

BBA2B03

MARKETING MANAGEMENT

Study material

CORE COURSE
II SEMESTER BBA
CBCSS (2019 Admission)



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

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CORE COURSE

II SEMESTER BBA

MARKETING MANAGEMENT

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SYLLABUS

BACHELOR OF BUSINESS ADMINISTRATION

BBA2B03 MARKETING MANAGEMENT

Time: 5 Hours per week

Credits: 4

Internal: 20; External: 80

Objectives:

This course aims to orient the students with the marketing principles and also to familiarize them with the process of marketing in modern business firm.

Learning Outcome:

On completing the course students will be able to

1. Understand and develop insights and knowledge base of various concepts that driving marketing strategies.
2. Develop skills in organizing for effective marketing and in implementing the market planning process

Module I: Introduction: Marketing Concept and its Evolution; Nature, Scope and Importance of Marketing; Role of Marketing in Modern Business; Marketing Mix: Four Ps- Extended Ps; Marketing Information Systems; Strategic Marketing Planning – An Overview.

10 Hours

Module II: Consumer Behaviour: Concept and Determinants of Consumer Behavior - Buying Decision Process - Buying Motives - Buying Roles. Market Segmentation: Concept and Need; Principles; Basis for the Segmentation. Target Marketing and Positioning - Positioning Tools and Strategies.

15 Hours

Module III: Product and Price: Concept of Product; Consumer and Industrial Goods; Product Line and Product Mix Decisions; Product Life Cycle- Meaning and Stages; Product Planning and Development: Concept and Steps. Packaging- Role and Functions; Branding: Concept and Elements; Price: Concept and Importance, Factors Affecting Price. Pricing Strategies: Price Discrimination, Price Skimming, Penetration Pricing and Discounts. Pricing Methods: Cost Based, Competitor Based and Demand Based Pricing.

20Hours

Module IV: Promotion: Meaning and Importance, Promotion Mix: Advertising- Definition Features and Functions; Advertising Media Legal and Ethical Aspects of Advertising; Personal Selling: Meaning, Functions and Steps; Role of a Salesman in Selling Process - Characteristics of a Good Salesman; Publicity and Public Relations. Sales Promotion: Meaning, Nature and Functions; Types of Sales Promotion- Sales Promotion Techniques

20 Hours

Module V: Distribution: Meaning And Importance - Stages of Distribution - Product Distribution Channels: Concept and Functions of Channels; Role of Intermediaries- Retailing of Products: Formats- Unorganized and Organized; Department Stores, Supermarkets, Hyper Markets, Chain Stores, and Electronic Retailing

15 Hours

Reference Books:

1. Kotler, Philip: Marketing Management; Prentice Hall, New Jersey.
2. Condif E.W. and Still, R.R., Basic Marketing Concepts, Decisions and Strategy; Prentice Hall of India, New Delhi.
3. Stanton W.J., Etzel Michael J and Walter Bruce J; Fundamentals of Marketing; McGraw Hill, NY
4. Rorsiter Johan R, Percy Larry: Advertising and Promotion Management; McGraw Hill, New York.
5. Aaker, David and Myers Johan G, et. al.: Advertising Management; Prentice Hall of India; New
6. Ramaswamy, Namakumari, Marketing Management, McGraw Hill Education.
7. RajanSaxena ,Marketing Management ,Tata McGraw Hill Education.
8. C.N.Sontakki, Marketing Management, Kalyani Publishers.

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MODULE I

MARKETING MANAGEMENT

INTRODUCTION

Marketing is everywhere and it affects our day- to-day life in every possible manner. Formally or informally people and organizations engage in a vast number of activities that could be called as marketing. Good marketing is no accident, but a result of careful planning and execution. It is both an art and science. Let's discuss various concepts and issues in marketing.

1.1 DEFINITION

Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

In short Marketing is “*Meeting needs profitably*”. Marketing has been defined by different authors in different ways which can be broadly classified into three

➤ **Product Oriented Definition**

The emphasis is given on products.

In 1985 AMA redefined marketing as “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.”

➤ **Customer- Oriented Definition**

Here the emphasis is on customers and their satisfaction.

In the words of Philip Kotler “Marketing is the human activity directed at satisfying needs and wants through an exchange process.”

➤ **Value Oriented Definition (Modern Definition)**

In 2004 the American Marketing Association defined “Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.”

1.2 SCOPE OF MARKETING

The scope of marketing can be understood by discussing what is marketing, how it works, what is marketed and who does the marketing.

Peter Drucker, a leading management theorist, puts it this way, *there will always, one can assume, be need for some selling .But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or services fits him and sells itself. Ideally marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.*

What is marketed?

Marketing people market 10 types of entities; let's take a quick look at these;

GOODS physical goods constitute the bulk of most countries production and marketing efforts.

SERVICES services include the work of airlines, hotels, cars rental firms, barber and beauticians, maintenance and repair people, and accountants, bankers, lawyers ,engineers doctors, software programmers, and management consultants.

EVENTS marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World cup are promoted aggressively to both companies and fans.

EXPERIENCES by orchestrating several services and goods, a firm can create, stage and market experiences. Veega land, Black Thunder etc represents this kind of experiential marketing.

PERSONS celebrity marketing is a major business, Artists, Musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals all get help from celebrity marketers.

PLACES cities, states, regions, and whole nations compete actively to attract tourists, factories, company headquarters, and new residents. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.

PROPERTIES properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds). Properties are bought and sold, and these exchanges require marketing.

ORGANIZATIONS organizations actively work to build a strong, favorable, and unique image in the minds of their target publics.

INFORMATION information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities.

IDEAS Every market offering includes a basic idea. Social marketers are busy promoting such ideas as “Friends Don’t Let Friends Drive Drunk” and “A Mind Is a Terrible Thing to Waste.”

Who markets?

MARKETERS AND PROSPECTS

A *marketer* is someone who seeks a response- attention, a purchase, a vote, a donation – from another party, called the *prospect*. If two parties are seeking to sell something to each other, we call them both marketers.

1.3 IMPORTANCE OF MARKETING

Marketing is important not only for organizations but for individuals, society and economy as a whole. Financial success often depends on marketing ability. Finance, operations, and other business functions will not really matter if there isn’t sufficient demand for products and services so the company can make a profit. There must be top line for there to be a bottom line. Many companies have now created a Chief Marketing Officer, or CMO, position to put marketing on a equal footing with other C-level executives, such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Also marketing steps its foot in every walk of life. Some of its importance can be discussed as follows.

IMPORTANCE OF MARKETING TO COMPANIES

Sound marketing is critical to the success of the organisation in the following ways:

- ❖ Helps in income generation.
- ❖ Helps in planning and decision-making.
- ❖ Helps in distribution.
- ❖ Helps in exchanging information.
- ❖ Helps to adapt to changing environment.
- ❖ Expands global presence.
- ❖ Helps to earn goodwill.

IMPORTANCE OF MARKETING TO CONSUMERS

- ❖ Provides quality products.
- ❖ Provides variety of products.
- ❖ Improves knowledge of consumers.
- ❖ Helps in selection.
- ❖ Consumer satisfaction.

IMPORTANCE OF MARKETING TO SOCIETY

Marketing bridges the gap between firm and society.

- ❖ Provides employment.
- ❖ Raises standard of living.
- ❖ Creates utilities.
- ❖ Reduces costs.
- ❖ Solves social problems.
- ❖ Makes life easier.
- ❖ Enriches society.

IMPORTANCE OF MARKETING TO ECONOMY

It stimulates research and innovation

- ❖ Saves the economy from depression.
- ❖ Increase in national income.
- ❖ Economic growth.
- ❖ Ploughing back of resources

1.4 EVOLUTION OF MARKETING CONCEPT

Marketing concept has undergone a drastic change over years. Earlier it was production or later selling which was key to marketing idea but moving ahead now these have given way to customer satisfaction rather delight developing a modern marketing concept. Let's review the evolution of earlier marketing ideas;

THE PRODUCTION CONCEPT

It is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers of production- oriented business concentrate on achieving high production efficiency, low costs, and mass distribution.

THE PRODUCT CONCEPT

It proposes that consumers favor products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them overtime.

THE SELLING CONCEPT

It holds that consumers and businesses, if left alone, won't buy enough of the organization's product. The organization must therefore undertake an aggressive selling and promotion effort.

THE MARKETING CONCEPT

It emerged in mid-1950s, instead of a product- centered, make- and –sell philosophy, business shifted to a customer- centered, sense-and-respond philosophy.

The marketing concept holds that the key to achieving organizational goals is being effective than competitors in creating, delivering, and communicating superior customer value to your chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating , delivering, and finally consuming it.

Several scholars have found that companies that embrace the marketing concept achieve superior performance. This was first demonstrated by companies practicing a *reactive market orientation*- understanding and meeting customers' expressed needs.

HOLISTIC MARKETING CONCEPT

The trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept.

This concept is based on the development, design, and implementation of marketing programs, processes and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing- and that a broad, integrated perspective is often necessary. Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities.

1.5 MARKETING MIX

In the words of Philip Kotler, "Marketing Mix is the set of controllable variables and their levels that the firm uses to influence the target market." Marketing mix is a combination of various elements, namely, Product, Price, Place (replaced by Physical Distribution) and Promotion.(see fig:1.5)



Fig: 1.5 Components of Marketing Mix

The various important elements of marketing mix are briefly discussed as follows;

PRODUCT: It is the thing possessing utility. It is the bundle of value the marketer offers to potential customers. Today manufacturers are realizing that customer expects more than just the basic product. Therefore the product must satisfy the consumers needs. The manufacturer first understands the consumer needs and then decides the type, shape, design ,brand, package etc. of the goods to be produced. The product is a marketer’s primary vehicle for delivering customer satisfaction.

PRICE: it is the amount of money asked in exchange for product. It must be reasonable so as to enable the consumer to pay for the product. While fixing the price of a product, the management considers certain factors such as cost, ability of the consumers, competition, discount, allowances, margin of profit etc.

PLACE (PHYSICAL DISTRIBUTION): It is the delivery of products at the right time and at the right place. It is the combination of decision regarding channel of distribution (wholesalers, retailers etc.), transportation, warehousing and inventory control.

PROMOTION: It consist of all activities aimed at inducing and motivating customers to buy the product. The selection of alternatives determine the success of marketing efforts. Some firms use advertising, some others personal selling or sales promotion. Thus promotion includes advertising public relations, personal selling and sales promotion.

Recently Packaging and People are two more elements of marketing mix that have been emerged. These are discussed as follows.

PACKAGING: Packaging is the art, science and technology of preparing goods for transport, sale and exchange. A well designed pack is invaluable in building brand loyalty with the customer. Packaging must be such that a customer is impressed at the very moment he or she sees the product.

PEOPLE :It consists mainly of the people to whom goods are sold(consumer) and the people through whom goods are sold(sales people, wholesalers, retailers etc.) people include competitors also. This factor will be the reason as well as resources for success in marketing.

1.6 MARKETING ENVIRONMENT

It includes all those factors which are external to a firm and which affect the Marketing process. According to Philips Kotler, Marketing environment is constantly spinning out new opportunities and new threats, and the firms find their marketing collapse. Therefore, the company's Marketing executives must constantly monitor the changing Marketing scene and observe the changing environment through Marketing research. The Marketing Environment includes non- controllable variables that effects the company's ability to serve its markets.

CONTROLLABLE FACTORS

The controllable factors are well within the grip of the firm and easy to adjust them to suit the changes. These consist of Marketing policies and Marketing strategies. Framing of marketing policies is the responsibility of top management and marketing strategies are developed by middle level management. The selection of target marketing, Marketing objectives and Marketing control are the other controllable factors which also helps in framing Marketing strategies.

UNCONROLLABLE FACTORS

Controllable variables will have to be filtered through various uncontrollable environmental factors before they reach to the customers. The uncontrollable environmental consist of two levels i.e., micro environment and macro environment.

MICRO - ENVIRONMENT VARIABLES

It consists of elements or forces that influence marketing directly. It includes Supplier, Marketing Intermediaries, Costumers, Competitors and the General Public. (*see fig:1.6(a)*)

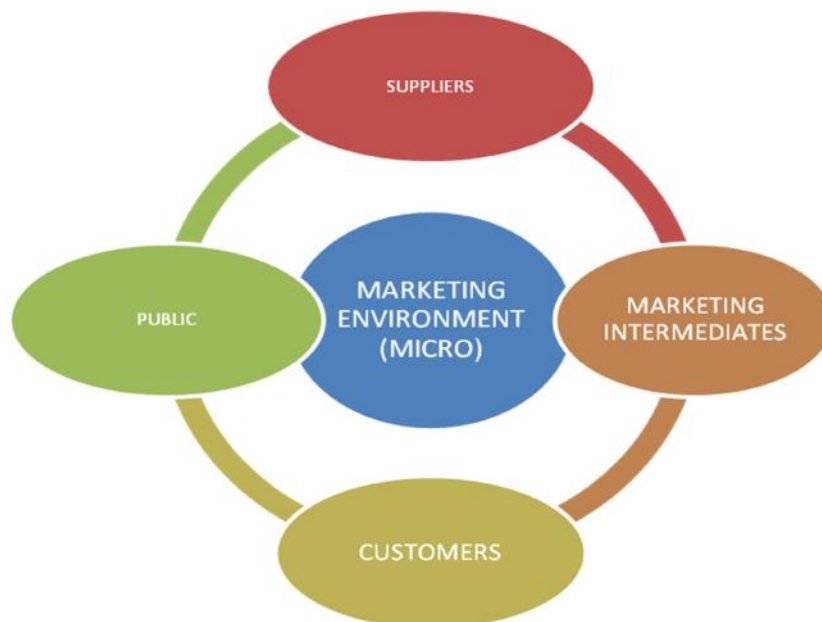


Fig 1.6(a) Micro- Environment Variables

SUPPLIER One who supply the resources to a company. Any shortage of Supply affect the Marketing function and thus, should avoid dependence on any single supplier.

MARKETING INTERMEDIATES They are the middlemen who create place Utility, Time utility and Quantity utility. These includes Physical Distribution Firms, Transport Companies, Marketing Consulting Firms, Marketing Services Agencies and Assist the company in promoting the right products to the right markets.

CUSTOMERS It refers to consumer markets, industrial markets, reseller markets, international markets and govt. markets having its own characteristics.

PUBLIC The marketing decisions considerably influenced by public relations, govt. policies, the press, the legislatures and the general public.

MACRO- ENVIRONMENT VARIABLES

Macro-environment consist of forces affecting the entire society or economy at large. Macro-environment influences entire industry as a whole. The various variables of Macro-environment are as under (*see fig 1.6(b)*)

Demographic environment.

Social-Cultural environment.

Economic environment.

Ethical environment.

