industries where costs are challenging to measure or the competitive response is uncertain, going-rate pricing is quite prevalent. Here, the price of the product changes not because of cost fluctuations but due to changes in the leader's price. Some companies may charge a premium or discount compared to the leader, but they maintain the relative difference whenever adjusting prices.

f. Auction-type Pricing:

EBay serves as an excellent example of a platform that employs auction-type pricing to sell merchandise, a method that has gained popularity with the growth of the internet. Auction-type pricing is particularly advantageous for disposing of excess inventories or used goods. There are three main types of auctions:

- English Auction (Ascending bids)
- Dutch Auction (Descending bids)
- Sealed Bid Auction

Online auctions, featuring a large number of bidders, higher economic stakes, and less transparency in pricing, have resulted in greater satisfaction, more positive future expectations, and fewer perceptions of opportunism.

9.10 MARKET SKIMMING AND MARKET PENETRATION PRICING

There are two primary pricing strategies that a firm can employ as a strategic tool, commonly known as Market-Skimming Pricing and Market Penetration Pricing. While these strategies have been briefly touched upon earlier in this chapter, we will now delve into a more comprehensive discussion.

Market-Skimming Pricing:

As the term "skimming" suggests, this strategy initially enters the market with a high price and subsequently adjusts to a lower price. Essentially, it aims for high prices and profits during the product's introduction stage. This approach effectively captures the opportunity to sell the product at premium prices to market segments less concerned about price. It is particularly beneficial for pricing new products with luxury or specialty elements. When a new product is a luxury item, attracting affluent and price-insensitive consumers, the skimming strategy is viable. It allows the firm to gauge market demand, make necessary adjustments, and gradually reduce prices. For instance, when Sony introduced the world's first hi-definition television (HD TV) in 1990, the initial cost was $43,000. Over time, Sony lowered the prices, making the product accessible to a broader market. Market-Skimming makes sense under specific conditions, including the product's quality and image supporting its higher price, manageable production costs for smaller volumes, and difficulty for competitors to easily undercut the high price.

Penetration Pricing:

In contrast, penetration pricing aims for extensive market penetration through relatively low prices. It is the opposite of skimming pricing and is particularly useful for new products capable of generating large sales volumes. This strategy is suitable when the product is not a luxury item and lacks support from an affluent, price-insensitive segment. Penetration pricing allows the firm to achieve significant sales at a reasonable price before competitors enter the market. This approach is advantageous in the introductory phase, helping the firm establish a market foothold and ward off early price competition. For penetration pricing to succeed, certain conditions must be met, such as a highly price-sensitive market, decreasing production and distribution costs with increasing sales volume, and the ability of the low price to deter competition while maintaining its position.

9.11 PRICE-ADJUSTMENT STRATEGIES

Determining the initial price of a product is just the beginning. Subsequently, the company needs to fine-tune the price to accommodate customer-specific and situational variations. Various strategies are employed for price adjustments, including:

- Segmented Pricing
- Discount and Allowance Pricing
- Psychological Pricing
- Promotional Pricing
- Geographical Pricing
- Dynamic Pricing
- International Pricing

In the following, we will provide a brief overview of these price adjustment strategies:

Table 8.2: Price adjustment Strategies

Strategy	Description
Segmented Pricing	This pricing strategy implies where to match the differences in customers, products or location. Firms adjust their pricing according to the customer, products or location
Discount and allowance pricing	This strategy implies where to reward customer responses such as for early payment or for more purchase.
Psychological Pricing	It is a pricing approach that considers the psychology of prices and not the economics. Based on buyer preferences, prices are changed.

Promotional Pricing	It means adjusting price to generate sales in the short term.
Geographical Pricing	It means temporarily pricing products below the list price and sometimes even below cost, to increase short-run sale.
Dynamic Pricing	It implies setting prices for customers located in different parts of the world. Adjust prices continually to meet the characteristics and needs of individual customers and situations. In case of airlines, oil etc. dynamic pricing is quite common.
International Pricing	It calls for adjusting prices for international markets depending upon cost, buyer preferences etc.

9.12 LET US SUM UP

This unit has covered the concept and significance of pricing, delving into the factors influencing pricing, pricing objectives, and strategies. Following the exploration of market skimming and penetration pricing, we have also delved into various price adjustment strategies. As emphasized by the unit, pricing decisions are pivotal and susceptible to changes influenced by both internal and external forces.

9.12 MODEL QUESTIONS

1. Discuss the importance of pricing.
2. Describe the internal factors affecting pricing.
3. Describe the external factors affecting pricing.
4. What could be the various objectives of pricing?
5. Explain market skimming pricing.
6. Explain penetration pricing.
7. Discuss price adjustment strategies.

UNIT 10: PRICING POLICIES AND STRUCTURES

UNIT STRUCTURE

LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Understand the concept of pricing, pricing policy and pricing strategy.
- Know about the considerations involved in formulating pricing policy.
- Learn about the pricing strategies.

10.1 INTRODUCTION

Many businesses often set their pricing without careful consideration, inadvertently leaving potential revenue untapped from the start. The good news is that investing time in refining your product pricing can serve as a potent driver for growth. By optimizing your pricing policy and strategy to encourage a larger number of customers to pay a higher amount, you can generate significantly more revenue compared to businesses that take a more passive approach to pricing. While this may seem evident, many businesses seldom dedicate substantial effort to identifying the optimal pricing strategy.

The fundamental goal of any organization is to increase profit and gain a larger market share. Profit can be maximized by effectively selling products in the market, and acquiring market share involves offering high-quality products at competitive prices. Despite its seemingly minor role, pricing plays a pivotal role in the overall growth of the organization.

10.2 DEFINITION OF PRICING

Pricing goes beyond the mere monetary value assigned to your products; it encapsulates deeper implications for your potential customers, reflecting your brand's worth, product quality, and appreciation for your customers. It stands as a pivotal factor that can either attract or deter customers from making a purchase. Consequently, pricing demands a thoughtful and precise calculation to ensure its effectiveness.

10.3 MEANING OF PRICING POLICY

A pricing policy serves as a consistent response to recurring inquiries. Establishing a systematic method for pricing involves generalizing and formalizing decisions made in individual pricing situations to cover all key pricing challenges. These policies can be customized to suit various competitive scenarios. Despite advertising, product customer, and distribution-channel policies being well-defined in most efficiently run manufacturing enterprises, pricing decisions often remain a collection of ad hoc choices. Unfortunately, in many well-managed firms, pricing policy is typically addressed reactively in crisis situations, hindering the systematic analysis necessary for well-defined pricing policies.

10.4 CONSIDERATIONS INVOLVED IN FORMULATING THE PRICING POLICY

Formulating the pricing policy involves considering the following factors:

(i) **Competitive Situation**: Determination of the pricing policy is influenced by the competitive dynamics within the market. The nature of competition, whether perfect or imperfect, plays a crucial role. Pricing policy gains significance particularly in imperfectly competitive markets where producers have some control over prices.

(ii) **Goal of Profit and Sales**: Businesses utilize pricing strategies to achieve dual objectives: maximizing profits and stimulating profitable sales. The aim is to ensure that sales contribute significantly to the overall profitability of the firm.

(iii) **Long Range Welfare of the Firm**: Considerations for pricing policies include the long-term welfare of the company. Firms are often cautious about setting high prices, as it could attract more competitors. Pricing decisions need to be aligned with the objective of preventing the entry of rivals into the industry.

(iv) **Flexibility**: Pricing policies must exhibit flexibility to adapt to changes in the economic conditions of various customer industries. In highly competitive markets, firms may have limited pricing discretion. The flexibility of prices should also account for cyclical variations.

(v) **Government Policy**: Government regulations may restrict firms from forming combinations to set high prices. Government intervention often aims to control prices of essential commodities, preventing consumer exploitation. Involvement of the government in pricing processes introduces political considerations into price fixation.

(vi) **Overall Goals of Business**: Pricing is a means to an end, not an end in itself. Firms must align pricing policies with their overall goals, which can range from survival to specific objectives like growth rate, market share, control maintenance, and profit generation. The compatibility of various objectives should be considered when establishing a pricing policy.

(vii) **Price Sensitivity:** Factors influencing insensitivity to price changes, such as consumer behavior variability, marketing effort effectiveness, product nature, and post-sales service importance, need to be considered. Businesses should avoid overemphasizing price sensitivity and recognize other factors that may minimize its impact.

(viii**) Reutilization of Pricing**: Firms often face numerous pricing decisions. When data on demand and cost are speculative, relying on a mechanical formula becomes necessary. In highly competitive markets, firms may have limited room for pricing discretion, leading to routinized pricing approaches.

10.5 OBJECTIVES OF PRICING POLICY

The pricing policy of a firm can vary based on its objectives. In practice, a product from a firm may have various prices, such as wholesale price, retail price, published price, quoted price, actual price, and more. Variations in the product's price can arise from special discounts, offers, payment methods, purchase quantities, transportation charges, trade-in values, etc. Therefore, careful definition of the product's price is crucial for pricing decisions.

Pricing decisions made by a firm have significant implications for its overall marketing strategies. This implies that when a firm decides on the price, it must consider its entire marketing efforts. Pricing decisions are typically regarded as part of the overall strategy aimed at achieving broad goals.

When setting the price, a firm may aim for the following objectives:

(i) **Price-Profit Satisfaction**: Firms seek to maintain price stability over a certain period, regardless of changes in demand and costs, to achieve the expected profit.

(ii) **Sales Maximization and Growth**: A firm sets a price that ensures maximum sales of the product, contributing to the growth of the entire product line.

(iii) **Making Money**: Some firms leverage their industry position by selling products at a premium to make quick profits.

(iv) **Preventing Competition**: To avoid wasteful duplication of resources due to unrestricted competition, firms adopt a suitable price policy to restrict the entry of rivals.

(v) **Market Share**: Firms aim to secure a large market share by following a suitable price policy, aspiring for a dominating leadership position.

(vi) **Survival**: In the face of severe competition and business uncertainties, a firm sets a price to safeguard its welfare, navigating challenges from rivals for continued existence.

(vii) **Market Penetration**: Some companies aim to maximize unit sales, believing that higher sales volume leads to lower unit costs and higher long-run profits. This strategy is known as market penetration pricing.

(viii) **Marketing Skimming**: Many companies prefer setting high prices to "skim" the market, estimating the highest price given the comparative benefits of their new product versus substitutes.

(ix) **Early Cash Recovery**: Certain firms set prices to create a rush for the product, recovering cash early. Alternatively, they may set a low price as a precaution against future uncertainty.

(x) **Satisfactory Rate of Return:** Companies often set prices to maximize current profits, considering demand and costs associated with alternative prices. The chosen price aims for maximum current profit, cash flow, or return on investment.

10.6 FACTORS INVOLVED IN PRICING POLICY

The pricing of products involves consideration of the following factors:

(i) **Cost Data in Pricing**: Cost data, encompassing production costs, promotional expenses, and taxes, play a crucial role in price setting. Costs, categorized as fixed and variable, impact short-term decisions, with the necessity to cover variable costs even if fixed costs remain uncovered.