Political environment.

Physical environment.

Technological environment.



Fig.1.6(b) Macro- Environmental Variables

DEMOGRAPHIC ENVIRONMENT

It includes factors such as population growth, change in age-group, marriages, family sizes, movement of people from big cities to rural or sub urban areas, literacy etc. It is essential for the market to understand the demographic forces in a country which helps him frame optimal marketing-mix.

SOCIO-CULTURAL ENVIRONMENT

- **Sociological Factors** Consumers being social animal and their life style is deeply influenced by the social set up. It is found to have deep influence on consumer taste, temperament, life and living. The needs, desires, hopes and aspirations of the consumers are necessary to be understood.
- **Psychological** The study about the behaviour, attitude, temperament, mentality and personality is must and how there wants and needs can be best satisfied?
- **Anthropological** these factors are vital in noting the national and regional characters, cultures and sub cultures and the pattern of living.

ECONOMIC ENVIRONMENT

It comprises of economic system of the country, affects the demand structure of any industry/ product. Changes in economic conditions provides marketers with new challenges and threats. Various economic factors which directly affect the Marketing strategies are discussed below.

- **Role of Govt:** Marketing is greatly influenced by the role of govt. through fiscal policies, industrial regulations, economic controls, import-export policies etc. Monetary and Non-Monetary policies of the Govt. also determine the tempo of economic development.
- **Consumers:** Consumer welfare and interest should be taken into consideration while preparing marketing programme. The marketer is to make available quality products at reasonable prices, in sufficient quantities, at required time interval.
- **Competition:** Healthy competition is always in the interest of customers whereas unhealthy competition is harmful and leads toward increasing cost and waste.
- **Price:** It is determinant of the fate of any business. If the Price is too high, reduces the consumer and consumption and if too low, the producers and marketers are left in the lurch.

ETHICAL ENVIRONMENT

In the race of earning more and more profits, business people disintegrate the ethical values from the business. This leads to adulteration, limitation etc. resulting in socio-economic pollution of minds and relations.

POLITICAL/ LEGAL ENVIRONMENT

The legal environment for marketing decision is characterized by various laws passed by Central or State Govt. and even by local administration. Govt. agencies, political parties, pressure groups and laws create tremendous pressure and constraints for marketer. Marketing managers required full knowledge and understanding of political philosophy and ideologies of major political groups and legal environment for framing marketing strategies and growth of business.

PHYSICAL ENVIRONMENT

It refers to the physical distribution of goods and services. It needs the in depth study of cost and convenience involved in the process of physical distribution of products from producer to consumer end.

TECHNOLOGICAL ENVIRONMENT

It helps to shape changes in living style of the consumers. It has the responsibility of relating changing life- style patterns, values and changing technology to market opportunities for profitable sales to particular market segment.

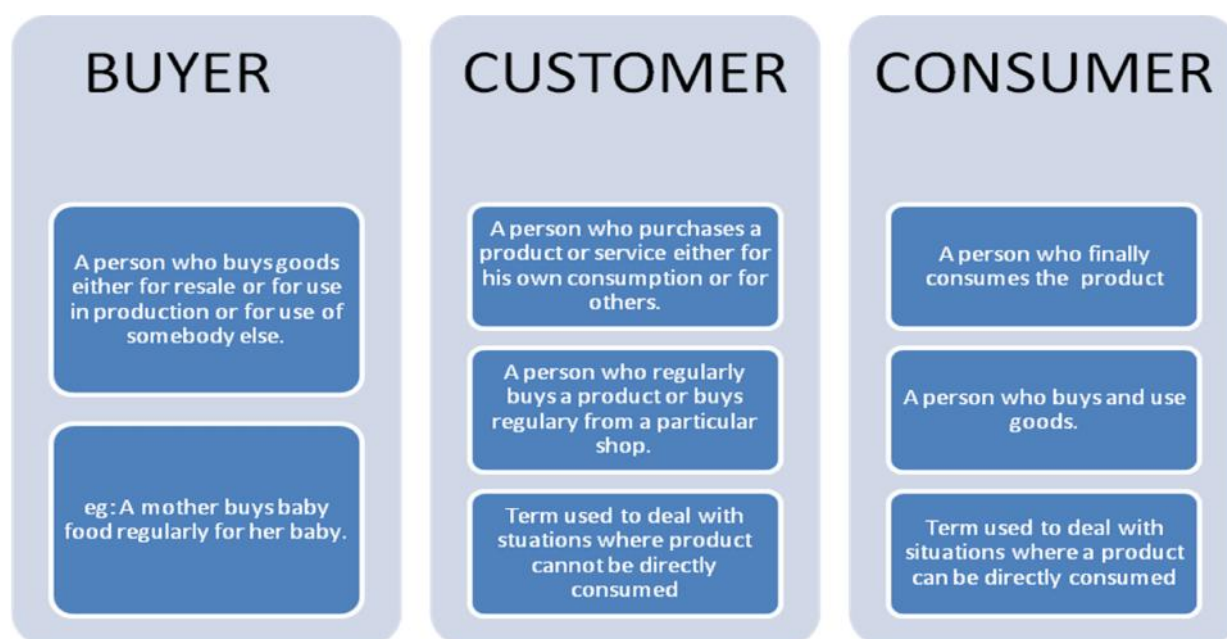
MODULE II

CONSUMER BEHAVIOUR

More than a century ago, the father of our nation, Mahatma Gandhi had made a visionary and deep meaningful statement at Johannesburg, South Africa at 1890 – “A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption on our work. He is the purpose of it and not an outsider on our premises. He is the part of it. We are not doing a favour by serving him. He is doing us a favour by giving us the opportunity to do so”. Though this statement was not made in the marketing concept, there is a lot of wisdom and insight into Mahatma’s words.

Today all the firms are engaged in the process of creating a life time value and relationship with their customers. This chapter deals with studying consumer behavior as a related field of marketing.

2.1 BUYER, CUSTOMER AND CONSUMER



2.2 CONSUMER BEHAVIOUR

Behaviour is the interaction with the ambient surrounding environment, inherent in living creatures and mediated by their external and inner activeness. Thus consumer behaviour is actions of consumers in the market place and the underlying motives for those actions. Marketers expect that by understanding what causes consumers to buy particular goods and services, they will be able to determine which products are needed in the market place, which are obsolete and how best to present those goods to the consumer.

The study of consumer behaviour is the study of how individuals make decisions to spend their available resources (time, money, effort) on consumption related items.

In the words of Walters and Paul “ consumer behaviour is the process whereby individuals decide what, when, where, how and from whom to purchase goods and services.”

2.3 NEED OR IMPORTANCE OF STUDY OF CONSUMER BEHAVIOUR

The modern marketing management tries to solve the basic problems of consumers in the area of consumption. To survive in the market, a firm has to be constantly innovating and understand the latest consumer needs and tastes. It will be extremely useful in exploiting marketing opportunities and in meeting the challenges that the Indian market offers. It is important for the marketers to understand the buyer behaviour due to the following reasons.

- ❖ The study of consumer behaviour for any product is of vital importance to marketers in shaping the fortunes of their organisations.
- ❖ It is significant for regulating consumption of goods and thereby maintaining economic stability.
- ❖ It is useful in developing ways for the more efficient utilisation of resources of marketing. It also helps in solving marketing management problems in more effective manner.
- ❖ Today consumers give more importance on environment friendly products. They are concerned about health, hygiene and fitness. They prefer natural products. Hence detailed study on upcoming groups of consumers is essential for any firm.
- ❖ The growth of consumer protection movement has created an urgent need to understand how consumers make their consumption and buying decision.
- ❖ Consumers tastes and preferences are ever changing. Study of consumer behaviour gives information regarding colour, design, size etc. which consumers want. In short, consumer behaviour helps in formulating of production policy.
- ❖ For effective market segmentation and target marketing, it is essential to have an understanding of consumers and their behaviour.

2.4 TYPES OF CONSUMER BEHAVIOUR

There are four types of consumer behaviour. They are;

Complex Buying Behaviour: Consumers goes through complex buying behaviour when they are highly involved in a purchase and aware of significant differences among brands. Consumers are highly involved when the product is expensive, bought infrequently, risky and self-expensive. Here consumers go through a rational/logical thinking process to collect as much information as possible about the available brands. Behaviour exhibited while purchasing a car is an example of complex buying behaviour.

Dissonance Reduction Buying Behaviour: Sometimes consumers are highly involved in purchases but see little difference in the brands. After the purchase they feel that the product does not perform to their expectations. They may think about alternative brand which has forgone in the brand selection process. As a result, they feel some discomfort. This mental condition is known as *Cognitive Dissonance*.

Variety Seeking Buying Behaviour: Here consumers have a lot more brand options to choose. At the same time there are significant brand differences. Unit price of product is low. Consumer involvement is also low. But consumer show brand switching behaviour. They go on changing from one brand to another. They like experiments for the sake of variety satisfaction. They exhibit variety seeking behaviour in case of products like soap, detergents, toothpaste etc.

Habitual Buying Behaviour : In this situation consumers buy their products on regular basis. Brand switching behaviour is quite common here. Variations among brands are significant. Products are usually low priced. Gathering product knowledge is not so important. Consumers show habitual buying behaviour in case of products like salt, matches etc.

2.5 BUYING MOTIVES

It is the buying motives which induce a consumer to buy a particular product. A lady may buy a sari for physical protection or for wearing something to look beautiful or as a status symbol. Thus buying motive is a strong feeling, instinct, desire or emotion that make the buyer to buy a product. According to D J DUNCAN, “ buying motives are those influences or considerations which provide the impulse to buy, induce action or determine choice in the purchase of goods and services.” In short, a buying motive is the reasons why buyers buy.

TYPES OF BUYING MOTIVES

Buying motives are of four types.

- ❖ Emotional and Rational motives.
- ❖ Product and Patronage motives.
- ❖ Inherent and Learned motives.
- ❖ Psychological and Social buying motives.

EMOTIONAL AND RATIONAL MOTIVES

EMOTIONAL MOTIVES

When a consumer decides to buy without much logical thinking, his decision is said to be emotional. Emotional buying motives are the motives which are affected by the feeling of heart. The emotional motives are of the following types.

- ❖ **Sex or Romance Motive:** Fancy clothes, cosmetics, perfumes etc. are in great demand on account of the instinct of sex or a desire to attract the opposite sex. Men dress in their best to appeal to women; and women put attractive jewellery, fancy clothes, hairdos, pleasing perfumes and make-up in a modern style to appeal to men. Some examples of appeals made are:

“ Every woman has a right to look younger than she is”

“It gives your face a sex appeal”

- ❖ **Love of Others(Affection Motives):** This motives plays a important part when parents purchase all kinds of things for their children like toy, fancy garments, and other presents and take insurance policies to make provision for their future. Examples of its appeals are:

“ Because you love them; protect them”

“Wise mothers give their family a nourishing breakfast”

- ❖ **Social Acceptance Motive:** Every individual wants to have respect and acceptance from the group to which he belongs. Taking advantage of this motive the marketers use appeals such as:

“ Your neighbours shops here- you should too”

“ It makes you nice to be near all days”

- ❖ **Vanity Motive:** People like to feel important in the society, among friends, in association and clubs, to achieve status symbols. Hence ladies purchase costly costumes, jewellery or join expensive clubs, have expensive home decoration object. Men purchases television, costly furniture, air conditioners, scooters, cars, perfumes and other variety goods. Appeals are made as the following:

“ Be the first to own one”

“Designed exclusively with you in mind.”

- ❖ **Recreation and Relaxation Motive:** People purchase sports and games materials, indoor game, horse racing, tickets for cinema, record players, magazines etc. examples of appeals are:

“Quiet heaven for you to spend your holidays- come and stay at Ashoka.”

- ❖ **Curiosity Motive:** Adolescent boys and girls and even adults are curious about certain things such as old paintings, old coins, blue films, cabaret dancers etc. Examples of appeals are:

“For Adults only”

“Something new has been added- come and see”

- ❖ **Emulate Motive:** Some people are motivated to buy what is reported to be used by great people whose opinions matter. For Example; Sachin Tendulkar says, “ Boost is the secret of my energy.”
- ❖ **Comfort and Convenience Motive:** Most people like to do everything in an easy way and in comfort. Hence this motive may be well exploited by the marketers particularly for selling luxury items like washing machine, vaccum cleaners, pressure cookers, electric irons, air conditioners, electric oven etc.

RATIONAL MOTIVES

When a buyer decides to buy after careful consideration or logical thinking, his decision is said to be rational. Thus rational buying motives are motives where a consumer takes the decision of purchasing a product by his head and mind. In making rational purchases, the consumer considers price, durability, dependability, efficiency, convenience etc. Rational motives are of the following types:

- ❖ **Monetary Gain:** Almost all buyers would like to get monetary benefits or to purchase better products at a comparatively low cost. Some Examples of appeals made are:

“ Shop at ours, get the choicest product at the cheapest price”.

“ A bumper sale at 20% discount.”

- ❖ **Efficiency in Operation and Use:** Most buyers buy products which function efficiently and effectively. For example, knife sharpeners, razors, grinders in the kitchen and in offices etc. Examples of appeals made are:

“ Fabrics that never needs ironing”.

“ Push button control”.

- ❖ **Dependability Motive:** It compels an individual to buy to satisfy his desire to obtain quality goods of reliable and durable nature. Example of appeals made are:

“ A life partner”.

“ It is most dependable for health”.

PRODUCT AND PATRONAGE MOTIVES

PRODUCT MOTIVES:

It refers to those influences and reasons which make the consumer buy a certain product in preference to another. Product motives are of two types:

- ❖ **Primary Product Motives:** These motive induce a consumer to purchase general class of the product. These motive relate to the basic needs of people like hunger, thirst, sleep etc.
- ❖ **Selective Product Motives:** These motives determine particular brand or item will purchased from the general class.

Suppose a professor wants to purchase a scooter but his wife decides to have a refrigerator. They may decide to purchase a scooter. The decision to purchase a scooter is primary product motive. Once a decision to purchase a scooter is made additional decision must be made regarding the brand, colour and model of the scooter to be purchased. The factor which influences the decision to buy a particular scooter (eg. Bajaj) from among various brands or models is known as Selective Product Motive.

PATRONAGE MOTIVE:

These are those motives which determine where or from whom products are purchased. These are the considerations which induce a buyer to buy goods from specific shops. Following are the key patronage motives:

- ❖ **Price:** As income is limited, an individual would like to purchase cheap products or at discount. Hence following price appeals attract him:
 - “ price slashed by 30%”.
 - “ old price Rs 350. Today’s price Rs.190 only”.
- ❖ **Location:** Nearest to one’s residence may induce people to buy from a particular store which may say:
 - “ Location in the heart of the city, accessible from all sides”.
- ❖ **Quality:** It appeals some customers to buy standard quality goods, even if costly, The usual appeals are.
 - “ We guarantee price back, if quality is found inferior”.

“We guarantee every product we sell”.

- ❖ **Variety:** Some people may buy products from a particular shop because of variety of goods available there. Hence following appeal attracts buyers.

“We have the largest selection in town”.

- ❖ **Services:** Services like home delivery, credit, goods gift, free services etc. may induce people to buy products. Examples of appeals are:

“Free home delivery within the town”

“We service what we sell”

- ❖ **Personality of the Owner or Salesmen:** Even the personality of the owner or salesmen may induce some people to buy goods from particular store.

INHERENT AND LEARNED MOTIVES

INHERENT MOTIVE:

These are those which come from the physiological or basic needs such as hunger, thirst, sleep, sex etc. these are the motives for the satisfaction of which a consumer makes his best efforts and if these motives are not satisfied he feels mental tension.

LEARNED MOTIVES:

Learned motives are those which are acquired or learned by a consumer from the environment and education. These motives are social status, social acceptance, fear, security etc. while satisfying learned motives, the consumer does not consider even the price of the product.

PSYCHOLOGICAL AND SOCIAL BUYING MOTIVES

PSYCHOLOGICAL BUYING MOTIVE:

These are those which are driven by internal psychological processes like learning, perception and attitude.

SOCIAL MOTIVE:

Man is a social being. He cannot live away from the influence of the society. His consumption motives are shaped by his interactions with members of his family and society. Thus social motives are those motives which are influenced by the society in which consumers live.

2.6 CONSUMER BUYING PROCESS (CONSUMER DECISION MAKING PROCESS)

Buying is a mental process. A decision to buy a product is taken after passing through different stages. According to Robinson, Faris and Wind (in 1967) the buying decision process involves the following five stages.

RECOGNITION OF AN UNSATISFIED NEED:

All buying decisions start with need recognition. When a need is not satisfied it creates tension. This tension drives people to satisfy that need. Then need becomes motive. Thus motives arise from needs and wants. The force that converts needs into motives is called motivation.

IDENTIFICATION OF ALTERNATIVES:

After recognizing a need or want consumers search for information about the various alternatives available to satisfy it. If the need is usual, such as hunger, thirst etc. the consumer may rely on past experience of what satisfies this need. If needs are unusual or unfamiliar, consumer may seek additional information from friends, family, media, sales people etc. it is only through this information search that we can identify the means of satisfying our need.

EVALUATION OF ALTERNATIVES:

By collecting information during the second stage, an individual comes to know about the brands and their features. Now he compares the alternative products or brands in terms of their attributes such as price, quality, durability etc. during the evaluation stage he may consider the opinion of others such as wife, relatives and friends. Then he selects the brand that will give him the maximum utility (or that he thinks the best).

PURCHASE DECISION:

Finally the consumer arrives at a purchase decision. Purchase decision can be one of the three, namely no buying, buying later and buying now. If he has decided to buy now, he will decide the shop (dealer) to buy it from, when to buy it, how much money to spend etc. After deciding these, he will go to the shop chosen and buy the product of the brand chosen.

POST PURCHASE BEHAVIOUR:

It refers to the behaviour of a consumer after purchasing a product. After the consumer has actually purchased the product/brand he will be satisfied or dissatisfied with it. If he is satisfied with the product he would regularly buy the brand and develop a loyalty. He recommends the brand to his friends and relatives. The negative feeling which arises after purchase causing inner tension is known as *Cognitive Dissonance* (or Post Purchase Dissonance). The post purchase dissonance is also called *Buyer's Remorse*.

2.7 FACTORS INFLUENCING CONSUMER BEHAVIOUR/ BUYING DECISIONS (DETERMINANTS OF CONSUMER BEHAVIOUR)

All factors which determine the buying or consumer behaviour are broadly classified into six. Psychological factors, Social factors, Cultural factors, Personal factors, Economic factors and Environmental factors.

Psychological Factors

The following are the important psychological factors:

- 1) **Consumer Needs and Motivation:** All buying decisions start with need recognition. People always seek to satisfy their needs. When need is not satisfied it drives people to satisfy that need. Then the need becomes a motive. Thus motive arises from needs and wants. The force that converts needs into motives is called motivation.
- 2) **Perception:** It is the process of selecting, organizing and interpreting information in order to give meaning to the world or environment we live in. the way the consumers display selective attention, distortion or retention motivates marketers to design the product, package, promotional themes etc. The marketers should understand the consumer perception and convert perception into a buying response.

- 3) **Learning:** Learning is the process of acquiring knowledge. Generally, learning results in four ways- Listening, Reading, Observing and experiencing. The importance of learning theory for marketers is that they can create demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement.
- 4) **Belief and Attitude:** A belief is a descriptive thought that a person holds about something. Such thoughts are based on learning, opinion or faith. For example, A consumer believes that Maruti cars are less costly and fuel efficient. Attitude means a person's feelings towards a particular object or situation.

Social Factors

The major social factors are as follows

- 1) **Reference Group:** consumer behaviour is influenced by various groups within society known as reference groups. We have several reference groups with whom an individual associate such as friends, relatives, classmates, club memberships etc. In each groups there is an opinion leader whose style is adopted by others. Marketers often identify such opinion leaders and develop advertisement featuring them as endorsers.
- 2) **Role and Status:** A person takes up many roles in different situations in his /her life. He can be son, father, husband, employee etc. Each role has a status. A person's role and status influence his general as well as buying behaviour.
- 3) **Family:** Family is one of the important factors influencing buying behaviour.

Cultural Factors

Culture determines and regulates our general behaviour. The major cultural factors are as follows:

- 1) **Culture:** Culture simply refers to values and beliefs in which one is born and brought up. It is a set of Ideas, Customs, Values, Art and Belief that are produced or shaped by a society and passed on from generation to generation. Culture influence what we eat and wear, how we relax and where we live etc.
- 2) **Sub-Culture:** It is based on religion, language, geographic region, nationality, age etc. It is a segment within a large culture that shares a set of beliefs, values or activities that differ in certain respects from those of the main or overall culture. The food habits are different in different parts of India.
- 3) **Social Class:** A social class is a group of people with similar values, interest and behaviour within a society. Consumers buying behaviour is determined by the social class to which they belong rather than by their income alone. The social class is based on income, education, occupation, family history, wealth, lifestyle, area of residence etc.

Personal Factors

Personal factors are unique to a particular person. These factors include demographic factors and are as follows.

- 1) **Age:** Need and wants are determined by age. So buying changes with age, Taste for food, clothing and recreation etc. changes with age.
- 2) **Stages in the Life Cycle:** People buy different goods during different life cycle stages. Life cycle of an individual refers to the different phases of his or her life.

- 3) **Occupation and Economic Status:** Occupation influences product choice, brands beliefs etc. It determines income, buying power and status.
- 4) **Life Style:** It indicates how people live, how they spend their time, how and what they choose and where they shop. It is the way people eat, drink, spend leisure time, work and so on.
- 5) **Personality:** Personality refers to the unique psychological characteristics of an individual. Personality of consumers influences brand preference and choice of products.
- 6) **Self-Image:** Self image implies what one thinks of himself/herself .It is the way one sees himself/herself or wishes to see himself/herself or wants to be seen by others. Self-concept is an important factor to marketers in planning advertising campaign.

Economic Factors

The various economic factors which determine consumer behaviour are as follows:

- 1) **Personal Income:** Gross income of a person is composed of disposable and discretionary income. When disposable income rises, the expenditure on various items will increase and vice versa.
- 2) **Family Income:** It is the aggregate income of all members of a family. The family income remaining after the expenditure on the basic needs of the family is made available for buying goods, durables and luxuries
- 3) **Income Expectations:** If a person expects any increase in his income he will buy durables on hire purchase etc, if his future income is likely to decline he will restrict his expenditure to bare necessities.
- 4) **Savings:** When a person decides to save more, he will spend less on comfort and luxuries.
- 5) **Liquidity Position:** If an individual has more liquid assets, he goes in for buying comfort and luxuries.
- 6) **Consumer Credit:** If Consumer Credit is available on liberal terms, expenditure on comfort and luxuries will increase.

Environmental Factors

The various environmental factors which determine consumer behaviour are as follows:

- 1) **Political Situation:** In state monopolies, consumers have to be satisfied with a limited range of products, but in market oriented economy like that of USA, consumers have wider choice.
- 2) **Legal Forces:** Consumers make purchases within the legal framework. All purchase dealings are carried on within legal limits.
- 3) **Technological Advancements:** Technological advancements bring wide range of changes in products/ services and makes consumers go in for latest products.
- 4) **Ethical Considerations:** Buying behaviour is influenced by the sense of social morality and ethical considerations.

MARKET SEGMENTATION AND TARGET MARKET

MARKET SEGMENTATION –INTRODUCTION

Market consists of buyers, and buyers differ in one or more respects. Buyer's behaviour is a complex phenomenon. An understanding of the economic, psychological and socio-cultural characteristics of the consumers and their motivations. Attitudes, cognitions, personalities and perceptions can help to discover new market opportunities, clear and specific market segmentation. All markets are made up of segments and these segments are made up of sub-segments.

2.8 MEANING AND DEFINITION

Segmentation is a consumer oriented marketing strategy. It is a process of dividing the market on the basis of interest, need and motive of the consumer. Market segmentation simply means dividing market or grouping of consumers. It refers to grouping of consumers according to such characteristics as income, age, race, education, sex, geographic location etc. Therefore market segmentation is the strategy that subdivides the target market into sub-groups of consumers with distinct and homogenous characteristics with a view to develop and follow a distinct and differentiated marketing programmes for each sub-group in order to enhance satisfaction to consumers and profit to the marketer.

According to Philip Kotler, "Market segmentation is the sub-dividing of a market into homogenous sub-sects of consumers where any sub-sects may conceivably be selected as a market target to be reached, With a distinct marketing mix."

2.9 CHARACTERISTICS OR CRITERIAS OF EFFECTIVE SEGMENTATION

The main criteria's of effective segmentation are

- Measurability
- Substantiality
- Accessibility
- Differentiability
- Auctionable
- Nature of Demand
- General considerations

The main purpose of market segmentation is to measure the changing behaviour patterns of consumers. The size, profile, and other relevant characteristics of the segment must be **measurable** and obtainable in terms of data. Therefore, segments should be capable of giving accurate measurements.

Substantiality refers to the size of the segmented market. Segments must be large enough to be profitable. For small segment, it may not be possible for the marketer to develop separate marketing mix for such non profitable segments.

The segment must be **accessible**, which means marketers must be able to reach the market segments at lower costs. Segments must be reachable by company's sales persons, distributors advertising media etc.

The segment should be large enough to be considered as a separate market. Such segments must have individuality of their own so that it leads to **different** segments.

The segments which the company wishes to pursue must be **auctionable** in the sense that there should be sufficient finance, personnel and capability to take them all. Hence, depending upon the reach of the company, the segments should be selected.

Segmentation is required only if there are marked differences in the **nature of demand**. Nature of demand refers to the different quantities demanded by various segments. Each segmented market must exhibit difference in consumption rates from another segment.

Apart from the above characteristics, the segment must have growth potential, be profitable, carries no unusual risks and has competitors who do not fight directly with the product or brand.

2.10 NEED AND IMPORTANCE OF MARKET SEGMENTATION

According to Sheth, "Market segmentation is the essence of modern marketing." It is advantageous to firms as well as consumers.

A. ADVANTAGES TO FIRMS

- Increases sale volume.
- Helps to win competition.
- Enables to take decisions.
- Helps to prepare effective marketing plan.
- Helps to understand the needs of consumers.
- Makes best use of resources.
- Expands markets.
- Creates innovations.
- Higher markets share.
- Specialised marketing.
- Achieves marketing goals.

B. ADVANTAGES TO CONSUMERS

- Customer oriented.
- Quality product at reasonable price.
- Other benefits such as discounts, prize etc.

2.11 PATTERNS OF SEGMENTATION

Undifferentiated Marketing: Under this strategy, the producer or marketer does not differentiate between different type of customers. One marketing mix is used for the whole market. Eg. Pepsi.

Differentiated Marketing: A number of market segments are identified and different marketing mix is developed for each of the segments. Eg; consumer products.

Concentrated Marketing: It is concerned with the concentration of all marketing efforts on one selected segment within the total market. Eg; Kid's wear.

Customised or Personalised Marketing: In this case firms view each customer as a separate segment and customised marketing programmes to that individuals specific requirements. Eg; civil engineers designing flats, villas, bridges etc.

2.12 BASES OF MARKET SEGMENTATION

Different variables are used to segment the consumer markets. They can be broadly put into four categories.(see fig 2.5)

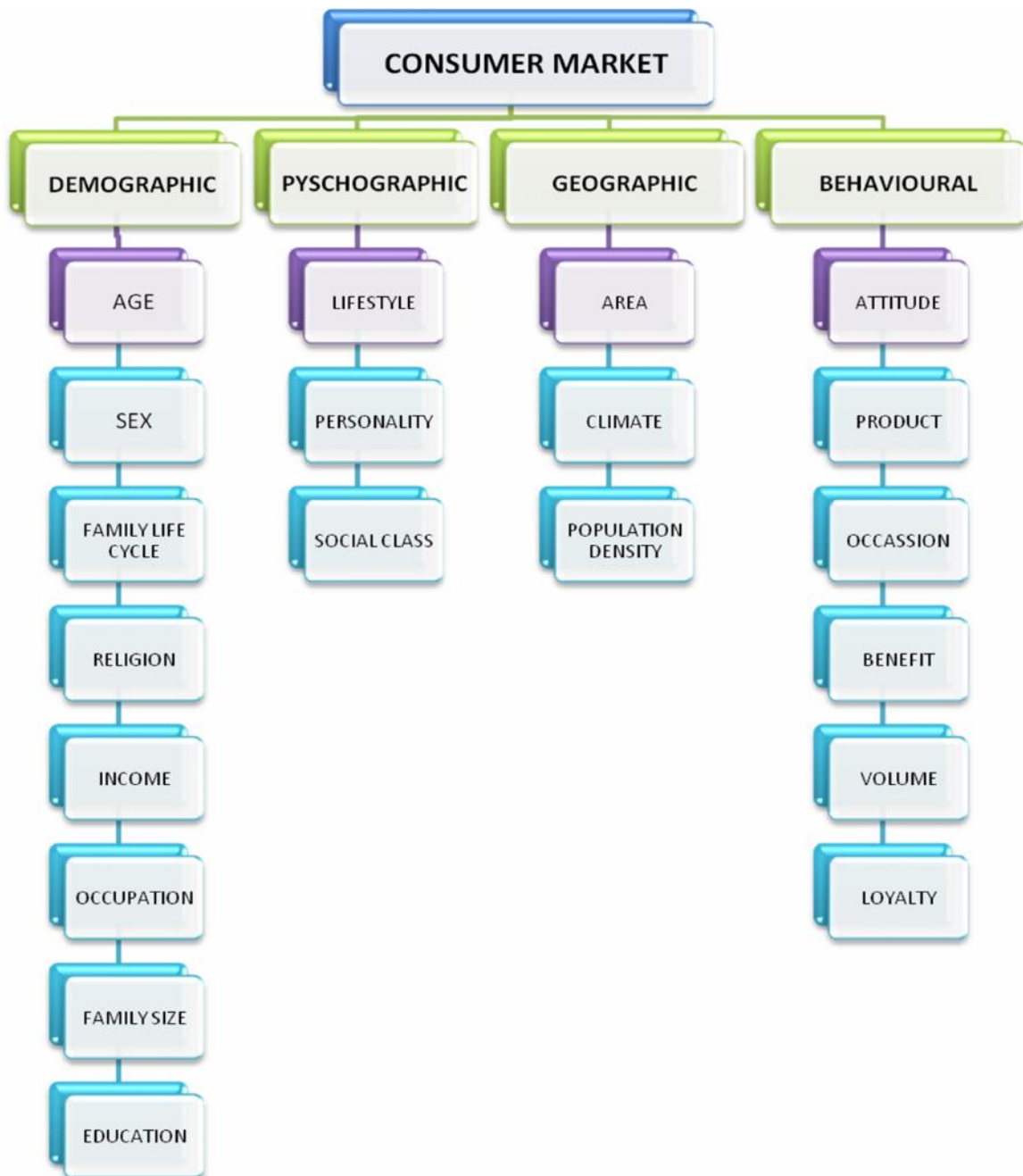


Fig 2.5 Bases for Market Segmentation

DEMOGRAPHIC SEGMENTATION: Demos means people and graphein means to measure or to study. In Demography means study of people or population. In Demographic segmentation, the market is segmented on the basis of demographic variables such as age, sex, family size, family life cycle, income, occupation, education etc. Demographic variables or characteristics are the most popular bases for segmenting the market.