However, costs alone do not determine pricing; other factors, such as demand and competition, must also be considered. Costs are not the sole factor in pricing decisions; other factors like demand and competition play equally important roles.

For short-term managerial decisions, direct costs are relevant, whereas, in the long run, all costs must be covered. In multi-product firms, relevant costs are those directly traceable to an individual product, covering direct costs, contributing to common costs, and realizing profits.

(ii) **Demand Factor in Pricing:** Demand is a crucial factor in pricing, influencing effective sales. The elasticity of demand guides price determination, allowing higher prices for inelastic demand and lower prices for elastic demand. In the short term, demand often exerts a significant influence on prices.

(iii) **Consumer Psychology in Pricing**: Consumer psychology, influenced by factors like product quality, image, customer service, and promotion, impacts demand and pricing. The qualitative aspects of products often hold more influence over consumers than just price. Price acts as a barrier to demand when too low or too high, influencing consumer perceptions of product quality.

(iv) **Competition Factor in Pricing**: Market situation, especially the level of competition, plays a pivotal role in pricing decisions. In perfect competition, prices are determined by demand and supply, while in monopolies, producers have more discretion in setting higher prices. Pricing policies in oligopolies and monopolistic competition often consider rival product prices.

(v) **Profit Factor in Pricing**: Profit maximization is a key consideration in price setting, with the critical rule being to select a price where marginal revenue equals marginal cost.
Most businesses aim for a stable price to avoid frequent fluctuations and focus on profit maximization.

(vi) **Government Policy in Pricing**: In a market economy, the government typically doesn't interfere in economic decisions, but in planned economies, government interference is more pronounced. Governments may implement regulatory price techniques such as price ceilings, minimum prices, and dual pricing. In mixed economies, governments may resort to price control policies to achieve specific targets, prevent inflationary rises, and curb abnormal price increases.

10.7 PRICING STRATEGIES

A pricing strategy encompasses considerations such as market segments, ability to pay, market conditions, competitor actions, trade margins, and input costs. It is tailored to defined customers and competitive landscapes. Pricing strategies refer to the methodologies businesses employ to establish prices for their products and services. If pricing determines how much to charge, the product pricing strategy determines the optimal amount.

Definition:
Pricing Strategy is a tool employed to set the price of a specific product or service, taking into account factors like resource consumption, market conditions, customer ability, demand and supply dynamics, and the product's necessity.

Different pricing strategies include:

- Value-based pricing
- Competitive pricing
- Price skimming
- Cost-plus pricing
- Penetration pricing
- Economy pricing
- Dynamic pricing

Pricing as an Underutilized Growth Lever:
While many companies focus on acquisition for business growth, studies indicate that small pricing variations can significantly impact revenue by 20-50%. However, less than 5% of Fortune 500 companies dedicate functions to optimizing prices, representing an untapped opportunity for substantial growth.

Importance of Pricing Strategy:
An effective pricing strategy solidifies a business's position, building customer trust, and aligning with business goals. A strong pricing strategy portrays value, convinces customers to buy, and instills confidence in the product.

A Winning Pricing Strategy:

- Portrays value and exclusivity.
- Convinces customers to buy by offering an ideal price.
- Gives customers confidence in the product's quality.

A Weak Pricing Strategy:

- Fails to accurately portray the product's value.
- Creates uncertainty among customers.
- Targets the wrong customer segments.

Important Pricing Strategies:

1. **Value-based Pricing**: Aligns prices with consumer perceptions of product worth, ideal

for Sales businesses.

2. **Competitive Pricing**: Sets prices based on competitors' charges, suitable for businesses starting out but limiting growth.
3. **Price Skimming**: Initially sets high prices and lowers them over time to capture market segments gradually.
4. **Cost-plus Pricing**: Adds a percentage to production costs, simple but less ideal for non-physical products.
5. **Penetration Pricing**: Offers lower prices to gain market entry, effective for new products but requires customer loyalty.
6. **Economy Pricing**: Targets commodity goods with lower prices and increased volume.
7. **Dynamic Pricing**: Constantly adjusts prices based on current demand, less suitable for subscription businesses.

Additional Pricing Strategies:

1. **Premium Pricing**: Utilizes high prices as a competitive advantage, effective in industries with a strong competitive edge.
2. **Psychological Pricing**: Leverages psychological factors, such as pricing just below a round number, to influence customer perception.
3. **Product Line Pricing**: Varies prices based on product size within the same line.
4. **Pricing Variations**: Adapts pricing based on factors like advance booking, common in industries like travel.

In conclusion, choosing the right pricing strategy is a powerful growth lever, often more impactful than customer acquisition. A well-executed pricing strategy communicates value, drives customer decisions, and fosters business growth.

10.8 LET US SUM UP

Determining the prices for products and services can pose challenges. If prices are set too high, businesses may lose out on significant sales, while setting them too low may result in missed revenue opportunities. Fortunately, pricing doesn't need to be a daunting sacrifice or a guessing game. Numerous pricing models and strategies are available to enhance your understanding of how to establish optimal prices aligned with your audience and revenue objectives.

10.9 REVIEW QUESTIONS

Q1. Define pricing policy. Discuss the objectives of pricing policy.

Q2. What is pricing strategy?

UNIT 11: MEANING AND IMPORTANCE OF DISTRIBUTION

UNIT STRUCTURE

11.1 INTRODUCTION

In previous units, we've delved into and acquainted you with crucial concepts such as needs, wants, customers, markets, competition, sales, and marketing, along with various relevant terms associated with the marketing function. We've explored how businesses engage with their target market segments through a well-integrated marketing mix and strategic formulation. Specifically, we discussed the marketing mix elements for products, encompassing product, price, place, and promotion, commonly known as the 4Ps. Additionally, we touched upon services marketing, which involves the same four elements—product, price, place, and promotion—and introduces three more elements: physical evidence, process, and people, collectively known as the 7Ps of service marketing. A comprehensive discussion of these will be undertaken in Unit-13 of this course.

Notably, the marketing mix elements for both products and services share the common element of "Place." This underscores the pivotal role of "Place" in selling the right product or service to the right customer, at the right price, and at the right time, making it a significant aspect for every marketer. Consequently, the focus of this unit will be on "Place," where all distribution activities and functions revolve around this aspect of the marketing mix. It serves as one link in the chain that starts from suppliers to manufacturers and ultimately reaches the point of sale.

Consider instances during festive seasons or other joyous occasions when we often purchase gifts for friends and relatives, cherishing the joy of giving. Now, imagine if your friends or relatives reside in another city. How would you send the gift to them? The solution typically involves using courier services or online delivery. In this context, a delivery company exemplifies a type of distribution process. Similarly, firms establish a distribution system that expands the reach of their offerings to the end customer, ensuring the right place and time, which lies at the core of distribution.

11.2 DEFINITION OF DISTRIBUTION MANAGEMENT

The distribution function serves the purpose of providing three essential utilities: place, time, and possession. For instance, if you require a notebook, you can conveniently visit the nearest stationery shop and purchase a "Classmate" notebook, thus availing "Place" utility. This nearby stationery shop offers the convenience of obtaining the notebook close to your residence. Similarly, if the need arises to buy a gel pen at 9:00 pm, you can still make the purchase at that time, obtaining "time" utility. After acquiring the notebook and pen, you can take them back home, experiencing "possession" utility. In these scenarios, ITC, a prominent Indian multinational company, ensures the availability of all three utilities seamlessly through the sale of "Classmate" notebooks and Cello Pens India, offering "Cello Pointec Gel Pens."

Examining a couple of definitions from the American Marketing Association, distribution is described as the act of marketing and delivering products to consumers, reflecting the extent of market coverage for a specific product. In the 4 Ps, distribution is denoted by the term "place" or "placement." Mossman & Norton define distribution as the operation that generates time, place, and form utility by moving goods and persons from one location to another.

In summary, distribution management can be defined as a combination of activities that facilitate the movement and coordination of supply and demand, creating time, place, and possession utility for goods. It involves the art and science of determining requirements, obtaining them, distributing them, and maintaining them in an operationally prepared condition. Distribution management encompasses a broad range of activities related to the efficient movement of finished products from the end of the production line to the consumer, as well as the movement of raw materials from the source of supply to the beginning of the production line.

Through distribution activities, a company ensures a sequential flow of products and goods from the source of raw material through production/operation to reach the final customer. This entails a sequential flow of procedures, systems, and activities designed and linked to facilitate and monitor the movement of goods and services from the source to the consumer.

11.3 NEED FOR DISTRIBUTION MANAGEMENT

In the preceding section, we observed that the "Classmate" Notebook became accessible at the local stationery shop through effective distribution management. This product is manufactured by ITC, with its headquarters located in Kolkata. ITC has established an unparalleled distribution network to connect with its customers. Its products are accessible through 4.3 million retail shops, outlets, and stores across India. ITC consistently endeavors to expedite the delivery of products to retailers. In India, ITC's Paperboards and Specialty Papers Division comprises four manufacturing units, eight regional sales offices, and over sixty dealers. Behind the scenes, ITC sources high-quality raw materials from 17 states in India through its e-choupal network.

A robust distribution system serves several crucial functions for the company:

- It aids in monitoring the growth and decline in demand for the company's products/services.
- It facilitates the design and implementation of a collaborative marketing strategy with distributors and retailers, allowing customization of sales arguments, pricing, and discount structures based on local conditions.
- The company can provide marketing support, product sales training, after-sales support, etc., leveraging a well-established distribution network.

The objectives pertinent to distribution include:

i. The primary objective of distribution is to deliver the right goods to the right place at the right time, minimizing costs.

ii. To maximize the utilization of available human and material resources without wastage.

iii. To contribute to the rapid growth and development of both the country and the organization.