- (a) **Age:** Age is an important factor for segmenting the market. This is because demand and brand choice of people change with age. On the basis of age, a market can be divided into four- Children, Teenagers, Adults and Grown-ups. For consumers of different age groups, different types of products are produced. Johnson and Johnson cater to the needs of children below 6 years by presenting baby powders, baby soaps, oils etc.
- (b) **Sex:** Sex based segmentation means grouping customers into males and females. The wants, tastes, preferences, interests, choices etc, of men are different from that of women. For instance, women are more fond of cosmetics and other fancy articles. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines.
- (c) **Family Life Cycle:** It refers to the important stages in the life of an ordinary family. Broadly divided into the following stages.

Stage 1: Childhood.

Stage 2: Bachelorhood (unmarried).

Stage 3: Honeymooners- Young married couple.

Stage 4: Parenthood- (a) Couple with children. (b) Couple with grown up children.

Stage 5: Post- parenthood- Older married couple with children living away from Parents (due to job or marriage of sons and daughters).

Stage 6: Dissolution- One of the partners is dead.

Wants, tastes, interests, buying habits etc vary over different life cycles stages.

- (d) **Religion:** Religious differences have important effect on marketing. The male folk among the muslims have a demand for striped lungis and the woman folk for pardhas.
- (e) **Income:** Income segmentation is used for automobiles, clothing, cosmetics, travel, financial services etc. For example, BMW (car manufacturer concentrates on high income segment)
- (f) **Occupation:** Market segmentation is done also on the basis of occupation of consumers. For instance, doctors may demand Surgical equipment, lawyers may demand coat etc.
- (g) **Family Size:** A marketer launches different sizes of products in the market according to size of the family. For example, shampoos and oil are available in 100 ml. 200ml. 500ml etc.
- (h) **Education:** On the basis of education, market for books may be divided as high school, plus two, graduate and post graduate.

GEOGRAPHIC SEGMENTATION: The marketer divides the market into different geographical units. Generally international companies segment markets geographically. The theory behind this strategy is that people who live in same area have some similar need and wants and that need and wants differ from those of people living in other areas.

- (a) **Area:** This type of segmentation divides the market into different geographical units such as country, state, region, district, area etc. Some manufacturers split up their sales territories either state-wise or district-wise. Markets may also be divided into urban and rural markets.
- (b) **Climate:** Different types of climate prevail in different places. On the basis of climate, areas can be classified as hot, cold, humid and rainy region. Climate determines the demand for certain goods.
- (c) **Population Density:** The size and density of population affects the demand for consumer goods. In those areas where size and density of population is high, there will be good demand for consumer goods.

BEHAVIOURAL SEGMENTATION: Behavioural segmentation is based on buyer behaviour i.e. the way people behave during and after purchase.

- (a) **Attitude:** Customers can be segmented on the basis of attitude such as enthusiastic, positive, indifferent, negative, hostile etc. Fashionable and latest products are used by enthusiastic consumers. Liquor, cigarette etc are used by negative consumers.
- (b) **Product Segmentation:** The market segmentation is done on the basis of product characteristics that are capable of satisfying certain special needs of customers.
 - (1) Prestige products, e.g., Automobiles, clothing, Home furnishing.
 - (2) Maturity products, e.g., Cigarettes, Blades etc.
 - (3) Status products, e.g., Most luxuries.
 - (4) Anxiety products, e.g., Medicines, soaps etc.
 - (5) Functional products, e.g., Fruits, vegetables etc.
- (c) **Occasion Segmentation:** According to the occasions, buyers develop a need, purchase a product or use a product. There can be two types of situations- regular and special. For example, for regular use, women purchase cotton or polyester sarees or churidars. For attending marriage or reception(special occasion) they buy silk sarees.
- (d) **Benefit Segmentation:** Benefit segmentation implies satisfying one benefit group. The benefit may be classified into Generic or Primary and Secondary or Evolved.

Product	Generic or primary	Secondary or Evolved
	Utilities	Utilities
Tooth paste	Cleaning	Breath freshening, brightness.

- (e) **Volume Segmentation:** The market is segmented on the basis of volume or quality of purchase. The buyers are grouped into categories like bulk buyers, moderate buyers, and small buyers. Heavy buyers are often small percentage of the market but account for a high percentage of total consumption. Marketers prefer to attract one heavy buyer rather than several small buyers.
- (f) **Loyalty Segmentation:** Consumers have varying degree of loyalty to specific brands. On the basis of brand loyalty, buyers can be divided into the following five groups. (1) Hard-core loyals (2) Soft-core loyals (3) Shifting loyals (4) Switchers (5) Consumer innovators.

PSYCHOGRAPHIC SEGMENTATION: It refers to grouping of people into homogeneous segments on the basis of psychological make up namely personality and life style.

- (a) **Life Style:** A person's life style is the pattern of living as expressed in the person's activities, interests and opinions. They express their life styles through the products they use. For example, the life style of a college student is different from that of an ordinary worker. Car, clothing, cosmetics, furniture, liquor, cigarettes etc. are segmented by using life style
- (b) **Personality:** Personality reflects a person's traits, attitude and habits. It is in this background that a person is classified as active or passive, rational or impulsive, creative or conventional, introvert or extrovert. For example, Raymond's advertisement says "Raymonds. The Complete Man"
- (c) **Social Class:** On the basis of Social class, consumers may be grouped into lower class, middle class and upper class. Social class is determined by income, occupation and education.

2.13 TARGET MARKETING

Target marketing is the process of assessing the relative worth of different market segments and selecting one or more segments in which to compete. These become the target segments. Titan is using the target marketing strategy very effectively. German car manufacturer Mercedes target high status consumers with experience and prestigious motor cars.

According to David Cravens and others "Target market is a group of existing or potential customers within a particular product market towards which an organisation directs its marketing efforts".

2.14 TARGET MARKETING STRATEGIES

- Total market approach: A company develops a single marketing mix and directs it at the entire market for a particular product. This approach is used when an organisation defines the total market for a particular product as its target market.
- Concentration approach: An organisation directs its marketing efforts toward a single market segment through a single marketing mix. The total market may consist of several segments, but the organisation selects only one of the segments as its target market.
- Multi-segment approach: An organisation directs its marketing efforts at two or more segments by developing a marketing mix for each segment.

2.15 STEPS IN TARGET MARKETING

It involves the following four major steps:

- 1) Market segmentation: Markets are segmented on the basis of certain characteristic such as sex, education, income, age etc.
- 2) Market targeting: It refers to evaluating each market segments attractiveness and selecting one or more of the segments to enter. Thus target marketing and market targeting are not one and the same. Market targeting is only a step in target marketing.

- 3) Designing the marketing mix: After selecting the segment, the next step is to design a suitable product and other marketing mix elements for each segment selected.
- 4) Product Positioning: Market segmentation strategy and market positioning strategy are like two sides of a coin. Target marketing begins with segmentation and ends with positioning.

2.16 PRODUCT POSITIONING

The act of creating an image about a product or brand in the consumers mind is known as positioning.

In the words of Kotler, “Positioning is the act of designing the company’s offer and image so that it occupies a distinct and valued place in the target consumers minds.” In short, the process of creating an image for a product in the minds of targeted customers is known as product positioning. Close-up tooth paste is looked upon by the consumers more as a mouth wash than a teeth cleaner, while ‘pepsodent’ has created an impression of germ killer in the consumers minds.

2.17 STEPS IN PRODUCT POSITIONING

- 1) Identifying potential competitive advantages: Consumers generally choose products and services which give them greatest value. The key to winning and keeping customers is to understand their needs and buying processes far better than the competitors do and deliver more values.
- 2) Identifying the competitors position: When the firm understands how its customers view its brand relative to competitors, it must study how those same competitors position themselves.
- 3) Choosing the right competitive advantages: It refers to an advantage over competitors gained by offering consumers greater value either through lower price or by providing more benefits.
- 4) Communicating the competitive advantage: The company should take specific steps to advertise the competitive advantage it has chosen so that it can impress upon the minds of consumers about the superiority claimed in respect of the product over its competing brands.
- 5) Monitoring the positioning strategy: Markets are not stagnant. They keep on changing. Consumer tastes shift and competitors react to those shifts. After a desired position is developed, the marketer should continue to monitor its position through brand tracking and monitoring.

2.18 ELEMENTS OF POSITIONING

It is concerned with the following four elements.

- 1) The Product: Design, special feature, attributes, quality, package etc. of product create its own image in the minds of the consumers. Material ingredient of a product is also important in the process of product positioning.
- 2) The Company: The goodwill of a company lends an aura to its brand. For example, Tata, Godrej, Bajaj etc have very good reputation in the market
- 3) The Competitors: Product image is build in consumers mind in relation to the competing product. Thus a careful study of competition is required.
- 4) The Consumer: Ultimate aim of positioning policy is to create a place for the product in consumers minds. Therefore, it becomes necessary to study the consumer behaviour towards the product.

2.19 TECHNIQUES OF PRODUCT POSITIONING

Following technique are used in positioning a product in the market:

- Positioning by Corporate Identity: The companies that have become a tried and trusted household name. For example, Tata, Sony etc.

- Positioning by Brand Endorsement: Marketers use the names of company's powerful brands for line extensions or while entering another product category. Lux, Surf, Dettol etc.
- Positioning by Product Attributes and Benefits: It emphasize the special attributes and benefits of the product. Close-up is positioned on fresh breath and cosmetics benefits.
- Positioning by use, Occasion and Time: It is to find an occasion or time of use and sit on it. For example, Vicks vaporub is to be used for child's cold at night.
- Positioning by Price and Quality: Company position its brand by emphasizing its price and quality. Eg. Nirma detergent powder.
- Positioning by Product Category: Brand is perceived to be another product category. Eg. Maruti positioned its van as *omni* , family car.
- Positioning by Product User: Positioning the product as an exclusive product for a particular class of customers. Eg. Scooty as a two wheeler for teenagers.
- Positioning by Competitor: An offensive positioning strategy and is often seen in cases of comparative advertising. Eg. Tide and Rin
- Positioning by Symbols: Some companies use some symbols for positioning their products. Eg. vodafone symbol.

MODULE III

PRODUCT

INTRODUCTION

The marketing mix, which is the means by which an organisation reaches its target market, is made up of product, pricing, distribution, promotion and people decisions. These are usually shortened to the acronym "5P's". Product decisions revolve around decisions regarding the physical product (size, style, specification, etc.) and product line management.

3.1 DEFINITION

A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or "quality". A customer purchases on both dimensions

According to Jobber (2004), "A product is anything that has the ability to satisfy a consumer need." In the words of Dibb et al, "A product is anything, favourable and unfavourable that is received in exchange."

3.2 CLASSIFICATION OF PRODUCTS

A product's physical properties are characterized the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can also classify products according to their degree of potential for global marketing:

- i) Local Products - seen as only suitable in one single market.
- ii) International Products - seen as having extension potential into other markets.
- iii) Multinational Products - products adapted to the perceived unique characteristics of national markets.
- iv) Global Products - products designed to meet global segments.- Products and services fall into two broad classes based on the types of consumers that use them

A - (1) Consumer Product

B - (2) Industrial Product

01. CONSUMER PRODUCT:- "Product bought by final consumer for personal consumption". Consumer products divided into four classes.

- ❖ Convenience product
- ❖ Shopping Product
- ❖ Specially Products
- ❖ Unsought Product

i) Convenience Product:-Consumer product that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort consumer products can be divided further into staples, impulse products, and emergency products.

Staples Products are those product that consumers buy on a regular basis, such as ketchup, tooth path etc., *Impulse* products are those product that purchased with little planning or search effort, such as Candy bar, and magazine, *Emergency* product is those when consumer need is urgent, e.g. umbrellas during a rainstorm etc.

ii) Shopping Product:-Consumer good that the consumer, in the process of selection and purchase, characteristically compares as such bases as suitability, quality, price, and style. Example: Furniture, clothing, used cars, major appliances and hotel and motel services.

iii) Specialty Products:-Consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. e.g. Specific brands and types of cars, high-priced photographic equipment, designer clothes etc.

iv) Unsought Products:-Unsought products are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new inventions are unsought until the consumer become aware of them through advertising. E.g. Life Insurance and blood donations to the Red Cross.

02. INDUSTRIAL GOODS It is meant for use in the production of other goods or for some business or institutional purposes. Industrial goods are classified into four- production facilities and equipments, production materials, production supplies and management materials.

3.3 PRODUCT LINE

Product lining is the **marketing** strategy of offering for sale several related products. Unlike product bundling, where several products are combined into one, lining involves offering several related products individually. A line can comprise related products of various sizes, types, colors, qualities, or prices. Line depth refers to the number of product variants in a line. Line consistency refers to how closely related the products that make up the line are. Line vulnerability refers to the percentage of sales or profits that are derived from only a few products in the line. If a line of products is sold with the same brand name, this is referred to as family branding.