11.4 DISTRIBUTION STRATEGIES

In the preceding sections, we explored various types of intermediaries and their functions, along with the factors influencing the selection of intermediaries. A business entity makes a strategic decision regarding its presence in all potential customer purchase points or limits the availability of its products to selected locations. The distribution strategy is tailored based on the overall marketing strategy and business needs. Several distribution strategies are employed, including:

a) **Intensive or Mass Distribution Strategies**: This strategy involves distributing products in large volumes and in bulk, typically through wholesale channels. The company sells its products in significant quantities without specifying particular retailers or shops. Examples include snacks and drinks outlets distributed across various locations.

b) **Selective Strategies**: Companies adopting selective distribution choose to sell their products in a limited number of stores. This approach is suitable for products requiring special services, such as cosmetics sold exclusively through chemists. The number of outlets at each distribution level is restricted within a specific geographic area. Selective distribution is more profitable for products with a long useful life and the potential for establishing consumer brand preference.

c) **Exclusive Strategies**: Exclusive distribution is chosen by companies when buyers demand considerable product service. This strategy establishes a sole agency or sole distributorship in a given market. It is particularly useful for consumer specialty goods and industrial products. For instance, Rolls Royce maintains exclusivity with only a few showrooms across India. To uphold exclusivity, four legal aspects are crucial:

- i. Exclusive dealing contracts
- ii. Tying contracts
- iii. Closed sales territory
- iv. Franchise selling

11.5 DISTRIBUTION MANAGEMENT CHALLENGES

Various disruptions can pose challenges to distribution, stemming from different sources:

i. Natural disruptions encompass severe weather events, shortages of raw materials (e.g., due to poor crop years), pest damages, and outbreaks of epidemics or pandemics. Human disruptions involve riots, protests, wars, and strikes.

ii. Transportation disruptions involve issues such as disrepair of transport vehicles, maintenance downtimes, accidents, delayed flights, and the imposition of restrictive or new transportation regulations, a common occurrence in the trucking industry.

iii. Economic challenges encompass recessions, depressions, abrupt fluctuations in consumer or market demands, alterations in fees or compliance costs, changes in currency exchange values, and payment-related issues.

iv. Product disruptions may arise from product recalls, packaging issues, and problems with quality control. Buyer disruptions involve changes to orders, alterations in shipment addresses, and product returns.

11.6 ELEMENTS OF DISTRIBUTION MANAGEMENT

These constitute the essential components of the distribution system. As distribution has evolved over time, new elements have been introduced into the system. The influence of technology has played a dual role, serving as both a significant enabler and a disruptor in the established flow of distribution systems. The various components and elements are categorized into traditional and emerging elements in the following subsections:

A. Traditional Elements:

i. **Supply Chain**: A supply chain encompasses the entire process of manufacturing and selling commercial goods, spanning from the supply of materials and the production of goods to their distribution and final sale. Coined by Keith Oliver in 1982, supply chain management, as defined by APICS (the global association for supply chain management professionals), involves the design, planning, execution, control, and monitoring of supply chain activities with the aim of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand, and measuring performance globally.

ii. **Logistics**: Logistics pertains to the business of transporting, supplying, and delivering goods. According to professors from Michigan State University (2020), logistics includes activities such as transportation, warehousing, packaging, and more, which involve moving and positioning inventory, acknowledging its role in terms of synchronizing the supply chain.

iii. **Purchase Order and Invoicing System**: The creation of a purchase order is the initial step in a business transaction, issued by the buyer to authorize the seller to provide a product or service at a specified price. The invoice, on the other hand, is a bill issued by the seller upon the delivery of the product or completion of the service.

B. Emerging Elements:

i. **Block-chain**: Block-chain technology can enhance transparent and accurate end-to-end tracking in the supply chain. Organizations can digitize physical assets and create a decentralized immutable record of all transactions, facilitating the tracking of assets from production to delivery or end-user use.

ii. **VRM (Vendor Relationship Management)**: VRM is a category of business activity facilitated by software tools that aim to provide customers with independence from vendors and improved means of engaging with vendors. These tools can also apply to individuals' relations with other institutions and organizations.

iii. **CRM (Customer Relationship Management):** CRM, or Customer Relationship Management, is a technology tool used to manage interactions with customers and potential customers. It assists organizations in building customer relationships and streamlining processes to increase sales, improve customer service, and enhance profitability.

iv. **IMS (Inventory Management System):** An inventory management system governs the tracking of goods throughout the entire supply chain, from purchasing to production to end sales. It dictates how businesses approach inventory management.

v. **WMS (Warehouse Management System):** A warehouse management system is a software solution that provides visibility into a business' entire inventory and manages supply chain fulfillment operations from the distribution center to the store shelf.

vi. **TMS (Transportation Management System):** A transportation management system is a logistics platform that utilizes technology to help businesses plan, execute, and optimize the physical movement of goods, both incoming and outgoing, ensuring compliance and availability of proper documentation.

11.7 LETS SUM UP

Distribution stands as a pivotal element within the marketing mix, wielding significant influence over the effective execution of marketing activities. Essential to this process are channel intermediaries, including wholesalers, retailers, jobbers, C & F agents, and more, who contribute to the seamless movement of goods and services from manufacturers to end consumers.

As the marketing landscape undergoes transformation, the roles and responsibilities of intermediaries have adapted accordingly. Traditional channels have transitioned to embrace contemporary retail concepts such as hypermarkets and chain stores. The advent of internet technology has acted as both a disruptor and an enabler, reshaping distribution methods.

Within this dynamic context, disciplines like Supply Chain Management, Customer Relationship Management, and Transport Management have emerged as fully-fledged fields, responding to the evolving needs and challenges of the times.

11.8 REVIEW QUESTION

1. Discuss the different elements of distribution Management.
2. What are the various challenges faced by distribution management?

UNIT 12: TYPES OF DISTRIBUTION CHANNELS

UNIT STRUCTURE

12.1 INTRODUCTION

Utilizing a dependable distribution pathway provides manufacturers with the confidence that their products and services will effortlessly reach consumers. Beyond ensuring the smooth flow of goods, this approach leads to the generation of sales and heightened brand awareness for businesses. Referred to as a marketing channel, this network encompasses producers, wholesalers, retailers, and consumers. It can be either direct or indirect, impacting product prices. The product's availability, accessibility, and the manner in which it reaches the customer significantly influence its demand across various levels. Distribution channels stand as a pivotal element in all marketing strategies centered around the product, assisting businesses in reaching customers in a manner that maximizes revenue and enhances brand awareness.

12.2 DISTRIBUTION CHANNEL

A distribution channel represents the chosen path or route through which a company delivers its goods or services to customers. This route may involve a direct interaction between the company and the customer or include various interconnected intermediaries such as wholesalers, distributors, and retailers.

In essence, a distribution channel can be defined as a set of interdependent intermediaries working together to make a product accessible to the end customer.

Distribution channels go beyond merely bridging the gap between product producers and users. They provide time, place, and ownership utility, ensuring the product's availability at the desired time, place, and quantity for the customer. In addition to these transactional functions, distribution channels perform various other functions:

- **Logistics and Physical Distribution**: Distribution channels handle the assembly, storage, sorting, and transportation of goods from manufacturers to customers.
- **Facilitation**: Channels of distribution offer pre-sale and post-purchase services, including financing, maintenance, information dissemination, and channel coordination.
- **Creating Efficiencies:** This involves bulk breaking and creating assortments. Wholesalers and retailers purchase goods in large quantities, breaking the bulk by selling smaller quantities to various channels or customers. They also provide different types of products in a single location, offering convenience to customers.
- **Sharing Risks:** As channels often purchase products in advance, they share the risk with manufacturers and make concerted efforts to sell the products.
- **Marketing**: Distribution channels, also known as marketing channels, serve as core touch points where many marketing strategies are implemented. They have direct contact with end customers, assisting manufacturers in conveying brand messages, product benefits, and other promotional aspects.

12.3 TYPES OF DISTRIBUTION CHANNEL

Distribution channels can be categorized into direct channels and indirect channels. Indirect channels, in turn, can be further classified into one-level, two-level, and three-level channels based on the number of intermediaries between manufacturers and customers.

1. Direct Channel or Zero-level Channel (Manufacturer to Customer):

Direct selling, an age-old method, involves manufacturers establishing direct contact with customers at the point of sale without intermediaries. Examples of direct channels include peddling, brand retail stores, and online orders on the company's website. Typically utilized by manufacturers of perishable or expensive goods, as well as those targeting a geographically concentrated audience (e.g., bakers, jewelers).

2. Indirect Channels (Selling Through Intermediaries):

Manufacturers employing intermediaries to sell products to end customers characterize indirect channels. These can be further classified into three types:

a. **One-level Channel (Manufacturer to Retailer to Customer):** Retailers purchase products from manufacturers and sell them directly to customers. This distribution model is suitable for manufacturers dealing in shopping goods like clothing, shoes, furniture, toys, etc.

b. **Two-Level Channel (Manufacturer to Wholesaler to Retailer to Customer):** Wholesalers buy bulk quantities from manufacturers, break them down into smaller packages, and sell to retailers who, in turn, sell to end customers. This model is suitable for durable, standardized, and somewhat inexpensive goods with a broad target audience.

c. **Three-Level Channel (Manufacturer to Agent to Wholesaler to Retailer to Customer):** This distribution model involves an agent in addition to the wholesaler and retailer, assisting in the sale of goods. Agents, categorized as super stockists and carrying and forwarding agents, facilitate quick movement of goods into the market. Super stockists buy from manufacturers and sell to wholesalers and retailers, while carrying and forwarding agents work on a commission basis, providing warehousing and shipment expertise. Manufacturers opt for this model when catering to a widespread user base with high demand.

3. Dual Distribution:

Manufacturers using more than one distribution channel simultaneously employ the dual distribution strategy. This may involve opening showrooms for direct sales while simultaneously utilizing online marketplaces and other retailers to reach a broader customer base. A notable example of goods sold through dual distribution is smartphones.

12.4 DISTRIBUTION CHANNELS FOR SERVICES

Unlike tangible goods, services lack the capacity for storage. However, this doesn't imply that all services are exclusively delivered through direct channels. With the rise of the internet, online marketplaces, aggregator business models, and on-demand services, even services utilize intermediaries to reach end customers.

The Internet as a Distribution Channel: The internet has brought about a paradigm shift in how manufacturers distribute goods. In addition to traditional direct and indirect channels, manufacturers now leverage online marketplaces like Amazon (which also provides warehouse services) and intermediaries such as aggregators (e.g., Uber, Instacart) for delivering goods and services. The internet has also eliminated unnecessary middlemen for products like software, which can be distributed directly online.

A manufacturer aiming for a reliable system gains a competitive edge in various regions, providing an advantage over competitors. For centuries, sellers focused on delivering manufactured goods without realizing that these processes could be encapsulated within a single financial concept. With a rethinking of economics, the distribution phenomenon has been understood, described, and classified.

Types of Distribution:

The geographical unevenness of clients poses a significant challenge for makers in delivering commodities. To avoid territorial sales limitations, manufacturers often create their distribution models, with various participants providing logistic facilities and assuming associated trade risks. Experienced marketers recognize different types of distribution:

a. **Direct Distribution**: Through a direct extension system, experts deliver items directly to the client without involving third parties. This method fosters close communication during trading.

b. **Indirect Distribution**: This approach achieves similar objectives through a network of other traders. Intermediaries often purchase goods on consignment, providing assistance for quick sales.

c. **Multi-Channel (Hybrid) Distribution**: When a marketer employs more than one channel, it is considered a hybrid approach. Firms often adopt this strategy to cover a large consumer base, utilizing direct sales through a network of shops, electronic mailing, and other paths.

Types of Intermediaries:

Intermediaries can be legal entities or individuals, serving as middlemen for many firms. While engaging intermediaries may result in a loss of control over the sale process, firms often resort to their services for efficient channel operation:

Wholesalers:

Intermediaries who operate on behalf of the manufacturer but at their own expense, typically granted the right to trade specific products for a designated period in a particular place.