PRODUCT LINE MODIFICATION

When you add a new product to a line, it is referred to as a line extension. When you add a line extension that is of better quality than the other products in the line, this is referred to as trading up or brand leveraging. When you add a line extension that is of lower quality than the other products of the line, this is referred to as trading down. When you trade down, you will likely reduce your brand equity. You are gaining short-term sales at the expense of long term sales.

- ✓ Product Line Contraction
- ✓ Product Line Expansion
- ✓ Changing Models or Styles of the Existing Products

PRODUCT SIMPLIFICATION

Product Simplification means limiting the number of products a dealer deals. Sometimes it becomes necessary for a company to stop the production of unprofitable products.

PRODUCT DIVERSIFICATION

Product diversification means adding a new product or products to the existing product. It is a strategy for growth and survival in the highly complex marketing environment.

PRODUCT DIFFERENTIATION

Product differentiation involves developing and promoting an awareness in the minds of customers that the company's products differ from the products of competitors. This is made by using trade mark, brand name, packaging, labeling etc.

3.4 PRODUCT MIX

The number of different product lines sold by a company is referred to as width of product mix. The total number of products sold in all lines is referred to as length of product mix.

FACTORS INFLUENCING PRODUCT MIX

- ❖ Change in demand.
- ❖ Marketing influences.
- ❖ Production efficiencies.
- ❖ Financial influence.
- ❖ Use of waste.
- ❖ Competitor's strategy.
- ❖ Profitability.

3.5 NEW PRODUCT DEVELOPMENT

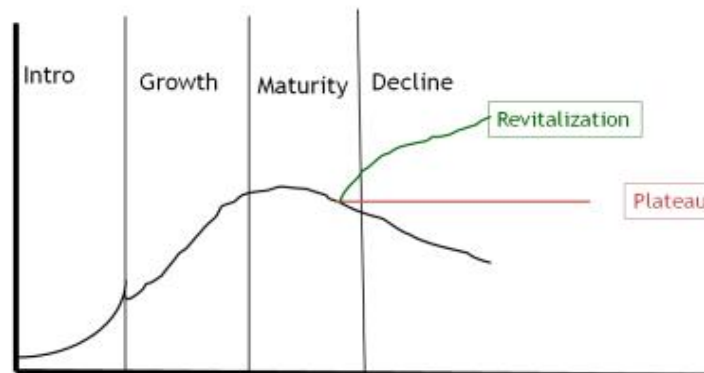
New product development tends to happen in stages. Although firms often go back and forth between these idealized stages, the following sequence is illustrative of the development of a new product:

- New Product Strategy Development. Different firms will have different strategies on how to approach new products. Some firms have stockholders who want to minimize risk and avoid investing in too many new innovations. Some firms can only survive if they innovate frequently and have stockholders who are willing to take this risk. For example, Hewlett-Packard has to constantly invent new products since competitors learn to work around its patents and will be able to manufacture the products at a lower cost.
- Idea Generation. Firms solicit ideas as to new products it can make. Ideas might come from customers, employees, consultants, or engineers. Many firms receive a large number of ideas each year and can only invest in some of them.

- Screening and Evaluation: Some products that after some analysis are clearly not feasible or are not consistent with the core competencies of the firm are eliminated.
- Business Analysis. Ideas are now exposed to more rigorous analysis. Profit projections, risks, market size, and competitive response are considered. If promising, market research may be done.
- Development: The product is designed and manufacturing facilities are planned.
- Market Testing: Frequently, firms will try to “test” a product in one region to see if it will sell in reality before it is released nationally and internationally. There is a lesser risk if the firm only commits money to advertising and other marketing efforts in one region. Retailers will also be more receptive in other parts of the country and world if it has been demonstrated that the product sold well in one region. The firm may also experiment with different prices for the product.
- Commercialization: Facilities to manufacture the product on a larger scale are now put into operation and the firm starts a national marketing campaign and distribution effort.

3.6 THE PRODUCT LIFE CYCLE

Products often go through a *life cycle*. Initially, a product is introduced.



Since the product is not well known and is usually expensive (e.g., as microwave ovens were in the late 1970s), sales are usually limited. Eventually, however, many products reach a *growth* phase—sales increase dramatically. More firms enter with their models of the product. Frequently, unfortunately, the product will reach a *maturity* stage where little growth will be seen. For example, in the United States, almost every household has at least one color TV set. Some products may also reach a *decline* stage, usually because the product category is being replaced by something better. For example, typewriters experienced declining sales as more consumers switched to computers or other word processing equipment. The product life cycle is tied to the phenomenon of diffusion of innovation. When a new product comes out, it is likely to first be adopted by consumers who are more innovative than others—they are willing to pay a premium price for the new product and take a risk on unproven technology. It is important to be on the good side of innovators since many other later adopters will tend to rely for advice on the innovators who are thought to be more knowledgeable about new products for advice. At later

phases of the PLC, the firm may need to modify its market strategy. For example, facing a saturated market for baking soda in its traditional use, Arm & Hammer launched a major campaign to get consumers to use the product to deodorize refrigerators. Deodorizing powders to be used before vacuuming were also created.

Product Introduction/ Development Stage

This is the first stage in product life cycle. Before a new product is introduced in the market place, it should be created first. The processes involve in this stage include generation of idea, designing of the new product, engineering of its details, and the whole manufacturing process. This is also the phase where the product is named and given a complete brand identity that will differentiate it from the others, particularly the competitors. Once all the tasks necessary to develop the product is complete, market promotion will follow and the product will be introduced to the consumers. Product development is a continuous process that is essential in maintaining the product's quality and value to consumers. This means that companies need to continuously develop or innovate their products to out ride new and existing competitors.

Product Growth Stage -This is a period where rapid sales and revenue growth is realised. However, growth can only be achieved when more and more consumers will recognize the value and benefits of a certain product. In most cases, growth takes several years to happen, and in some instances, the product just eventually died without achieving any rise in demand at all. Hence, it is important that while the product is still in the development and introduction stages, a sound marketing plan should be put in place and a market and primary demand should be established.

Product Maturity and Saturation Stage

In the maturity stage, the product reaches its full market potential and business becomes more profitable. During the early part of this stage, one of the most likely market scenarios that every business should prepare for is fierce competition. As business move to snatch competitor's customers, marketing pressures will become relatively high. This will be characterised by extensive promotions and competitive advertising, which are aimed at persuading customer to switch and encouraging distributors to continue sell the product.

In the middle and late phases of the maturity stage, the rate of growth will start to slow down and new competitors will attempt to take control of the market. In most cases, many businesses falls and lose money in these stages as they focus more on increasing advertising spending in hope of maintaining their grip of the market.

Product Decline Stage

The decline stage is the final course of the product life cycle. This unwanted phase will take place if companies have failed to revitalize and extend the life cycle of their products during the maturity stage's early part. Once already in this phase, it is very likely that the product may never again recover or experience any growth, eventually dying down and be forgotten.

3.7 BRANDING

Branding means giving a name to the product by which it could become known and familiar among the public. When a brand name is registered and legalised, it becomes a *Trade mark*. All trade marks are brands but all brands are not trade marks. Brand , brand name, brand mark, trade mark, copy right are collectively known as the language of branding.

TYPE OF BRANDS

In many markets, brands of different strength compete against each other. At the top level are *national* or *international* brands. A large investment has usually been put into extensive brand building—including advertising, distribution and, if needed, infrastructure support. Although some national brands are better regarded than others—e.g., Dell has a better reputation than e-Machines—the national brands usually sell at higher prices than to *regional* and *store* brands. Regional brands, as the name suggests, are typically sold only in one area. In some cases, regional distribution is all that firms can initially accomplish with the investment capital and other resources that they have. This means that advertising is usually done at the regional level. *Store*, or *private label* brands are, as the name suggests, brands that are owned by retail store chains or consortia thereof. (For example, Vons and Safeway have the same corporate parent and both carry the “Select” brand). Typically, store brands sell at lower prices than do national brands.

Co-branding involves firms using two or more brands together to maximize appeal to consumers. Some ice cream makers, for example, use their own brand name in addition to naming the brands of ingredients contained. Sometimes, this strategy may help one brand at the expense of the other. It is widely believed, for example, that the “Intel inside” messages, which Intel paid computer makers to put on their products and packaging, reduced the value of the computer makers’ brand names because the emphasis was now put on the Intel component.

In order for a business organisation to successfully create an effective brand that is capable of enhancing a product’s value, it needs to understand how the delivery of value differs across different types of brands. This means that a company has to know the kind of brand suitable for its offering. So what are the different kinds of brand? They are the following:

- **Manufacturer Brands:** These are developed and owned by the producers, who are usually involved with distribution, promotion and pricing decisions for the brands. For example, Apple computers.
- **Dealer Brands:** These are brands initiated and owned by wholesalers or retailers.
- **Generic Brands:** It indicates only the product category and do not includes the company name or other identifying terms.
- **Family Brands:** A single brand name for the whole line closely related items. For example, Amul for milk products.
- **Individual Brands:** Each product has a special brand name such as surf etc.
- **Co-Brands:** It uses two individual brands on a single product.
- **Licensed Brands:** It involves licensing of trade marks. For example, P&G licensed its camay brand of soap in India to Godrej for a few years.

BRAND LOYALTY

It simply means loyalty of a buyer towards a particular brand. Wilkie defined loyalty as, “A favourable attitude and consistent purchase of a particular brand.” For example, If a customer has a brand loyalty towards ‘Pears’, he will buy and use only that soap. There are three levels of Brand Loyalty.

- 1) Brand Recognition: This means that people are familiar with the product and they are likely to buy it.
- 2) Brand Preference: At this level people adopt the product- that is, they habitually buy it if it is available.
- 3) Brand Insistence: It is the stage at which people will not accept any substitute.

BRAND EQUITY

It simply refers to value associated with a brand. It is the Marketing and financial value associated with a brand's strength in a market. According to Aaker, "Brand equity is a set of assets and liabilities linked to a brand's name and symbol that add to or subtract from the value provided by a product or service to a firm or that firm's customers".

3.8 PACKAGING AND LABELLING

Packaging and Labelling are among the most important areas in product management. *Packing* means putting article into small packets, boxes or bottles for sale to ultimate consumers or for transport. *Labelling* is defined as a slip or tag attached with the product or with its package which provides necessary information about the product and its producer.

Contrary to common perception that these two processes are all about creating an image and decent presentation of a product, packaging and labelling have more relevant purpose and objectives. These include physical protection of product from destructive things that may spoil or ruin it, e.g. temperature, shock, vibration, etc. Other purposes include containment convenience, marketing, security, and dissemination of information about the use, transportation, storage or disposal of the product.

Designing the labels and packages of products require careful planning. Moreover, there are consumer safety regulations that every businesses should follow. It is the responsibility of every product manufacturer to respects these rules. Thus, before you start designing product labels and packaging, it makes good business sense to know what laws will affect you and what kind of materials will best suit your product.

KINDS OF LABELS

There are four kinds of labels:

- 1) Brand Label: It gives the brand name or mark. For example, Britannia Biscuits, Vicks Vaporub etc.
- 2) Grade Label: It gives grade or quality of the product by a number, letter or words. For example, A grade, B grade or 1 and 2 category based on quality.
- 3) Descriptive Label: It gives details of product, its functions, price, warnings etc.
- 4) Information Label: It provides maximum information about the product. It contains fuller instructions on the use and care of the product.

3.9 MARKETING MYOPIA

It has been introduced by Theodore Levitt. One of the main reasons for the failure of large business enterprises is that they do not actually know what kind of business they are doing. This narrow minded view of Marketing is called Marketing Myopia. Marketers suffer from marketing myopia when they view their business as providing goods and services rather than as meeting customers needs and wants.

PRICING

Setting the right price is an important part of effective marketing . It is the only part of the marketing mix that generates revenue (product, promotion and place are all about marketing costs).

Price is also the marketing variable that can be changed most quickly, perhaps in response to a competitor price change.

3.10 DEFINITION

“Price is the amount of money or goods for which a thing is bought or sold”.

The price of a product may be seen as a financial expression of the value of that product. For a consumer, price is the monetary expression of the value to be enjoyed/benefits of purchasing a product, as compared with other available items.

The concept of value can therefore be expressed as:

(perceived) VALUE = (perceived) BENEFITS – (perceived) COSTS

A customer’s motivation to purchase a product comes firstly from a need and a want:e.g.

- Need: "I need to eat
- Want: I would like to go out for a meal tonight")

The second motivation comes from a perception of the value of a product in satisfying that need/want (e.g. "I really fancy a McDonalds").

The perception of the value of a product varies from customer to customer, because perceptions of benefits and costs vary.

Perceived benefits are often largely dependent on personal taste (e.g. spicy versus sweet, or green versus blue). In order to obtain the maximum possible value from the available market, businesses try to ‘segment’ the market – that is to divide up the market into groups of consumers whose preferences are broadly similar – and to adapt their products to attract these customers.

In general, a products perceived value may be increased in one of two ways – either by:

- (1) Increasing the benefits that the product will deliver, or,
- (2) Reducing the cost.

3.11 TYPES OF PRICING POLICIES

There are many ways to **price** a product. Let's have a look at some of them and try to understand the best policy/strategy in various situations.

- **Cost Based Pricing Policies:** Setting price on the basis of the total cost per unit. There are four methods as follows:
 1. **Cost Plus Pricing-** cost plus a percentage of profit
 2. **Target Pricing-** cost plus a pre determined target rate of return
 3. **Marginal Cost Pricing-** fixed plus variable costs
 4. **Break-Even Pricing-** at break-even point i.e, where total sales=total cost{no profit,no loss point}
- **Demand Based Pricing Policies:** Setting price on the basis of the demand for the product. There are two methods as follows:
 1. **Premium Pricing-** Use a high price where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charged for
 2. **Differential Pricing-** Same product is sold at different prices to different consumers.
- **Competition Based Pricing Policies:** Setting price on the basis of the competition for the product. There are three methods as follows:
 1. **Going Rate Pricing-** Many businesses feel that lowering prices to be more competitive can be disastrous for them (and often very true!) and so instead, they settle for a price that is close to their competitors.
 2. **Customary Pricing-** Prices for certain commodities get fixed because they have prevailed over a long period of time.
 3. **Sealed Bid Pricing-** Firms have to quote less price than that of competitors. Tenders, winning contracts etc.
- **Value Based Pricing Policies:** It is based on value to the customer. The following are the pricing method based on customer value.
 1. **Perceived- Value Pricing:** This is the method of judging demand on the basis of value perceived by the consumer in the product. This method is concerned with setting the price on the basis of value perceived by the buyer of the product rather than the seller's cost.
 2. **Value Of Money Pricing:** Price is based on the value which the consumers get from the product they buy. It is used as a competitive marketing strategy.