Retailers:

Intermediaries conducting transactions on their own behalf and expense, acquiring ownership of goods once fully paid for supply.

Brokers and Agents:

Agents undertake actions in the commodity market related to the sale or purchase of stock on behalf of the guarantor. Brokers, on the other hand, act as market middlemen, providing information about counterparties on the commodity exchange without independent trading authority.

12.5 FUNCTIONS OF DISTRIBUTION CHANNEL

When establishing distribution channels, the manufacturer carefully selects the most optimal option. A fledgling company with limited financial resources often adopts pre-existing vectors. The criteria guiding the selection of these courses include:

- Size of the target market: The number of potential buyers determines the appeal to distributors. A significant market requires more intermediaries.
- Characteristics of the product: Short channels suit perishable, heavy, and bulky goods due to high transportation costs, while products with high technological complexity benefit from after-sales service. Long channels are suitable for selling inexpensive standard items like stationery, shoes, chewing gum, or clothing.
- Features of the firm: Larger companies with greater financial resources can manage fewer intermediaries.

In the set of activities related to the movement of goods, distribution channels play a pivotal role and perform various functions:

- **Creating Sales**: Intermediaries are a crucial link in generating excitement for specific products. They can offer similar goods from different manufacturers, requiring extensive knowledge of human psychology and sales techniques. These practices can be carried out independently or with the assistance of others.

- **Marketing Research:** Distributors serve as an excellent source of data for any company. With close contacts with consumers, they can meticulously study customer needs and desires, offering products advantageously.

- **Promotion**: While the initiator of activities to increase sales is typically the manufacturer, wholesalers may focus on specific product groups, and retailers may place promotional materials in stores.

- **Customer Service:** The specified task involves delivering goods, processing credit, providing phone consultations, training, and offering guarantees and bonuses. Comprehensive customer service can be executed by a single firm or a network of companies.
- **Product Planning**: Intermediaries usually participate in product planning in various ways. They may propose new types of items or radical updates to existing ones. Additionally, they can assess competitors' products, evaluate pros and cons, and compile detailed reports for employers.
- **Financial Support**: Traders often leverage internal corporate financial programs to facilitate and expedite the buying process. This may involve dividing the cost of goods into feasible payments or extending the loan term.
- **Pricing**: Wholesalers and retailers maintain a flexible pricing system, adjusting levels based on market conditions. This adaptability is a result of their proximity to the market environment.

12.6 FACTORS DETERMINING THE CHOICE OF DISTRIBUTION CHANNELS

Selecting the optimal distribution channel poses a formidable challenge, as it stands among the critical strategic decisions that can either propel a company to success or lead to its downfall.

While direct selling eliminates intermediary expenses and grants more control to the manufacturer, it also increases internal workload and raises fulfillment costs. Therefore, before deciding between direct or indirect distribution channels, it is crucial to consider four key factors:

1. **Market Characteristics**: This encompasses the number of customers, their geographical locations, buying habits, tastes, purchasing capacity, and frequency. Direct channels are suitable for businesses targeting audiences in a geographically confined area, requiring direct manufacturer contact, and not engaging in frequent repeat purchases. For geographically dispersed or international customers, indirect channels are recommended. Customer buying patterns also influence the choice—retailers with product assortments are preferred if customers expect to find all their necessities in one place, while direct channels are suitable for larger orders, less time-sensitive deliveries, lower demand, or concerns about piracy among customers. The choice between longer or shorter channels depends on whether the customer is in the consumer or industrial market.

Short Channels	Long Channels
The offering is targeted at business users.	The offering is targeted to consumers and non-business users.
The customers are geographically concentrated.	The customers are geographically dispersed.
Customers require extensive technical knowledge.	Customers don't require extensive technical knowledge.
Regular servicing is required for the offering to operate.	Regular servicing is not required for the offering to operate.
The order quantity is large.	The order quantity is small.

2. **Product Characteristics**: Factors such as product cost, technical complexity, perishability, and standardization impact the distribution channel selection. Perishable goods often opt for direct or single-level channels to prevent transit-related perishing. Non-perishable goods, like soaps and toothpaste, typically require longer channels to reach diverse geographic areas.

   Technical products that benefit from direct customer contact may use direct channels, while products with straightforward usage may employ longer channels. The per-unit value of the product is also a determining factor—high-value items like jewelry may use direct or short channels, while low-value products like detergents may employ longer distribution channels.

Short Channels	Long Channels
Product is perishable.	Product is durable.
Product is complex.	Product is standardised.
Product is expensive.	Product is inexpensive.

3. **Competition Characteristics**: The distribution channel choice is influenced by competitors' selections in the market. While firms often follow similar channels as their competitors, some opt for differentiation to stand out and appeal to consumers. For instance, in a market where smartphones are primarily sold through retail channels, some companies may partner with online platforms like Amazon to create exclusivity and leverage the scarcity principle in launching their smartphones.

Short Channels	Long Channels
The competitor uses the direct channels and the manufacturer is satisfied with its performance.	The competitor uses indirect channels and the manufacturer is satisfied with its performance.
The competitor uses indirect channels and the manufacturer thinks choosing short channels would be more beneficial.	The competitor uses the direct channel and the manufacturer thinks choosing indirect or long channels would be more beneficial.

12.7 LET US SUM UP

Certainly, no one would dispute that the efficacy of a company's sales system significantly influences the speed at which a new product reaches retail outlets and maintains a stable presence in key segments. Even the strategic prioritization of distribution can be pivotal in determining a firm's success in the market, whether to hasten or deliberate the analysis of consumer demands. The right distribution approach facilitates the accomplishment of various marketing objectives. Leveraging the expertise of trading companies in establishing effective and reliable relationships with end-users, the distribution network holds immense potential. Opting to construct an in-house sales network places the manufacturer in direct competition with other market participants, inevitably resulting in substantial financial losses.

12.8 REVIEW QUESTIONS

Q1. Explain the types of distribution channel.

Q2. What do you mean by distribution channel? Explain the factors affecting it.

BLOCK-4: PROMOTION AND RECENT DEVELOPMENTS IN MARKETING

UNIT-13 NATURE AND IMPORTANCE OF PROMOTION

UNIT STRUCTURE

13.1 INTRODUCTION

Vacant positions within government services can be filled through direct recruitment from external sources or indirectly through promotions of existing personnel within the government service. This indirect approach is commonly known as the 'promotion system.' Both direct and indirect methods are employed in various countries, including India, where promotion is integral to career advancement in public service. The promotion process in India adheres to two crucial principles: the Merit principle and the Seniority principle, each with its positive and negative aspects. An effective approach involves combining the merit principle with seniority, allowing promotions based on merit-cum-seniority.

In India, the tradition of granting promotions to government employees dates back to the era of the East India Company. Initially, seniority held greater significance, but over time, the merit system gained acceptance. Presently, the country continues to adopt the seniority-cum-merit principle in its promotion practices.

13.2 IMPORTANCE OF PROMOTION

For a government employee, promotion serves as a recognition for their dedicated and hard work. If there are no prospects of promotion, an employee may not exert extra effort and may actively seek alternative employment opportunities, leading to a prompt departure from their current position.

Government service often represents a lifelong commitment for many employees who join at a young age and continue working until retirement. The prospect of promotion serves as a key factor in retaining employees throughout their career. Without a promotion system, civil service cannot be deemed a comprehensive career service. The absence of promotions hinders the attraction of top talents to government service, compromises the retention of highly skilled individuals, and diminishes the potential contributions these individuals can make to the service and the nation.

It is evident that promotions are essential for cultivating efficient, competent, and content civil servants in the country. Promotion fulfills a natural human inclination for progress and advancement in life, providing significant morale boost to government employees.

13.3 MEANING OF PROMOTION

The concept of promotion can be comprehended from two perspectives. From the government's standpoint, promotion constitutes an indirect recruitment system, involving the selection of capable and qualified individuals from the existing service to fill higher positions. For the government employee, promotion signifies progression from a lower post, class, or service to a higher one, encompassing increased responsibilities, duties, and authority. It also entails a rise in status and a salary boost for the employee. It's crucial to note that a mere salary increase doesn't constitute promotion. Promotion in civil service involves advancement in rank, status, duties, power, responsibilities, and a concurrent salary increase.

Promotion brings about changes in an employee's rank, status, designation, and salary. When a Junior Assistant ascends to the role of a Senior Assistant, a Deputy Secretary assumes the position of a Secretary, or a Class II servant transitions to a Class I servant, it qualifies as promotion. Promotion may entail a change in the grade, moving from a lower grade to a higher one within the same class. It could also involve progression from a lower class to a higher class, such as from Class II to Class I. Furthermore, promotion may encompass a shift from one service to a higher service, for instance, from State Services to All India Services. Therefore, promotion may involve transitions from lower class to higher class or from lower service to higher service.

It's essential to emphasize that a transfer from one post to another post of the same status or responsibility does not constitute promotion. Likewise, an annual increment, i.e., a yearly increase in the same salary scale, is not considered promotion. True promotion involves a change in both status and pay scale.

13.4 METHODS OF TESTING MERIT FOR PROMOTION

We have observed that 'merit' holds greater significance than 'experience' in the context of promotions within government service. The challenge now is how to assess the essential merit for elevation to higher positions. In our previous study on Recruitment, we explored methods like written examinations and interviews for testing merit in direct recruitment for civil service. However, these methods are not applicable for evaluating merit in promotions. It's crucial to note that we need to assess the merit of individuals already in the service, possessing the minimum educational qualifications required for recruitment.

Testing the merit of individuals already in service, aspiring for promotion to higher posts, is a complex and delicate task. Employees of varying ages, experiences, and seniority, working together for years in the same grade and organization, vie for a limited number of vacancies at higher levels. Each believes they are the most competent and suitable for the elevated position, making it challenging to objectively test their merit.

Typically, three methods are employed for testing merit for promotion:

1) **Written Examination:** Written examinations are conducted in many countries for promotion, providing an objective means of evaluation. This method helps alleviate the burden on authorities from making subjective judgments about individual employees. It ensures that employees stay informed about developments, offering equal opportunities for everyone to aspire and compete for higher positions. While effective when a large number of individuals are aspiring, it has drawbacks, such as employees neglecting routine administrative work due to exam preparations.
2) **Oral Examination**: To address these drawbacks, some countries conduct oral tests or interviews after candidates pass written examinations. Interviews assess a candidate's overall personality, attitudes, and manners, considering past experience and records. It helps judge whether a person is fit for a higher position and if their personality aligns with the requirements.
3) **Efficiency Rating**: Maintaining service records is a universal practice in the Civil Service. Initially used to identify individuals with unfavorable records, these records are now employed to evaluate the relative merits of employees for promotions. Service records, also known as confidential reports or personal files, provide the necessary data

for efficiency rating.

In larger organizations with multiple branches and sections, annual confidential reports are prepared for each employee by the respective heads or superiors. The efficiency rating system is widely adopted for promoting merit. It is beneficial for identifying the most able and efficient individuals, ensuring fair rewards for merit and eliminating those comparatively less competent. However, it relies on subjective judgment, making it challenging to create an objective rating form that includes all necessary qualities.

While efficiency rating rewards merit and faithful service, it also raises concerns about subjective judgment, potential negligence, and the depression of morale among sensitive employees. Determining which qualities or traits to consider for comparative rating and integrating judgments into a final decision poses difficulties, making the efficiency rating system less automatic for promotions. The ultimate judgment is left to the promotion-making authority.

13.5 ESSENTIALS OF A GOOD PROMOTION POLICY

Civil service represents a lifelong career path, offering continuous employment to qualified individuals with opportunities for growth and advancement. The realization of this potential hinges on an effective promotion system, and a fair promotion policy is essential to ensure a seamless influx of capable individuals into higher positions. The success of civil service depends on a well-structured promotion policy, and the following are key components of a sound promotion policy:

1. **Advance Planning**: The promotion policy should be meticulously planned in advance to ensure its effectiveness.
2. **Clear Classification**: A clear and robust classification of civil services is crucial for an efficient promotion policy.
3. **Hierarchical Arrangement**: Posts or grades within each service or class should be arranged in a hierarchical manner.
4. **Defined Rules**: The line of promotion and promotion rules should be clearly defined in advance to avoid ambiguity.
5. **Board or Committee Involvement**: Instead of an individual, a board or committee should be responsible for making promotion decisions.
6. **Systematic Method**: A systematically accepted method of promotion must be strictly adhered to for consistency.

7. **Merit-Based Opportunities**: Employees should view a promotion vacancy as an opportunity rather than an automatic right, earning it through competition.
8. **Balanced Considerations**: Seniority should not be excessively weighted; a balanced approach combining principles of seniority, merit, and efficiency is crucial. Past performance, service records, and the ability to assume higher responsibilities should be decisive factors. Various assessment methods like efficiency rating, examinations, interviews, etc., should be adopted to test merit for promotion.

13.6 PROMOTION SYSTEM IN INDIA

The discourse on promotion in India dates back to 1669 during the British Raj, with the East India Company embracing the principle of seniority. The Charter Act of 1793 solidified the seniority principle, persisting until the Indian Civil Service Act of 1861. Even as seniority endured, promotions began incorporating elements of merit, integrity, competence, and ability under the seniority-cum-merit formula, a practice maintained until 1947.

Post-independence, the matter of promotion garnered attention. The First Pay Commission in 1947 advocated combining direct recruitment and promotion, proposing seniority for familiarity-based roles and merit-based appointments for top positions, with middle-level appointments adopting a seniority-cum-merit approach. The Second Pay Commission (1959) endorsed merit for higher-level posts and seniority-cum-fitness for middle and lower levels, a stance reiterated by the Administrative Reforms Commission (1969). Over the last four decades, India has adhered to the 'seniority-cum-merit' principle, with the weighting of seniority and merit varying across services.

Promotions in India are sanctioned by the Union or State Government based on recommendations from Heads of Departments, sometimes with input from Union or State Public Service Commissions. Departmental assessments, relying on confidential reports, typically implement the seniority-cum-efficiency principle for lower and middle-level posts. Competitive examinations may supplement this for higher-level promotions, where a Departmental Promotion Committee considers merit, suitability, and seniority.

Despite this framework, the Indian promotion system faces shortcomings, such as deliberate exclusions from competition lists, inadequate maintenance of personal records, lack of employee awareness about promotion opportunities, undue emphasis on seniority over merit, absence of a systematic promotion machinery leading to arbitrary decisions, and a lack of effective appeal mechanisms for injustices.

To address these issues, it is recommended to implement a systematic promotion policy, maintain service records objectively, establish effective evaluation and appeal mechanisms, create promotion boards or committees at all government service levels, introduce qualifying examinations and interviews for middle-level positions, and prioritize the merit system over seniority.

13.7 LET US SUM UP

Promotion is essentially the method of indirectly filling vacancies from within the existing service. It constitutes an integral component of a career service, facilitating the ascent of capable individuals to higher roles within the service. This process enables the government to leverage the expertise and talents of individuals already within the service. Across the globe, the merit principle is widely acknowledged in promotion processes, with due consideration given to seniority. This unit delves into the significance, necessity, definition, and classifications of promotion. Additionally, it explores the comparative advantages and disadvantages of 'Seniority' and 'Merit' principles, along with various methods for assessing merit in promotions, including the 'efficiency rating'. The discussion extends to an examination of the promotion system in India.

13.8 MODAL QUESTIONS

1. Discuss the promotion system in India.
2. State the essentials of a good promotion policy.
3. Define promotion. State the importance of promotion in India.

UNIT 14: TYPES OF PROMOTION

UNIT STRUCTURE

LEARNING OBJECTIVES

After studying this unit, you should be able to:

- define the promotion in retailing,
- how the major purposes of promotion works,
- finding the various types of promotions in retail and its executions
- identifing different methods of evaluating performance of promotion,
- finally how to describe various measures to make promotions more effective.

14.1 INTRODUCTION

Promotion serves as a mode of corporate communication employing diverse methods to convey a specific message to a targeted audience, aiming to achieve distinct organizational objectives. Virtually all organizations, irrespective of being for-profit or not-for-profit, across various industries, need to partake in some promotional activities. These endeavors can span from multinational corporations investing substantial amounts in securing high-profile celebrities as corporate spokespersons to sole proprietors distributing business cards at local business gatherings.

Similar to other marketing decisions, an effective promotional strategy necessitates an understanding of how promotion aligns with other components of the marketing landscape (e.g., product, distribution, pricing, target markets). As a result, promotion decisions should be made with an awareness of their impact on other facets of the company. For instance, launching an extensive advertising campaign for a new product without ensuring sufficient inventory to meet potential demand generated by the advertising would not be well-received by the company's production department and other key executives. Hence, marketers should not operate in isolation when making promotion decisions; instead, the overall success of a promotional strategy demands input from individuals in affected functional areas.

Beyond aligning general promotion decisions with other business areas, individual promotions must also harmonize with each other. In line with the concept of Integrated Marketing Communication, marketers strive to create a cohesive promotional strategy by coordinating various promotional techniques. The crucial idea for marketers employing multiple promotional options (which will be discussed later in this tutorial) to achieve product objectives is to maintain a consistent message across all avenues. For example, salespeople will communicate the same product benefits as highlighted in television advertisements. This approach ensures that, regardless of how customers encounter a marketer's promotional efforts, they all receive consistent information.

14.2 WHY PROMOTION

1) **Establishing Product Awareness**: Numerous sales promotion techniques prove highly effective in introducing customers to products for the first time, serving as crucial promotional elements during the initial phases of new product launches. Moreover, as part of the initiative to cultivate product awareness, several sales promotion techniques offer the additional advantage of collecting customer information when they first encounter the promotion. In this way, sales promotion can act as an efficient tool for gathering customer information (i.e., sales lead generation), which can subsequently be utilized in follow-up marketing endeavors.

2) **Generating Interest**: Marketers recognize that sales promotions are particularly effective in generating interest in a product. Indeed, creating interest is often regarded as the most significant application of sales promotion. In the retail sector, an enticing sales promotion can substantially boost customer footfall at retail outlets. Similarly, internet marketers can employ analogous approaches to enhance the number of website visitors. Another crucial method for generating interest is encouraging customers to experience a product, and several sales promotion techniques provide opportunities for customers to try products for free or at a minimal cost.

3) **Providing Information**: While sales promotion techniques are generally designed to

prompt customer action and are seldom purely informational, some sales promotions do offer customers access to product information. For instance, a promotion may allow customers to try a fee-based online service for free for a limited period, which may include receiving product information via email.

4) **Stimulating Demand:** Following the establishment of initial product awareness, the primary use of sales promotion is to generate demand by persuading customers to make a purchase. Special promotions, especially those that reduce the cost of ownership for the customer (e.g., price reductions), can be deployed to stimulate sales.

5) **Reinforcing the Brand**: After customers make a purchase, sales promotion can be utilized to encourage additional purchases and serve as a reward for customer loyalty (see loyalty programs below). Various companies, including airlines and retail stores, reward preferred customers with special promotions such as email-exclusive "special deals" and surprise price reductions at the checkout counter.

14.3 TYPES OF PROMOTIONS

Marketers have at their disposal four primary methods of promotion, collectively forming the promotion mix. This section provides a fundamental definition of each method, while the following section presents a comparison of each method based on promotion characteristics.

- **Advertising**: Advertising involves non-personal, predominantly paid promotions, often utilizing mass media outlets to convey the marketer's message. Historically, advertising has entailed one-way communication with limited feedback opportunities for customers experiencing the advertisement. However, advancements in computer technology and, particularly, the Internet have expanded options that enable customers to provide prompt feedback.
- **Sales Promotion**: Sales promotion entails the use of special short-term techniques, often in the form of incentives, to prompt customers to respond or engage in some activity. For example, the utilization of retail coupons with expiration dates necessitates customer action while the incentive is still valid.
- **Public Relations**: Also known as publicity, public relations involves leveraging third-party sources, especially the news media, to secure a favorable mention of the marketer's company or product without direct payment to the information publisher.

- **Personal Selling:** As the name suggests, personal selling involves direct contact between company representatives and individuals influencing purchase decisions, such as decision-makers (e.g., consumers) or decision influencers (e.g., members of a company buying center). This interaction often takes place face-to-face or via telephone, although newer technologies facilitate online interactions through video conferencing or text chat.

14.4 TRACKING PROMOTION PERFORMANCE – MATRIX

The marketing plan is a component within a broader business plan. It does not encompass a comprehensive financial discussion, such as a full balance sheet, income statement, detailed ratio analysis, etc., though these elements could be incorporated if deemed necessary.

- **Marketing Contribution**: It illustrate the comparison between revenue and expenses related to marketing decisions. It ensure that revenue aligns with sales forecasts (refer to Part 4). It display expenses categorized by type (e.g., advertising) and sub-category (e.g., types of advertising). Marketing contribution breakdown by Product, Segment/Geographic area, and Distribution Network/Channel.
- **Breakeven Analysis**: It is primarily applicable to plans involving the sale of tangible products, the breakeven analysis indicates the sales level (typically described in terms of units sold) required for the company to achieve a positive marketing contribution. It requires an understanding of Fixed costs (Costs that occur regardless of the level of sales) and Variable costs (Costs that may change as the level of sales varies).

  When presented as both a graph and a chart, it display the breakeven point across different levels of sales volume. From zero through the best-case scenario sales level. It also depict the breakeven over time.
- **Ratio Analysis: It l**imit the analysis to important marketing ratios common to the industry, such as the sales cycle, advertising-to-sales ratio, conversions from trial to purchase, website traffic-to-search engine marketing ratio, etc.