SKIMMING PRICING:

This is done with the basis idea of gaining a premium from those buyers who always ready to pay a much higher price than others. It refers to the high initial price charged when a new product is introduced in the market. For example, mobile phones which when introduced were highly priced.

PENETRATION PRICING:

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV.

Competitive pricing:

The producer of a new product may decide to fix the price at competitive level. This is used when market is highly competitive and the product is not differentiated significantly from the competitive products.

PREDATORY PRICING:

When a firm sets a very low price for one or more of its products with the intention of driving its competitors out of business.

ECONOMY PRICING:

This is a no frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

Price Skimming.

Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented.

Psychological Pricing.

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example 'price point perspective' 99 cents not one dollar.

PRODUCT LINE PRICING.

Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example car washes. Basic wash could be \$2, wash and wax \$4, and the whole package \$6.

Optional Product Pricing.

Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

CAPTIVE PRODUCT PRICING

Where products have complements, companies will charge a premium price where the consumer is captured. For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.

Product Bundle Pricing.

Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

PROMOTIONAL PRICING.

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

Geographical Pricing.

Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price.

Value Pricing.

This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. value meals at McDonalds.

3.12 FACTORS INFLUENCING PRICING POLICIES

The factors that businesses must consider in determining pricing policy can be summarized in four categories:

(1) Costs

In order to make a profit, a business should ensure that its products are priced above their total average cost. In the short-term, it may be acceptable to price below total cost if this price exceeds the marginal cost of production – so that the sale still produces a positive contribution to fixed costs.

(2) Competitors

If the business is a monopolist, then it can set any price. At the other extreme, if a firm operates under conditions of perfect competition, it has no choice and must accept the market price. The reality is usually somewhere in between. In such cases the chosen price needs to be very carefully considered relative to those of close competitors.

(3) Customers

Consideration of customer expectations about price must be addressed. Ideally, a business should attempt to quantify its demand curve to estimate what volume of sales will be achieved at given prices

(4) Business Objectives

Possible pricing objectives include:

- To maximize profits
- To achieve a target return on investment
- To achieve a target sales figure
- To achieve a target market share
- To match the competition, rather than lead the market

3.13 STRATEGIES FOR NEW AND ESTABLISHED PRODUCTS

Product pricing strategies frequently depend on the stage a product or service is in its life cycle; that is, new products often require different pricing strategies than established products or mature products

➤ **NEW PRODUCT PRICING STRATEGY.**

Entrants often rely on pricing strategies that allow them to capture market share quickly. When there are several competitors in a market, entrants usually use lower pricing to change consumer spending habits and acquire market share. To appeal to customers effectively, entrants generally implement a simple or transparent pricing structure, which enables customers to compare prices easily and understand that the entrants have lower prices than established incumbent companies.

Complex pricing arrangements, however, prevent lower pricing from being a successful strategy in that customers cannot readily compare prices with hidden and contingent costs. The long-distance telephone market illustrates this point; large corporations have lengthy telephone bills that include numerous contingent costs, which depend on location, use, and service features. Consequently, competitors in the corporate long-distance telephone service market do not use lower pricing as the primary pricing strategy, as they do in the consumer and small-business markets, where telephone billing is much simpler.

Another example is the computer industry. Dell, Fujitsu, HP, and many others personal computer makers offer bundles of products that make it more difficult for consumers to sort out the true differences among these competitors.

➤ **ESTABLISHED PRODUCT PRICING STRATEGY**

Sometimes established companies need not adjust their prices at all in response to entrants and their lower prices, because customers frequently are willing to pay more for the products or services of an established company to avoid perceived risks associated with switching products or services.

However, when established companies do not have this advantage, they must implement other pricing strategies to preserve their market share and profits. When entrants are involved, established companies sometimes attempt to hide their actual prices by embedding them in complex prices. This tactic makes it difficult for customers to compare prices, which is advantageous to established companies competing with entrants that have lower prices. In addition, established companies also may use a more complex pricing plan, such as a two-part pricing tactic. This tactic especially benefits companies with significant market power. Local telephone companies, for example, use this strategy, charging both fixed and per-minute charges.

3.14 STRATEGIC IMPLICATIONS OF PRODUCT LIFE CYCLE

According to the product life cycle a product passes through 4stages, they are:

- **Introduction:** Product has been just introduced to the market – so the price will typically be at the higher end;
- **Growth:** This is the stage in which a products sales increases rapidly – price is set high at the growth phase to skim the market;

- **Maturity & saturation:** Here the product reached optimal sales and plateaus out – price is gradually reduced to maintain market share and meet the threat of competition;
- **Decline:** The product ceases to be popular due to a variety of reasons and decline sets in – price cutting is in full swing to make sure that all inventory is exhausted before market demand runs out, a type of harvesting the market.

The importance of the product life cycle in pricing cannot be understated. Obviously the pricing strategies at the different stages should differ to ensure that profits are maximized.

PRODUCT POSITIONING

The term product positioning has already been explained. It is a very important concept in setting the price of the product. It is clearly very foolish to position a product as a high quality exclusive item, and then price it too low.

Price is one of the clearest signals that the customer has about the value of the product being offered. So there should always be a sensible relationship between the product and the price.

Competition and Potential Competition

Although the product has been well positioned there will always be competitors and it goes without saying that the threat of the competition should be carefully considered. In a situation of high competition it is important to note that competing purely on price is counterproductive. The business should consider all elements of the marketing mix and how they interact to create demand and value for the product should be considered in setting the overall competing strategy.

Some firms launch new products at high prices only to find that they have made the market attractive to competitors who will launch similar products at much lower prices. A lower launch price might make diffusion in the market quicker and allow for greater experience and the margin for a competition enter the market will be reduced.

COSTS

Another key variable in pricing is costing – this is not only the business cost but also the cost to competitors. There are many cost concepts but the two main concepts are marginal cost pricing and full absorption costing.

The conventional economists model of product pricing indicates that pricing should be set at the point where marginal cost is equal to marginal revenues i.e. where the additional cost of production is equal to the additional income earned. The theory is undisputed but considers only price as variable. In the real world there are many more variables than only price.

In practice the cost of production provides key guidelines to many businesses in setting price. This is called the ‘cost plus method’ of pricing where a fixed mark up is added to the price.

CHANNELS OF DISTRIBUTION

The standard product pricing theory does not provide insight to what should be one’s policy toward distributor margins. The distributor performs a number of functions on behalf of the supplier which enables the exchange transaction between the producer and the customer.

There are a number of devices available for compensating the trade intermediaries, most of which take the form of discounts given on the retail selling price to the ultimate customer.

- **Trade discount** – This is the discount made on the list price for services made available by the intermediary. e.g. holding inventory, buying bulk, redistribution etc.
- **Quantity discount** – A quantity discount is given to intermediaries who order in large lots
- **Promotional discount** – This is a discount given to distributors to encourage them to share in the promotion of the products involved.
- **Cash discount** - In order to encourage prompt payments of accounts, a small cash discount on sales price can be offered.

Gaining Competitive Advantage

It is possible to use price as a strategic marketing tool. The aspects of competitiveness have been listed below:

- Reduce the life cycle/ alter the cost mix – customers are often willing to pay a considerably higher initial price for a product with significantly lower post-purchase cost.
- Expand value through functional redesign. E.g. a product that increases customers production capacity or throughput, product that improves quality of the customers product, product that enhances end-use flexibility.
- Expand incremental value by developing associated intangibles. For example service, financing, prestige factors etc.

PREPARING THE PRODUCT PRICING PLAN

We have considered some of the factors that affect the pricing decision. We now have to amalgamate all these decisions into one framework. It has been demonstrated that as a firm develops expertise in producing a particular product the cumulative cost of producing every additional unit falls. This is demonstrated by the learning curve. The effect of the learning curve should be considered in pricing of new products.

There are in principle only two main pricing policies they are price skimming policy and price penetration policy. The factors that should be considered before implementing either policy are given below.

The factors that favour a price skimming policy are:

1. Demand is likely to be price inelastic;
2. There are likely to be different price market segments, thereby appealing to those buyers first who have a higher range of acceptable prices.
3. Little is known about the cost and marketing the product

The variables that favour a price penetration policy are:

1. Demand is likely to be price elastic;
2. Competitors are likely to enter the market quickly;
3. There no distinct price-market segments;
4. There is possibility if large savings in production and marketing costs if large sales volumes can be generated.

MODULE IV

PROMOTION

4.1 MEANING AND DEFINITION.

Promotion is a term taken from Latin word *promovere*. It means 'move towards'. In marketing, promotion means all those tools that a marketer uses to take his product from the factory to the customer and hence it involves advertising, sales promotion, personal selling, and public relation. It is necessary to flow the information about the product from the producer to the consumer either along with the product or well in advance of the introduction of the product. This role is played by promotion.

In the words of Masson and Ruth, "Promotion consists of those activities that are designed to bring a company's goods or services to the favorable attention of customers".

Importance of Promotion:

It may be studied in the following heads:-

1. **Importance to Business:-** Now a days, it is very necessary to communicate information regarding quality, features, price uses etc. of the product to the present and potential customers. Then only the consumers will select the product from a wide range of competing products. Most modern institutions cannot survive in the long run without performing promotion function effectively.
2. **Economic importance:** In economic sense, it helps to generate employment opportunities to thousands of people. As a result of promotion sales will increase and it brings economies in the production process and it reduces the per unit cost of product.
3. **Social importance:** Promotion has become an important factor in the campaign to achieve some socially oriented objectives. For eg. Ad against smoking, drinking etc. It also helpful to provide informative and educational service to the society
4. **Importance to non business organizations:** The non business organizations like govt. agencies, religious institutions, educational institutions etc also realized the importance of promotion and they are using the various elements of promotion mix very widely.

4.2 PROMOTION MIX

Firms select a mix of promotional tools to effectively communicate with their target customer group. The different elements of this group are:

1. Advertising
2. Personal selling
3. Sales Promotion
4. Public relations and
5. Direct Marketing

4.3 FACTORS TO BE CONSIDERED WHILE SELECTING A PROMOTION MIX:

1. **Nature of the Product:-** The product may be consumer product or industrial product, convenient goods or specialty goods, simple or technical goods etc. In each case, the promotion mix element may vary.
2. **Overall marketing strategy:-** It means, whether the firm wishes to “push” the product or create “pull” for the product. Depending upon the strategy, the elements of promotion mix will vary.
3. **Buyer readiness stage:-** The choice of different elements of promotion mix is depend on the buyer’s readiness and awareness of the brand.
4. **Product life cycle stages:-** Different elements of promotion mix were used in different stages of product life cycle.
5. **Market size:-** In narrow market, direct marketing is more effective. For a market having large number of buyers the promotion tool is mainly advertising.
6. **Cost of Promotion elements:-** The cost of different tools is very important while selecting the Promotion mix.

4.4 ADVERTISING

It is a paid form of mass communication and can be traced to an identified sponsor. Now a day s Advertising plays a significant role in awareness creation and attitude formation. In a macro concept, it stands for the managerial function of an organization intending to send information to the other members of the society.

American Marketing Association defined it as, “Any paid form of non –personal presentation of ideas, goods, or services by an identified sponsor.”

In the words of Albert Lasker,” Advertising is salesmanship in print, driven by a reason why?”.

Features of Advertising:

1. It is a mass communication medium.
2. It is a salesmanship in print.
3. It is a paid form of communication by an identified sponsor.
4. It is a non personal communication.
5. It helps to stimulate sales.
6. It may be written or spoken.

ROLE/ ADVANTAGES /IMPORTANCE OF ADVERTISING

Advertising is an integral part of our social and economic system,. As a powerful technique of promoting sales, it has been doing wonders in the domain of distribution. The role of advertising can be analysed from five distinct angles.

1. Manufactures and Advertising(Advantages to Manufactures):

- a. It maintains the existing market and explores the new.
- b. It increases the demand for the product
- c. It helps to build up or increase goodwill of the company.
- d. It controls product price.
- e. It helps to introduce a new product into the market .

2. Middlemen and Advertising(Advantages to Middlemen):

- a. It guarantees quick sales
- b. It acts as a salesman.
- c. It increases the prestige of the dealers.
- d. It makes retail price maintenance possible.
- e. It enables the dealers have a product information.

3. Sales-force and Advertising(Advantages to salesmen)

- a. It creates a colourful background for a salesmen to begin his work.
- b. It reduces his burden of job.
- c. It helps to develop self confidence and initiative among the salesmen.

4. Consumers and Advertising(Advantages to consumers):

- a. It ensures better quality product at reasonable price.
- b. It provides product related information to the customers and thereby makes the purchasing an easy task.
- c. It helps the consumers to save time by providing information related to the availability of product.
- d. Helps the consumers in intelligent buying.

5. Society and Advertising(Advantages to society):

- a. It helps to uplifts t he living standards
- b. It helps to generate gainful employment opportunities.
- c. It provides new horizons of knowledge.
- d. It up-holds the culture of a nation.

THE ADVERTISING COPY

Ad Copy is the soul of any advertisement. An advertisement copy is all the written or spoken matter in an advertisement expressed in words or sentences and figures designed to convey the desired messages to the target consumers. A good ad copy has the following attributes:

1. **It is brief:** Being brief is not dropping words or chopping sentences, It is the work of eliminating and substituting the words with out jeopardizing the meaning.
2. **It is clear:** A clear copy is one which is easily and quickly read and grasp by the readers.
3. **It is apt:** Writing an apt copy is the art of putting in the words that create strong desire to possess the product where the product features satisfy the consumer's desire to possess.
4. **It is honest:** Credibility of an ad message is decided by the extend of honesty.
5. **It is conforming:** Every ad copy is to conform to standards, rules and regulations acceptable to the advertisement media and the laws of the land.

UNIQUE SELLING PROPOSITION(USP)

It is that central idea around which the advertising campaign is built. The big selling idea is known as USP. It is the heart of advertising campaign. It is an offer that an advertiser makes to his consumers which is unique in relation to the competing offer or offers and promises to deliver a certain distinctive package of satisfaction. Eg. MRF company says about its tyres as, 'the tyre with muscles' , "The beauty soap of film stars"(Lux soap).

PRODUCT POSITIONING

It refers to the placement of company product or products in the minds of target consumers relative to the competitive products , as having certain distinctive benefits and want satisfying potential. Positioning represents more a state of mind or image than different ingredients or attributes; such a state of mind is derived from advertising. Advertising is an instrument positioning or repositioning a product or products in the minds of consumers.

4.5 PERSONAL SELLING

Personal selling is the art of convincing the prospects to buy the given products and services. Though it is basically a method of communication, it is two way as it involves direct face to face contact between the salesman and the prospect. It is the ability to convert human needs into wants. It is the process of contacting the prospective buyers personally and persuading them to buy the products.