14.5 MAKING PROMOTION SUCCESSFUL

The various ways through which promotions can be made successful includes:

(a) **Develop a Promotional Filing System**: Establish a promotional folder containing all past promotional direct mail pieces. Create another folder for advertising with a proven track record. Develop a third folder for innovative marketing strategies that capture attention from other industries. This filing system will serve as a comprehensive resource of proven and innovative ideas when creating your promotional calendar.

(b) **Evaluate and Brainstorm:** Now, with a collection of ideas to brainstorm from, go back and assess each one. When evaluating past promotional ideas, focus on understanding why they attracted traffic to your business. Also, scrutinize what did not work to avoid repeating mistakes. Sometimes, a seemingly failed promotion can turn into a success with a few adjustments, such as choosing a more suitable day or month.

(c) **Develop your strategic plan:** Success in retail necessitates planning promotional events well in advance. Aim to implement a minimum of six promotions per year—this is the bare minimum. When I managed my retail stores, I executed some form of promotional event every month. This becomes achievable with a well-thought-out strategic plan. Consistently remind customers to return to your store, as the primary reason customers don't return is often due to forgetting about your business. Keep reminding them and build excitement about shopping at your store more frequently.

(d) **Involve your team:** After outlining your promotional ideas for the year, convene a staff meeting to discuss them. Share your ideas on a large calendar board, emphasizing that you are planning for success. Encourage your staff to contribute creative ideas. Set sales goals for each promotion and offer a bonus reward to salespeople reaching their goals. Once your team embraces your promotional plans, they will also encourage more customers to attend. Ensure you have enough staff available to run the event effectively.

(e) **Plan out the details:** Evaluate your most successful promotional days and months, choosing those that drive the most traffic to your store. Plan out all event details meticulously, leaving nothing to chance. The more you plan and systematize your events, the easier and more successful they will be.

(f) **Reserve and Design Advertising**: Plan your advertising and direct mail well in advance. Generate excitement for the event by highlighting the benefits of attending. Create a compelling call to action, informing customers of the what, where, when, and why. Incorporate short deadlines, powerful offers, and guarantees with impact.

(g) **Contact the media**: For charity events, contact the media well in advance. Send a press release about the event and invite the media to attend. Share how your event benefits the community or details about a cause. Capture photos at the event and send them with a follow-up press release.

Example: When collecting used clothing donations from customers, I offered a discount for each item brought into the store. The event was so successful that we had a truckload of clothes to donate to the battered women’s shelter. We took photos of the staff loading the truck. The press release and photos rewarded us with tons of FREE media exposure for months after the event.

(h) **Create attention-getting direct mail:** Allocate 50 percent of your time to writing a compelling headline that is rich in benefits. Hook their attention quickly before your direct mail is discarded. Make your offer and event so exciting that it triggers a fear of loss in the customer's mind. Allow them to contemplate what they will miss if they don’t attend.

(i) **Develop promotions based around a theme:** To stand out from the competition, be different. Create enjoyable events around unique holidays and promote when competitors are not. Events don't have to be sales; there are numerous ways to promote without giving the store away. Make your events so enjoyable that customers promote you through word of mouth.

Example: For an oriental-themed event, I served Chinese food and decorated the store accordingly. Fortune cookies on the counter contained free gifts or discount fortunes. The direct mail invitation, sent in an oriental cloth purse, added a fun touch that customers carried months after the event.

(j) **Plan an open-to-buy Increase for Special Events**: Why create more promotional events? To keep your store in your customer’s mind and to INCREASE SALES AND PROFITS! Therefore, increase your open-to-buy and invest in additional inventory. Keep giving your customers more reasons to come back to YOU time and time again.

14.6 LET US SUM UP

Retail marketing strategies, sales promotion concepts, branding, and advertising tools tailored for retailers are covered in this unit. It serves as an excellent resource for understanding how to leverage loss leaders, media purchases, and sales events for the advantage of your retail establishment. Sales promotion involves the utilization of specific short-term tactics to encourage members of a target audience to respond or initiate a particular action. In return, marketers provide something valuable to respondents, typically in the form of a reduced cost of ownership for a purchased product (such as a lower purchase price or a refund) or the inclusion of additional value-added features (offering more for the same price).

14.7 Modal Questions

1. Explain different types of promotion.
2. What are the various ways through which promotions can be made successful?

UNIT 15: RECENT DEVELOPMENTS IN MARKETING

UNIT STRUCTURE

15.1 INTRODUCTION

Before delving into the significance and role of marketing in a developing economy, it is essential to grasp the essence of what a developing economy entails. Simply put, a developing economy is one where the process of development has commenced. However, in relative terms, a developing economy lags behind developed nations concerning factors such as gross national product, per capita income, industrial development, infrastructure facilities, and the motivations and attitudes of its populace.

In essence, a developing economy is actively striving to boost its gross national product by generating additional income across various sectors, including agriculture, industry, mining, internal and external trade.

Now, let's consider a critical question: Do developing countries achieve this growth in a planned or an unplanned manner? Indicate your agreement with one of the options below:

Planned manner-----------------------
Unplanned manner--------------------

Your response likely aligns with a 'planned manner.' Hence, it can be asserted that planning is indispensable for achieving economic growth. Thus, the discussion revolves around the planned economic growth of a developing nation.

However, when contemplating the development of a nation, do you believe that growth or change is necessary solely in the economic field, or should it also encompass the social realm? Your answer would likely be 'both'—indicating that both economic and social changes are imperative for fostering the development of a nation. Similar to economic change, social change also needs to be orchestrated in a deliberate and planned manner.

15.2 MARKETING AT DIFFERENT LEVELS OF ECONOMIC DEVELOPMENT

As evident from the preceding description, a "developing country" signifies a particular stage in a nation's economic development. It is now essential to consider various stages that precede and follow this phase in a country's economic development. Subsequently, you can draw connections between these stages and the marketing functions that are executed at each juncture. Engaging in such an analysis will enhance your understanding of the role played by marketing in a developing economy.

15.3 RELEVANCE OF MARKETING IN A DEVELOPING ECONOMY

In the preceding section, we briefly outlined the concept of a developing economy and discussed the types of marketing functions performed at various developmental stages. Now, we will delve deeper into the significance of marketing in a developing economy. Previously, we underscored the importance of planned economic and social changes in a nation's growth.

When considering the relevance of marketing in a developing economy, we will adopt the same approach, examining its connection to both "planned economic growth" and "planned social change."

Marketing and Planned Economic Growth: The crucial question to ponder is whether marketing plays a role and, if so, how relevant it is to the planned economic growth of a developing economy.

One might argue that the economic scenario in a developing country is marked by a scarcity of essential goods, services, and ideas, along with inflationary price trends and excessive unemployment. Therefore, minimal marketing efforts are required in a developing economy, as most economic resources must be mobilized for additional production of ideas, goods, and services, leading to increased employment.

How do you perceive the Marketing Effort? Share your comments below before proceeding.

Viewing the Marketing Effort: Marketing remains relevant to growth when viewed as a comprehensive business effort. This effort can be approached in two ways—initiated either by the firm or the state.

- Micro Marketing Effort: When a firm has the freedom to design its marketing effort.
- Macro Marketing Effort: Involves significant government intervention in marketing activities, such as setting prices, regulating movement, and influencing distribution and advertising decisions, often justified for equitable distribution at minimum social cost.

General Role of Marketing: Against this backdrop, let's explore a more general role of marketing.

- Stimulating Aggregate Demand: Marketing stimulates potential aggregate demand, expanding the market size. This, in turn, motivates people to work harder, earn additional income, and purchase various marketed ideas, goods, and services, contributing to economic growth.
- Discovering Entrepreneurial Talent: Marketing plays a pivotal role in identifying entrepreneurial talent. It serves as a multiplier of managers and entrepreneurs, facilitating the growth of businesses.
- Sustaining Employment Levels: Another vital contribution of marketing is its role in sustaining and improving existing employment levels. As a country progresses economically, the significance of marketing and related services increases in comparison to production, leading to greater employment opportunities in distribution, transportation, finance, communication, insurance, etc.

By understanding these roles, we gain insights into how marketing influences and contributes to the overall growth of a developing economy.

15.4 AREAS OF RELEVANCE

Does the response to the preceding question imply that, under existing government control, there is no room for manipulating the marketing effort? Such a conclusion would oversimplify the matter. Even in the presence of a favorable demand situation, a firm may suffer significant losses if it fails to carefully assess demand and understand customer needs. For instance:

An Indian ball bearings manufacturer faced a substantial stock accumulation in the smaller diameter range of tapered roller bearings. The company had not realized that the existing capacity in this size range far exceeded the demand, and its assumption of an overall shortage was flawed.

It's important to note that even in a planned economy, an enterprise cannot afford to neglect demand trends and essential marketing functions like product development and marketing research. However, this doesn't mean that the relevance of the marketing function is uniform across all business firms in various sectors of a developing economy. Considering the distinctive characteristics and growth needs of a developing economy, it becomes apparent that certain sectors require a relatively higher level of marketing effort than others.

Marketing in Agriculture, Basic Industries, Mining, and Plantation:

Sectors including agriculture (food grains and agricultural raw materials), basic industries (steel and power generation), and mining and plantation demand a minimal level of marketing effort for distributing their output. The finished products in these sectors, often facing scarcity conditions, necessitate minimal product development, packing, storing, and physical distribution. Nevertheless, demand forecasting at a national level remains a critical marketing function in this sector. Manufacturers or the government may need to discourage excessive consumption of these products, and shortages may lead to the development of substitute products.

Intermediate Industrial Goods:

This category encompasses engineering goods, machine tools, components, accessories, etc. The required marketing effort falls at a medium level, involving careful product planning, informative advertising, and personal selling, along with essential packaging, storing, and physical distribution. Pricing in this sector is either competitive or government-regulated.

Semi-industrial Products, etc.:

High-level marketing effort is needed for semi-industrial products, pharmaceuticals, fertilizers, appliances for business and household use, consumer non-durables, and certain categories of engineering goods and machine tools.

Export Trade and Services like Tourism and Banking:

For specific product categories, the marketing effort needs to be at its peak to realize sought-after outcomes such as foreign exchange and savings.

15.5 THE RELEVANCE OF SOCIAL MARKETING

You may recall our earlier mention that both economic and social changes are essential for the development of a nation. Now, let's delve into how social change is strategically orchestrated through social marketing technology.

Marketing and its Applications

Before exploring the role of social marketing, it's crucial to grasp the meaning of social marketing. Frequently, social advertising, as employed by social campaigners, is erroneously interchanged with social marketing. The root of this confusion lies in social campaigners assigning advertising an overly predominant, if not exclusive, role in achieving their social objectives. As clarified in Unit 1, a comprehensive marketing objective necessitates coordinating the promotional mix with the product (ideas, goods, and services) mix and the distribution mix.

Kotler and Zaltman define social marketing as the design, implementation, and control of programs intended to influence the acceptability of social ideas. This involves considerations of product planning, pricing, communication, distribution, and marketing research. To fully grasp social marketing, let's evaluate the applicability of the 4Ps of the marketing mix in the context of well-known social issues.

Product

The first "P" represents Product. It's important to note that the term "product" is used broadly, encompassing ideas, goods, and services. In social marketing, akin to marketing other products, sellers must study target audiences and design appropriate products. However, product design is more intricate in the social realm than in the business sector.

Consider this illustration: Suppose the social objective is to instill 'safer driving habits and attitudes' in the population. How would you design the 'product'? Remember, there isn't a single product that can achieve this; various products must be designed, each making a partial contribution to the social objective. A public education media campaign providing safe driving tips is one product; offering 'defensive driving courses' is another; creating insurance policies that lower premiums for safer drivers is yet another product. In essence, the social marketer remains conscious of the core product (safer driving) and endeavors to create various tangible products and services that are 'buyable' and advance the social objective.

Promotion

Moving on to the second 'P' of the marketing mix in social campaigns, let's consider promotion. This involves persuasive communication to make social goals familiar, acceptable, and desirable to the audience. Social campaigners often perceive promotion as mass media communication alone, but it encompasses advertising, personal selling, publicity, and sales promotion.

It's crucial to acknowledge that promotion is a broader concept, and amateurs in social campaigns may overlook its complexities, resulting in naive appeals and copy. For instance, Nathaniel Martin criticized Family Planning agencies in the 1960s for not treating family planning as a marketing problem. He emphasized the need for a thorough understanding of market variables, proper research, distribution management, customer service, and effective promotion and advertising.

Place

The third element of the marketing mix in social campaigns involves providing accessible outlets that translate motivations into actions. This means motivating people to act by informing them where the product can be obtained. Planning in this area entails selecting or developing appropriate outlets, determining their number, size, locations, and motivating them to fulfill their role.

Consider an example: Suppose you've successfully organized a promotional campaign to raise awareness about the pollution problem and respiratory diseases associated with it. Do you think this awareness alone would be sufficient to prompt people to take action? (Your answer should be 'no,' as clear action outlets have not been suggested for those who have been motivated to acquire the product by your campaign.)

Awareness creation is a positive step, but for most issues, people want to take action. In the case of environmental pollution, they might want to sign a petition, participate in an election to support an anti-pollution candidate, or contribute to national legislation. Without clear action outlets, people are left unsure about how to contribute, and their motivation to act remains unfulfilled.

Price

The fourth and final element of the marketing mix to be planned is price. In social marketing, price represents the costs that buyers must accept to obtain the product. These costs include monetary expenses, opportunity costs, energy costs, and psychic costs. Consider the types of costs required to be borne by:

Persons asked to take immunization shots

Persons persuaded to give up smoking

(For immunization shots, costs may include possible monetary charges, opportunities foregone, energy expenditure, and psychological concerns. Giving up smoking, on the other hand, incurs largely psychological costs, with potential financial savings.)

The marketing approach to pricing the social product assumes that members of a target market perform a cost-benefit analysis when considering the investment of money, time, or energy in the issue. They weigh major benefits against major costs, and their motivation to act is directly related to the magnitude of the excess benefit.

The Social Marketing Planning Process

After understanding the applications of each of the 'four Ps,' let's present an integrated view of the administrative process framework for planning purposes. The first step is to collect information continuously from the environment by the change agency. Plans and messages are then created and sent through channels to audiences, with results monitored by the change agency.

A detailed breakdown of functions performed by the change agency includes:

Research unit: Collects information on the environment, past program effectiveness, and audience attitudes, desires, and behavior.

Planning unit: Formulates short and long-range social marketing plans based on information.

MARKETS

Primary target market: Large and low-income families

Secondary target market: Other childbearing families

Tertiary target market: Sources of funds and additional volunteer efforts

Miscellaneous target market: Politicians and religious groups

It's important to remember that a marketing planning approach doesn't guarantee the achievement of social objectives but provides a useful framework for effective social planning.

Implications of Social Marketing

The discussion on social marketing illustrates how special causes can benefit from marketing thinking and approach. Contemporary social problems such as drug abuse, pollution control, safer driving, immunization, non-smoking, birth control, etc., require innovative solutions and approaches to gain public attention and support. Marketing professionals, with their training, are attuned to market needs, product development, pricing, channel issues, and mass communication and promotional techniques—all critical aspects in the social domain.

Remember, social marketing is distinct from business marketing and demands fresh thinking and new approaches to solving social problems. Social marketing often deals with core beliefs and values, while business marketing may focus on superficial preferences and opinions. Additionally, social marketing works with less well-defined and less motivated channel systems. Only through applying concepts and tools to numerous social cases can one truly understand the powers and limits of the social marketing approach.

15.6 THE ROLE OF MARKETING IN RELATION TO SOME SELECTED SECTORS

Agricultural Development and Farm Productivity

It's likely common knowledge that agriculture retains a significant role in many developing countries, closely intertwined with the nation's economic progress. If prompted to identify factors contributing to low farm productivity in these nations, you might mention issues such as inefficient irrigation methods, lack of mechanization, insufficient fertilizer supplies, and natural disasters. Yet, a fundamental problem often overlooked is the absence of a robust market system.

Millions of small farmers, constituting over 60% of the population in the third world, cultivate ten or fewer acres of land. Unfortunately, many lack access to the prevailing market system in these developing countries. Providing proper incentives for these farmers to increase production requires granting them access to the national market. Marketing technology plays a crucial role in facilitating this aspect of institutional development.

India has made significant strides in enhancing farm productivity; however, the marketing aspect of agriculture was initially neglected. The drought of 1966-67 underscored the need for a planned program for food grain distribution. Success in achieving satisfactory agricultural growth depends on the adoption of both new production and marketing techniques. Marketing technology can aid in overcoming obstacles like lack of education and adherence to tradition. Techniques such as product demonstration, word-of-mouth publicity, and point-of-sale displays have proven effective in fostering the adoption of new ideas.

Industrial and Entrepreneurial Growth

Moving to the realm of industrial and entrepreneurial growth, several crucial issues confront developing countries and require strategic approaches. One such issue revolves around technology transfer and development. In their pursuit of industrial growth, many developing nations have imported sophisticated intensive technology from the West, straining the nation's scarce foreign exchange resources. Unfortunately, the technological and capital needs of small industries have often been overlooked. Japan's experience highlights the cumulative importance of simple technological improvements for economic development, especially for small industries.

Small industries, both rural and urban, contribute significantly to a nation's growth and productivity. They provide essential infrastructure, generate employment, require less managerial talent, enhance buying power, and nurture a pool of individual entrepreneurs with on-the-job management skills. Infusing marketing philosophy into small industries is comparatively straightforward organizationally, and the growth of local economies through these industries can serve as future distribution points for mass-marketed products.

Export Promotion and Tourism

Export trade and tourism are pivotal sectors for a developing economy's growth in terms of building foreign exchange reserves. Government intervention in these areas should prioritize minimizing bureaucracy while ensuring stringent quality control for exported products and services provided to tourists.

A notable shortcoming in India's export promotion efforts has been the failure to view export trade as a marketing problem. Historical neglect of dynamic market information and product adaptation is being addressed by institutions like Export Promotion Councils and the Trade Development Authority in India. Export promotion also necessitates attention to the domestic front, focusing on the development of potential exporters and disseminating information on market opportunities.

Similarly, the promotion of tourism demands a comprehensive marketing strategy to offer a well-coordinated package of services, including hotels, foreign exchange, transportation, and sightseeing.

15.7 LET’S SUM UP

The main focus of this unit is to underscore the crucial idea that marketing, whether viewed as a comprehensive system or a business concept, is not a passive or neutral force in economic growth. Instead, it acts as a catalyst, expediting the pace of development and facilitating the intricate process of economic and social change. Furthermore, marketing's relevance extends to economic growth at all developmental stages and operates at both micro and macro-marketing levels. The extent of this relevance, however, will vary across different sectors.

It is essential to recognize that the principles of marketing, along with its tools and techniques, are equally applicable in shaping, implementing, and overseeing social programs. Whether the objective is promoting family planning or addressing environmental pollution, a robust marketing approach is indispensable for effectively championing social causes, akin to introducing a new product or service.

In conclusion, the discourse on the role of marketing, particularly in selected sectors such as agricultural development, farm productivity, industrial growth, and entrepreneurship, underscores the significance of perceiving marketing from a developmental standpoint. It elucidates how the knowledge and technology inherent in marketing can offer solutions to the challenges of national development.

15.8 Modal Questions

1. What is the role of marketing in relation to export promotion and tourism?
2. Discuss the relevance of Social Marketing in context of Indian agricultural market.

UNIT-16: CONSUMERISM

UNIT STRUCTURE

16.1 INTRODUCTION

In contemporary times, the term "consumerism" has been linked to a strong focus on acquiring goods and commodities. Traditionally, it carried negative connotations, portraying a perceived issue indicating a lack of discernment among buyers and consumers regarding their choices in an increasingly commercialized environment. Among Marxist thinkers, it has been associated with exploitation under industrial capitalism.

The term "consumerism" is intertwined with the growth of industrial capitalism in Europe from the 18th century and its subsequent global expansion. This development witnessed economies of scale, increased production, and enhanced productivity. Technological advancements and the extensive use of the division of labor allowed manufacturers to produce on a large scale, catering to various "wants," "needs," and "fashions." The commercialization of leisure, coupled with innovative manufacturers penetrating religious practices, public health, and education, reinforced habits of acquisition and escalating "consumption." In this context, the availability of goods ceased to be a significant problem, with the focus shifting to ensuring their demand and consumption. Failure to achieve this could result in "gluts" and economic depressions, impacting both employers and employees.

Conversely, some argued that the regular use of commercial methods to make goods desirable fostered an obsession with purchase and consumption, often distorting habits of discretion and a sense of proportion. This consequence was termed "consumerism," defined as a near-compulsive preoccupation with consumption. While economically profitable, it was believed to lead to distorted social perspectives. Manufacturers' emphasis on mass consumption, it was contended, contributed to a decline in interest in quality, giving rise to so-called "mass culture" that catered to the lowest common denominator in society. This type of "consumerism" could also lead to poor management of household budgets and impoverishment.

Such a perspective prompted a critical examination of consumption under industrial capitalism, advocating for a more discerning approach to consumption under socialist industrialization. This critical view fueled concerns about consumer rights, turning questions of consumption into political matters. Consumption became associated with citizenship, given its connection to social status and politics.

Consequently, critiques of consumerism have been met with differing perspectives that highlight the benefits of market variety for consumers and the necessity of regular consumption for economic and social stability. The popularity of these critiques has varied considerably.

More recently, discussions on consumption, "material culture" (the attitudes of consumers, producers, and society toward the world of manufactured items), and "material politics" have emphasized that, regardless of the value of critical assessments of consumerism, manufacturers' practices and consumer experiences cannot be easily categorized. This holds particularly true in regions of the world where consumer societies have existed in the past (such as India, China, and Africa) and where industrial capitalism arrived late and in unique circumstances.