According to American Marketing Association," Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales; it is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer".

In the words of Garfield Blakde, "Salesmanship consists of winning the buyers confidence for the seller's house and goods, thereby winning the regular and permanent customer."

FEATURES OF PERSONAL SELLING

1. It is one of the important tools for increasing sales.
2. It is a two way communication between salesmen and the prospect.
3. It is a persuading process to buy the goods and services.
4. The objective of personal selling is to protect the interest of both seller and buyer.
5. The essence of personal selling is interpretation of product and service features in terms of benefit and advantages.

PROCESS OF PERSONAL SELLING

Selling is the sequence of steps involved in the conversion of human desire into demand for a product or service. Personal selling process involves the following stages.

1. **Prospecting:** It is the work of collecting the names and addresses of persons who are likely to buy the firm's product or services. While collecting the details, 'suspects' must be separated from 'prospects' to avoid waste of time.
2. **Pre approach:** Pre approach is to get more detailed facts about a specific individual to have effective sales appeal on him or her. It is closer look of prospects like habits, financial status, social esteem, family background, material status, tastes and preferences etc.
3. **Approach:** Approach means the meeting of the prospect in person by the salesmen. It is a face to face contact with the prospect to understand him better.
4. **Presentation and demonstration:** A good sales presentation is one that not only gives all the benefits that the prospect gets but also proves to the latter that he or she will better off after the product is bought and used. An effective sales presentation demands the sales person use skills like presentation and explanation.
5. **Managing objections:** This is the most important stage of personal selling. For every action of salesman there is prospect's pro action or reaction, ie, approval or disapproval. An efficient sales man has the ability to identify the reasons for raising objections by the prospects and the ways to overcome these objections.
6. **Sale:** If all the above stages have been concluded successfully, then the next stage is ultimate sale of the product.

MERITS OF PERSONAL SELLING

1. **Flexibility and adaptability:** It is capable of providing more flexibility and adaptability.
2. **Minimum waste:** The chances of wastage is minimum in case of personal selling while comparing to other methods of sales promotion.
3. **Acts as feedback:** Being in direct contact with the consumers, he can understand the feeling and reactions of the customers. It helps to modify the product according to the requirements of customers.
4. **Creates lasting impression:** It helps to create a long lasting relationship with the customers through the personal contact of salesmen.

LIMITATIONS OF PERSONAL SELLING:

1. **It is expensive:** Personal selling as a method of promotion is quite expensive. Getting salesmen and retaining him for a long period is very difficult and expensive.
2. **Difficulty of getting right kind of salesman:** In practice, it is very difficult to get a trained salesmen from company's point of view.
3. **More administrative problems:** Personal selling involves more administrative problems than impersonal selling.

4.6 SALES PROMOTION

Sales promotion is another major component of promotion mix. The phrase sales promotion has a distinct meaning. It stands for all those activities that supplement, co-ordinate and make more effective the efforts of personal selling and advertising. It collectively comprises of the tools used to promote sales in a given territory and time. It consists of short term incentives designed to achieve a specific marketing goal in the immediate future.

According to American Marketing Association," those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as display, shows and exhibitions, demonstrations and various non-recurrent selling effort in the ordinary routine."

ROLE/ADVANTAGES OF SALES PROMOTION

The role or advantages of sales promotion to various parties like manufactures, middlemen and consumers are given below:

1. Manufacturers and sales promotion:

- (i) It helps to retains the existing customers
- (ii) It helps to create new customers.
- (iii) It promote sales
- (iv) It helps to enhance the goodwill of the firm
- (v) It helps to slashes down the cost
- (vi) It helps to face the competition.

2. Middle men and sales promotion:

- (i) It reduces strain of the middlemen to a greater extend.
- (ii) It helps to increase the sales of middlemen
- (iii) It builds and enhance the goodwill of the shop
- (iv) It gives some personal benefits to the middle men.

3. Consumers and sales promotion:

- (i) It helps to improve the standard of living of people by making available goods and services at least cost.
- (ii) It gives knowledge of new products available in the market.
- (iii) It gives both cash and non cash incentives.

- (iv) It helps to get more credit facility and special concession because of his brand and store loyalty.

DISADVANTAGES OF SALES PROMOTION.

1. It has the shortest life impact as promotion tool like advertisement..
2. It is only a supplementary device of personal selling and advertising
3. In most of the cases, too much sales promotion may damage the brand image.
4. Sales promotion techniques are non-recurring in their nature.

SALES PROMOTION TOOLS (TYPES/KINDS OF SALES PROMOTION)

The sales promotion tools can be seen from the angle of dealers, consumers and sales force.

- 1. Dealer promotion/Trade promotion:** Trade promotion objectives are to motivate market intermediaries to invest in the brand and aggressively push sales. It includes

- (a) **Price deals:** Under this method, special discounts are offered over and above the regular discounts.
- (b) **Free goods:** Here, the manufactures give attractive and useful articles as presents to the dealers when they buy a certain quantity.
- (c) **Ad Materials:** In this case, the manufacturer distributes some ad materials for display purpose.
- (d) **Trade allowance:** It includes buying allowance, promotional allowance and slotting allowance.
- (e) **Dealer contests:** It is a competition organized among dealers or salesmen.
- (f) **Trade shows:** Trade shows are used to familiarize a new product to the customers.

- 2. Consumer Promotion:** The broad objective of consumer promotion is to create pull for the brand and it includes-

- (a) **Rebates:** Simply it is a price reduction after the purchase and not at the retail shop.
- (b) **Money refund offer:** Here, if the customer is satisfied with the product, a part or whole of the money will be refunded.
- (c) **Samples:** While introducing a new product, giving samples to the customers at their doorstep.
- (d) **Price packs:** In this method the customer is offered a reduction from the printed price of product.
- (e) **Premium offer:** Here goods are offered at a lower price or free as an incentive to purchase a special product.
- (f) **Consumer contests:** Various competitions are organized among the customers. The winners are given prizes.
- (g) **Free trials:** In this case, inviting the buyers to try the product without cost.

- 3. Sales force promotion:** It includes

- (a) **Sales force contests:** Sales contests are declared to stimulate the sales force increase their selling interest.
- (b) **Bonus to sales force:** Bonus is the extra incentive payment made for those who cross the sales quota set for a specific period.

- (c) **Sales meeting conventions and conferences:** Sales meeting and conferences are conducted with a view to educate, train and inspire the salesmen.

4.7 PUBLIC RELATION

It is the actions of a corporation, store, government, individuals, etc. in promoting goodwill between itself and the public, the community, employees, customers, etc. It can be defined as the practice of managing communication between an organization and its public. Public relation is used to build rapport with employees, customers, investors, or the general public. This method of marketing does not aim at promoting a single product/service but the company as a whole.

This is done by spreading a positive feel about the company through various stories and articles or positive feedback from customers about the company in different media channels. In comparison to advertising, PR is a very cost effective method of marketing. A full page advertisement of a product may fail to attract customers attention, but a positive response about the same from a satisfied customer when appears in the form of an article in the same news paper will work wonders for the company. PR is quite understandably considered as a very genuine method of marketing. It creates a favorable atmosphere for conducting business of the firm.

According to UK Institute of Public relation, “It is the deliberately planned and sustained efforts to establish and maintain mutual understanding between the organisation and its public.”

Advantages of Public relations:

1. **Credibility:** The information communicated through public relation department is more reliable and it has more credibility. **For eg.**an article in newspapers or magazines discussing the virtues of aspirin may be perceived very much as more credible than an ad for a particular brand of aspirin.
2. **Cost:** In both absolute and relative terms, the cost of PR is very low, especially when the possible effects are considered. While a firm can employ advertisement agencies and spend millions of dollars on advertisements, for smaller companies, this form of communication may be the most affordable alternative available.
3. **Lead Generation :** Information about the technological innovations, medical breakthrough and the like results almost immediately in a multitude of inquiries. These inquiries may give the firm some quality sales lead.
4. **Ability to reach specific groups:** Because some products appeal to only small market segments, it is not feasible to engage in advertising and / or promotions to reach them. If the firm does not have the financial capabilities, to engage in promotional expenditures, the best way to communicate to these groups is through PR.
5. **Image Building:** Effective PR helps to develop positive image for the organization. A strong image is insurance against later mis-fortunes.
6. **Stimulate awareness:** Public relation techniques helps to stimulate awareness among the customers regarding the products of the company and thereby creating demand for your product.

Functions of public relations

The functions of public relations is given below:-

1. Creating awareness for a company or client and building a positive image for them through articles and stories in the various channels of media.
2. Keeping an eye on all media channels for any public feedback on the client company or its products.
3. Crisis management in cases where the company may be endangered.
4. Building goodwill and rapport with customers through special events, charity and community work.

Types of public relation tools:

The important types of tools available to carry out the public relations function include:

1. Media Relations
2. Media Tours
3. Newsletters
4. Special Events
5. Speaking Engagements
6. Sponsorships
7. Employee Relations
8. Community Relations and Philanthropy

FACTORS AFFECTING PROMOTION MIX DECISIONS

Promotion mix includes all those activities undertaken to promote sales. There are two types of promotion blend – Push blend and Pull blend. A push blend is related to personal selling and an Pull blend give emphasis on impersonal selling. There are many factors which influence the promotion mix. The important factors among them are briefly explained below:-

1. **Nature of the Market:** It is an important factor which affect the promotion mix. Depending up on the customers the promotion strategy may vary. For individual customers the strategy may vary according to the age, sex, income etc. For industrial customers it directly depends up on size of the company, bargaining power etc.
2. **Nature of the Product:** Depending up on the nature of product, the promotion mix may vary. For marketing consumer goods, a mass advertisement is necessary. But at the same time marketing of industrial goods and speciality goods requires personal selling. Complex and complicated products are also require personal selling.
3. **Market size:** If the market size is comparatively very small, then direct selling is used. For a market having large number of buyers, advertising is the most suitable promotion tool.

4. **Buyer readiness stage:** The choice of different elements of the promotion mix is also dependent on the buyer's readiness and awareness of the brand. Advertising will play a major role in creating awareness, while demonstration and samples will help to bring about a change in the behavioral level.
5. **Overall marketing strategy:** It means, whether the firm wishes to "push" the product or create a "pull" for the product. Often the marketing strategy of a firm is a combination of both these strategies.
6. **Product life cycle stages:** This will also play a role in deciding on the promotion mix. For eg. In the introduction stage, advertising and publicity are very important. But in the maturity stage, sales promotion and personal selling are very necessary.
7. **Cost :** Cost of promotion element is also very important. If the total cost incurred for using a particular element of promotion tool is not affordable to the manufacturer, then it is better to select the next best promotion mix.

4.8 DIRECT MARKETING

Direct marketing is a channel-agnostic form of advertising that allows businesses and non profits organisation to communicate straight to the customer, with advertising techniques such as mobile messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising. Direct marketing is practiced by businesses of all sizes — from the smallest start-up to the leaders on the Fortune 500. A well-executed direct advertising campaign can prove a positive return on investment by showing how many potential customers responded to a clear call-to-action. Direct marketing is concerned with establishing an individual relationship between the business offering a product or service and the final customer.

Direct marketing has been defined by the Institute of Direct Marketing as "The planned recording, analysis and tracking of customer behaviour to develop a relational marketing strategies"

Direct Marketing Channels

Any medium that can be used to deliver a communication to a customer can be employed in direct marketing and it includes:

1. **Email Marketing:** Sending marketing messages through email is one of the most widely used direct-marketing methods. According to one study email is used by 94% of marketers, while 86% use direct mail.
2. **Mobile Marketing:** Through mobile marketing, marketers engage with prospective customers and donors in an interactive manner through a mobile device or network, such as a cell phone, smart phone, or tablet. Types of mobile marketing messages

include: SMS: (short message service) — marketing communications are sent in the form of text messages, also known as texting. MMS: (multi-media message service)

- 3. Direct Mail:** The term "direct mail" is used to refer to communications sent to potential customers or donors via the postal service and other delivery services. Direct mail is sent to customers based on criteria such as age, income, location, profession, buying pattern, etc.

Direct mail includes advertising circulars, catalogs, free-trial CDs, pre-approved credit card applications, and other unsolicited merchandising invitations delivered by mail to homes and businesses.

- 4. Telemarketing:** Another common form of direct marketing is telemarketing in which marketers contact customers by phone. The primary benefit to businesses is increased lead generation, which helps businesses increase sales volume and customer base.
- 5. Voicemail Marketing:** Voicemail marketing emerged out of the market prevalence of personal voice mailboxes, and business voicemail systems. Voicemail marketing presented a cost effective means by which to reach people directly, by voice
- 6. Direct Response TV :** Direct marketing via television (commonly referred to as DRTV) has two basic forms: long form (usually half-hour or hour-long segments that explain a product in detail and are commonly referred to as infomercials) and short form, which refers to typical 30-second or 60-second commercials that ask viewers for an immediate response (typically to call a phone number on screen or go to a website).
- 7. Catalogue marketing:** In catalogue marketing , an organisation provides a catalogue from which customers make selection and place orders by mail or telephone. It involves selling of products through catalogues mailed to selected customers.

MODULE V

DISTRIBUTION

5.1 MEANING AND DEFINITION

Creating a customer is a major task of marketing but delivering the goods to the customer so created is the most critical task. Physical distribution is a marketing activity that concerns the handling and the movement of goods. It is a major component of marketing mix and cost area of business.

In the words of Phillip Kotler, “Physical distribution involves planning, implementing and controlling the physical flow of materials, and final goods from the point of origin of use to meet customer needs at a profit.”

It involves the coordination of activities to place the right quantity of right goods at the desired place and time. Like any other marketing mix component, physical distribution has two broad objectives to attain, namely, consumer satisfaction and profit maximization. Physical distribution is not only a cost but a powerful tool of competitive marketing.

Meaning of Channel of distribution:

A channel of distribution is an organized network or system of agencies and institutions, which, in combination, perform all the activities required to link producers with users and users with producers to accomplish the marketing task.

According to Phillip Kotler, “It is a set of independent organizations involved in the process of making a product or service available for use or consumption.” Thus, a channel of distribution is a path way directing the flow of goods and services from producers to consumers composed of intermediaries through their functions and attainment of the mutual objectives.

Difference between Physical distribution and Channel of Distribution

These are the two component of the distribution system. Physical distribution is a broader concept, it includes channel of distribution. Physical distribution is concerned with transportation, storage, warehousing, etc, where as channel of distribution refers to the process or intermediaries through which goods move from the producer to the ultimate consumer.

5.2 ROLE/IMPORTANCE OF PHYSICAL DISTRIBUTION SYSTEM

The physical distribution system has a definite role. It provides a new orientation for marketing. The following points will reveal the role of physical distribution system.