16.2 THE CHARACTER OF COMMERCIALIZATION AND ‘‘CONSUMPTION” UNDER INDUSTRIAL CAPITALISM

This unit explores two key facets related to the challenges posed by consumption and the diverse definitions of "consumerism" in modern Europe. Firstly, it delves into the major characteristics of the context in which these challenges emerged. Secondly, it examines how these challenges have been addressed at different points in time.

- **Early Days:** By the mid-18th century, the production and consumption of various everyday goods were well-established in Europe and other consumer societies in Asia and Africa. Additionally, luxury products, often sourced from China (such as porcelain) and India (including spices and cotton goods), were in high demand among the aristocracy in Europe.

During the 18th and 19th centuries, manufacturers, equipped with sophisticated industrial technology, leveraged the popularity of luxury goods among classes beyond the aristocracy. They met local demand through large-scale production of goods following foreign patterns but produced locally. This approach, combined with machine production of basic metal goods, appealed to the middle classes and fueled their inclination to make purchases.

Industrial capitalism brought significant changes to consumption during the economic revolution in Europe between the 18th and 19th centuries. However, these economic changes varied considerably from one country to another. While "home demand" played a crucial role in Britain's Industrial Revolution, countries like France, Germany, and Russia saw less significance in "demand" due to lower income levels and social differences. In these cases, concentrations of capital and state initiatives played major roles, with the state often acting as the primary consumer.

The transformation towards exploiting "demand" and "consumption" in everyday life became essential for the further development of European societies. This process occurred gradually, with careful market surveys conducted by manufacturers and sustained production based on the division of labor principles.

In Britain, from the mid-18th century, manufacturers like Manchester textile producers, Matthew Boulton (associated with metal goods), and Josiah Wedgewood (associated with pottery) conducted meticulous market surveys. They also initiated efforts to establish the reputation of their products by inviting influential figures from European courts to their manufacturing facilities.

Elsewhere in Britain, craft enterprises were integrated into a putting-out system that favored traders or merchants, allowing them to understand demand patterns and capitalize on prevailing consumption patterns.

Meanwhile, in almost all major states of modern Europe until the 1870s, small-scale producers dominated, gradually transitioning from craftsmen dealing in quality goods to targeting a larger market. In France and Germany, craftsmen streamlined their products to meet regular demand following economic expansion in the 1850s and 1860s.

The late 19th century continued to witness the persistence of institutions and habits related to consumption. Itinerant traders remained significant in Britain, but notable changes included the involvement of local government and the state as regular consumers. Municipal construction and the development of amenities became marked, and capacities for individual consumption received a boost through initiatives promoting savings opportunities.

In addition, the urban environment became a focus for a new system of trading and distribution through department stores, such as Fortnum and Mason's in London and the Bon Marche in Paris. These stores, along with emerging chains, played a crucial role in reshaping needs and wants.

- **The Late 19th Century and After:** The late 19th century saw the continuation of many institutions and habits, with itinerant traders remaining important in Britain. However, three major changes occurred during this period. Firstly, consumption extended beyond firms and individuals to include local government and the state as regular consumers. Municipal construction and the development of amenities became significantly marked.

  Secondly, capacities for individual consumption received a boost through initiatives promoting savings opportunities. In Britain, various savings schemes, including the Post Office Trustee Savings Banks and other Savings Banks, were introduced.

  Thirdly, the urban environment became the target of a new trading and distribution system through department stores, exemplified by Fortnum and Mason's in London and the Bon Marche in Paris. These stores, along with emerging chains, significantly influenced the reshaping of needs and wants.

  The desire of the state to capitalize on consumer product interest led to investments in specific goods in France under the Third Republic and Germany under National Socialism. The advent of radio in the 1920s and television in the 1950s added a new dimension to advertising and consumer product promotion.

16.3 REPRESENTATIONS OF "CONSUMPTION"

The abundance of goods and commodities in the market was often celebrated by manufacturers. They not only emphasized the merits of their products but also highlighted the remarkable production system that rendered their products fashionable and technological marvels. Boultons and Wedgewoods consistently emphasized this aspect of their output.

Alternative views on consumption emerged from perspectives associated with the widely held belief, particularly among intellectuals of the time, that industrial capitalism disrupted "communities" and created individuals who faced the world in isolation or as members of a new "society." In this "society," individuals were more susceptible to market suggestions than when they were part of "communities" guided by "traditions" and "rituals," where individuals were less self-conscious.

The breakdown of communities in large or medium-sized towns led to the creation of a world of individuals manipulated by the market to consider needs and wants they had not previously conceived. Advertisements by producers and traders were designed to entice individuals into a preoccupation with buying and consumption.

While some individuals acknowledged these changes with optimism, viewing consumption as the ultimate goal of production, others expressed concerns and warnings. Adam Smith, in the early days of industrial capitalism, asserted that "Consumption is the sole end and purpose of all production," but he also cautioned against the potential negative consequences of an unchecked propensity for consumption.

Critics in the 18th century, including figures like Adam Anderson, Wesleyans, Quakers, and other Non-Conformist Protestants in England, condemned luxury, consumption, and acquisitiveness as sinful behavior. Figures associated with the Romantic Movement, such as William Ruskin, argued against the market obsession, considering it counter to what was deemed "natural." Early socialists like William Morris rejected machine-made goods in favor of individual creativity and expression.

Karl Marx, differentiating between "use value" and "market value," contended that consumption refined the exploitation process by which manufacturers extracted surplus from the working class. Thorstein Veblen criticized the emergence of conspicuous consumption and an acquisitive society driven by emulation and imitation.

By the end of the 20th century, some argued that rampant consumption motivated by status-seeking rather than discretion led to a lack of serious thought and refinement, defining what was termed "mass culture." However, followers of the "marginal utility" school of economic thought and figures like J.M. Keynes expressed concerns that insufficient consumption could jeopardize economic and social stability.

Contrary to Veblen's views, commentators like Simmel suggested that fashion was a means of establishing one's identity rather than merely seeking status. French philosopher Jean Baudrillard challenged distinctions between "use value" and market-created value, emphasizing the influence of a market culture on "use." Baudrillard cautioned about the pervasive influence of commerce on consumers through media blitz and social manipulation, suggesting that consumers often transform products independently, finding value outside the advertised suggestions.

16.4 MATERIAL CULTURE

While the validity of these perspectives is acknowledged, recent commentary and research by writers focusing on "material culture," "material politics," and "consumption" emphasize the diverse experience of consumer society in modern times. This experience defies easy categorization within the confines of the opinions expressed in these debates. The dynamics between producers and buyers in their approach to manufactured items evolved over time.

Certainly, the subjugation of crafts to the putting-out system shifted the focus of the production system to the trader, primarily interested in the saleability of the product. Consequently, what was perceived as exotic or unusual, such as Chinese/Indian imports, significantly influenced production patterns. Meanwhile, innovative producers like St. Gobain in glassmaking, Boultons in metalworking, and Wedgewoods in ceramics followed market trends but also sought to create demand for specific products they knew they could produce.

Critics of the resulting consumption patterns argue that buyers were influenced not only by the utility of goods but also by the status they conferred. In the 20th century, advertising heightened the significance of product associations even further. This development posed a substantial challenge, with consumers facing a bewildering array of choices not only for everyday needs but also for significant life events such as births, marriages, and deaths (e.g., christening robes, bridal wear, coffins) and leisure activities (e.g., sportsgear, theatre equipment).

However, it's crucial not to overemphasize the authority of manufacturers and traders. The continued strength of itinerant trades in Britain and France underscores the ongoing importance of persuasion that considers personal taste. Studies of 18th-century France during the Ancien Régime and the Revolution reveal the challenges consumers faced, as political forces often sought to direct and regulate the presence of manufactured items.

16.5 THE RISE OF THE CONSUMER MOVEMENT AND MATERIAL POLITICS

In fact, those concerned about how manufacturers and the market could entangle consumers in various ways—prompting them to purchase goods they didn't genuinely "want" and providing substandard products—swiftly moved to establish organizations to prevent such issues. As early as the 19th century in France, legal actions were taken against shoddy goods, resulting in judgments unfavorable to manufacturers. In Britain, the mid-19th century saw a surge in legislation aimed at preventing buyer deception, including the Sale of Food and Drugs Act (1875), the Sale of Goods Act (1893), a series of Weights and Measures Acts (1878-1936), and, addressing partial payment purchases, the Hire and Purchase Act (1938).

Consumer protection movements around the turn of the 19th and 20th centuries were associated with various individuals, such as Percy Redfern and Beatrice Webb in Britain, Charles Gide and Jean Prudhommeaux in France, and Louis de Brouchere in Belgium. The sentiments expressed by Percy Redfern were shared by many of these activists: "We, the mass of common men and women in all countries, also compose the world's market. To sell to us is the ultimate aim of the world's business." Their collective aim was to recognize consumers as having a central role in the world's economics, providing leadership and purpose. The work of these activists and their contemporary counterparts, aided by television, led to a renewed wave of consumer protection legislation in Britain. The Molony Committee on Consumer Protection, formed in 1962, resulted in the establishment of the Consumer Council in 1963. Subsequent legislation intensified consumer protection in the market, including the Trades Description Act (1968), the Fair Trading Act (1973), the Restrictive Trades Practices Act (1977), and the Consumer Safety Act (1978). Similar activities and legislation have been observed in France and Germany, organized around groups like the Council of Consumer Groups (Germany) and the National Consumption Institute (France).

16.6 LETS SUM UP

As highlighted by Elizabeth Cohen, efforts to enhance the consumer's status, no matter how advanced, primarily revolve around shopping and related controls in Modern Europe and the United States. The ambitious vision championed by Redfern—granting dignity to the consumer in social consciousness—is likely still an ideal that garners limited attention. Considering the evolving approaches to consumption and the shifts in the production system, achieving significant improvements for the consumer along these lines remains uncertain. This uncertainty is compounded by a lack of self-awareness among consumers in their primary consumer role.

Furthermore, the global spread of industrial capitalism underscores the vast variations in consumption patterns from one society to another. Before the advent of industrial capitalism, India and China, for instance, adhered to specific consumption patterns linked to gift-giving and exchange, distinct from European practices. Even if modern times exhibit a somewhat uniform consumption pattern globally, this pattern is often influenced by pre-existing trajectories. Habits of emulation and imitation also exhibit considerable diversity.

In such circumstances, concerns frequently voiced about the repercussions of consumerism may hold true at certain levels but are far from universally applicable. The narrative of consumption unfolds not just in Modern Europe but throughout the Modern World, revealing a diversity too pronounced to be encapsulated by a singular perspective.

16.7 MODAL QUESTIONS

1. Explain the character of commercialization and ‘‘consumption” under industrial capitalism.
2. Discuss the rise of the consumer movement and material politics.

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