1. **Creation of Utilities:** Creation of or addition of utility is addition of value to a thing. The major component of physical distribution are transportation and warehousing. It is transport system that creates place utility, making goods more useful by bringing them from the places where they are not needed. Warehousing system is known for creating time utility.

2. **Improved consumer services:** Customer service in physical distribution system consists of providing products at the time and location corresponding to the customer needs. High level of customer satisfaction can be possible through a viable distribution system that takes into account the factors that affect customer service such as time, dependability, communication etc.
3. **Cut in distribution cost:** The prices paid by the customer consists of not only production costs but also delivery cost. Delivery cost can be minimized by systematic planning in inventory levels, warehousing location and operation, transportation schedule and modes, material handling, order processing and communication.
4. **Increased market share:** There are definite ways in which an efficient physical distribution system can contribute towards the objective of increased market share. It is possible by decentralizing its warehousing operations, devise the combination of efficient and economic means of transport, planning inventory operations to avoid stock outs etc.
5. **Price stabilization:** It can contribute considerably to the attainment of price stabilization. It is the best use of available transport and warehousing facilities that can bring about amicable and matching adjustment between the demand for and supply of goods thus preventing price fluctuations.

5.3 LEVELS OF CHANNEL

This indicates the number of intermediaries between the manufactures and consumers. Mainly there are four channel levels. They are:

1. **Zero level channel:-** Here the goods move directly from producer to consumer. That is, no intermediary is involved. This channel is preferred by manufactures of industrial and consumer durable goods.
2. **One level channel:** In this case there will be one sales intermediary ie, retailer. This is the most common channel in case of consumer durable such as textiles, shoes, ready garments etc.
3. **Two level channel:** This channel option has two intermediaries, namely wholesaler and retailer. The companies producing consumer non durable items use this level.
4. **Three level channel:** This contains three intermediaries. Here goods moves from manufacture to agent to wholesalers to retailers to consumers. It is the longest indirect channel option that a company has.

FACTORS DETERMINING THE LENGTH OF THE CHANNEL:

The following factors will determine the length of the channel of distribution.

1. **Size of the market:** The larger the market size, longer the channel. Conversely the smaller the market, smaller the channel.
2. **Order lot size:** If the average order lot size is small, it is better to have a longer channel and vice –versa.

3. **Service requirements:** If the product and market require a high level of service, and it a major factor in the buying decision, it is better to keep a shorter channel.
4. **Product variety:** If a wide variety of the same type of product available in the market, then it is advisable to select a wider channel.

5.4 TYPES OF INTERMEDIARIES

Marketing intermediaries are the individuals and the organizations that perform various functions to connect the producers with the end users. These middlemen are classified into three:

1. Merchant middlemen, who take title to the goods and services and resell them.
2. Agent middlemen, who do not take title to the goods and services but help in identifying potential customers and even help in negotiation.
3. Facilitators, to facilitate the flow of goods and services from the producer to the consumer, without taking a title to them. Eg. Transport companies

MERCHANT MIDDLEMEN

Merchant middlemen are those who take title to the goods and channelize the goods from previous step to the next step with a view to making profit. They buy and sell goods in their own risk and the price for their effort is profit. They act as an intermediaries between producers and consumers. These merchant middlemen are broadly classified into wholesalers and retailers.

Wholesalers:

Wholesaler is a trader who deals in large quantity. He purchases goods from the producers in bulk quantity and sell it to the retailers in small quantity. According to American Management Association, “wholesalers sells to retailers or other merchants and/or individual, institutional and commercial users but they do not sell in significant amounts to ultimate consumers.”

Functions of wholesalers

1. **Assembling and buying:** It means bringing together stocks of different manufactures producing same line of goods, and making purchases in case of seasonal goods.
2. **Warehousing:** The warehousing function of the wholesalers relieves both the producers and the retailers from the problem of storage.
3. **Transporting:** In the process of assembling and warehousing, the wholesaler do undertake transportation of goods form producers to their warehouse and back to retailers
4. **Financing:** They grant credit on liberal terms to retailers and taking early delivery of stock from the manufacturers to reduce their financial burden.
5. **Risk bearing:** Wholesaler bear the risk of loss of change in price, deterioration of quality, pilferage, theft. Fire etc.

6. **Grading, Packing and packaging:** By grading they sort out the stocks in terms of different size, quality shape and so on.
7. **Dispersing and selling:** Dispersing the goods already stored with them to the retailers.
8. **Market information:** Finally providing the market information to the manufactures

Services of wholesalers:

A. Services to Manufacturers:

1. The wholesaler helps the manufacture to get the benefit of economies of large scale production.
2. Wholesalers helps the manufactures to save his time and trouble by collecting orders from large number of retailers on behalf of the manufactures.
3. The wholesaler provides market information to the manufactures which will helps him to make modifications in his product.
4. The wholesaler buys in large quantities and keeps the goods in his warehouses. This relieves the manufacturer the risk of storage and obsolescence.
5. The wholesales helps to maintain a steady prices for the product by buying the product when the prices are low and selling when the prices are high.

B. Services to Retailers:

1. He gives valuable advices to the retailers on his business related matters.
2. He helps the retailer to get the goods very easily and quickly.
3. He render financial assistance to the retailer by granting credit facilities.
4. The wholesalers bears the risk associated with storage and distribution of goods to a certain extend.
5. The wholesaler helps the retailers to keep price steady.

5.5 RETAILERS:

The term 'retail' implies sale for final consumption. A retailer is the last link between final user and the wholesaler or the manufacturer. According to Professor William Standton, "retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non business use." In other words retailer is one whose business is to sell consumers a wide variety of goods which are assembled at his premises as per the needs of final consumers. In India, Most of the Indian retail outlets are owner managed and have few or no sales assistant. Most important issues of these outlets are those of inventory management and funds management.

Functions of retailers:

1. **Buying and Assembling:-** A retailer buys goods from the best and most dependable wholesalers and assemble the goods in a single shop.
2. **Warehousing:** It helps the retailer to ensure adequate and uninterrupted supply of goods
3. **Selling:** A retailer sells the products in small quantities to the needy consumers.

4. **Risk bearing:** It is the basic responsibility of a retailer to bear the risk arising out of physical deterioration and changes in prices.
5. **Sales promotion:** Retailer undertakes some sales promotion through displaying of goods in the shop, distribution of sales literature, introduction of new product etc.
6. **Financing:** A retailer granting credit in liberal terms to the consumer and it helps the consumers a lot to purchase the required goods.
7. **Supply of market information:** As being in close and constant touch with the consumers, a retailer can supply the market related information to the wholesalers and manufactures at the earliest.
8. **Grading and Packing:** Retailers undertake second round grading and packing activities left by the manufacturers and wholesalers.

Services rendered by Retailers:

A retailer render a number of services to the manufacturers, wholesalers and to the final users. These services are outlined below:-

A. Services to the manufactures and wholesalers:

- (1). **Providing information:** Retailer do provide the wholesalers and manufactures the information about the latest consumer movements and it helps the manufactures to produce goods according to the needs of consumers.
- (2) **Looks after the distribution process:** A retailer, in general, looks after the entire distribution process and it helps the manufactures to concentrate on production.
- (3) **Creation of demand:** By giving local ad and display of goods, retailers helps to create demand for the goods.
- (4) **A big relief:** A retailer gives a relief to the manufacturers and wholesalers from the problem of selling goods in small quantities.

B. Services to the consumers:

- (1) **No need to store goods:** A retailer holds goods on behalf of the customers at a convenient place and in convenient lot. Hence, the consumer need not buy and stock in large quantity.
- (2) **Largest choice:** Retailers collects products of different manufactures and it enables the consumers to have a largest choice at cost, quality and so on.
- (3) **Providing information:** A retailer supplies information about the introduction of a new product in the market and its features.
- (4) **Granting credit:** Most of the retailers granting credit facilities to regular customers.
- (5) **After sale services:** In certain cases a retailer provides after sales services to the ultimate consumers to ensure the customers shop loyalty.

TYPES OF RETAILERS

The retailers can be classified in to Small scale retailers and large scale retailers:

1. **Small Scale Retailers:** It includes

- (a) **Unit stores:** These are the retail stores run on proprietary basis dealing in general stores or single line stores.
- (b) **Street traders:** They are the retailers who display their stock on foot paths or the side walks of the busy street.
- (c) **Market traders:** These retailers open their shops on fixed days or dates in specified areas. The time interval may be week, or a month.
- (d) **Hawkers and pedlars:** This type of retailers do not have any fixed place of business. They carry goods from one place to another. They keep on moving from locality to locality.
- (e) **Cheap-jacks:** Cheap jacks is retailer who has fixed place of business in a locality but goes on changing his place to exploit the market opportunities.

2. **Large scale retailers:** It includes

- (a) **Departmental stores:** A departmental stores carries several product line, invariably all that is required by a typical house hold. It includes food, clothing, appliances, other house hold goods, furnishings and gifts etc. It is a central location and a unified control. In a typical department store each product line is managed independently by specialist buyers.
- (b) **Multiple shops:** It is a chain of retail store dealing in identical and generally restricted range of articles operating in different localities under central ownership and control. It works on the principles of centralized buying and administration and decentralized selling. It is also known as chain store.
- (c) **Mail order houses:** Here, the customers do not visit the seller's premises and there is no personal inspection of goods before the purchase. Orders are received from customers through post and the goods are also sold through post. The transaction is settled through postal medium. Eg. Leather goods, ready made garments etc.
- (d) **Consumer co-operatives:** These are the stores owned by a group of consumers themselves on co-operative principles. Here the store purchasing in bulk quantity and sells it to the consumers at a reasonable price. It is formed to eliminate the exploitation of middlemen.
- (e) **Super markets:** This is a large, low cost, low margin, high volume, self service operation designed to serve customer's need for food laundry and house hold products. The wide range of product mix carried by these stores make them a favorite retail outlet.
- (f) **Discount stores:** Discount stores are the ones that sell standard merchandise at lower prize than conventional merchants by accepting lower margins but pushing for higher sales volume.

- (g) **Convenience store:** These are generally food stores that are much smaller in size than in supermarkets. They are conveniently located in residential areas. Due to a high degree of personalized service and home delivery by store clerk, these stores fill in a very important need of a house wife.
- (h) **Speciality store:** These are ones that carry a narrow product line with a deep assortment within that line. According to some marketing thinkers, the future scenario belongs to super speciality store as they provide increasing opportunities for market segmentation, focused marketing, and creation of brand equity.

5.6 FACTORS INFLUENCING CHOICE OF DISTRIBUTION CHANNEL:

It is very important to select a channel for the distribution of goods and services to the ultimate consumers in an effective way. The marketer has to select the most suitable channel. While selecting the channel of distribution, the marketer has to consider the following factors:

1. **Nature of Product:** The selected channel must cope up with perishability of the product. If a commodity is perishable, the producer prefers to employ few middlemen. For durable and standardized goods, longer and diversified channel may be necessary. If the unit value is low, intensive distribution is suggested. If the product is highly technical, manufacturer is forced to sell directly, if it is not highly technical, intensive distribution can be selected. Seasonal products are marketed through wholesalers.
2. **Nature of market:** If the market is a consumer market, then retailer is essential. If it is an industrial market, we can avoid retailer. If consumers are widely scattered large number of middlemen are required. When consumers purchase frequently, more buyer seller contacts are needed and middlemen are suggested.
3. **Competitors' Channel:** The distribution channel used by the competitors will influence the channel selection. There is nothing wrong in copying the channel strategy of the competitor if it is a right one.
4. **The financial ability of channel members:** Before selecting the channel, the manufacturer has to think about the financial soundness of the channel members. In most of the cases financial assistance is required to the channel members in the form of liberal credit facilities and direct financing.
5. **The Company's financial position:** A company with a strong financial background can develop its own channel structure. Then there is no need to depend on other channel intermediaries to market their product.
6. **Cost of Channel:** The cost of each channel may be estimated on the basis of unit sale. The best type of channel which gives a low unit cost of marketing may be selected.
7. **Economic factors:** The economic conditions prevailing in the country have bearing on channel selection decision. During the period of boom, it is better to depend on channels directly. During the periods of deflation direct relation with the consumers is desirable.
8. **The legal restrictions:** Before giving the final shape to channels of distribution, we have to consider the existing legal provisions of the various Acts. For eg. MRTP Act prevents

channel arrangements that tend to lessen competition, create monopoly and those are objectionable to the very public interest.

9. **Marketing policy of the company:** The marketing policy of the company have a greater and deeper bearing on the channel choice. The marketing policies relating to channels of distribution are advertising, sales promotion, delivery, after sale service and pricing. A company has a heavy budget on advertising and sales promotion, the channel selected is bound to be direct as it requires a few layers of people to push the product.

5.7 ELECTRONIC MARKETING

EMAIL MARKETING

It is a form of direct marketing which uses electronic mail as a means of communicating commercial or fund-raising messages to an audience. In its broadest sense, every email sent to a potential or current customer could be considered email marketing. However, the term is usually used to refer to:

- sending email messages with the purpose of enhancing the relationship of a merchant with its current or previous customers, to encourage customer loyalty and repeat business,
- sending email messages with the purpose of acquiring new customers or convincing current customers to purchase something immediately,
- adding advertisements to email messages sent by other companies to their customers, and
- sending email messages over the Internet, as email did and does exist outside the Internet (e.g., network email and FIDO).

INTERNET MARKETING

It is also known as *digital marketing, web marketing, online marketing, search marketing or e-marketing*, is referred to as the marketing (generally promotion) of products or services over the Internet. iMarketing is used as an abbreviated form for Internet Marketing.

- Internet marketing is considered to be broad in scope because it not only refers to marketing on the Internet, but also includes marketing done via e-mail and wireless media. Digital customer data and electronic customer relationship management (ECRM) systems are also often grouped together under internet marketing.
- Internet marketing ties together the creative and technical aspects of the Internet, including design, development, advertising, and sales. Internet marketing also refers to the placement of media along many different stages of the customer engagement cycle through search engine marketing (SEM), search engine optimization (SEO), banner ads on specific websites, email marketing, mobile advertising, and Web 2.0 strategies.
- In 2008, *The New York Times*, working with comScore, published an initial estimate to quantify the user data collected by large Internet-based companies. Counting four types of interactions with company websites in addition to the hits from advertisements served

from advertising networks, the authors found that the potential for collecting data was up to 2,500 times per user per month.

5.9 TRADITIONAL MARKETING VS E-MARKETING

Marketing has pretty much been around forever in one form or another. Since the day when humans first started trading whatever it was that they first traded, marketing was there. Marketing was the stories they used to convince other humans to trade. Humans have come a long way since then, (Well, we like to think we have) and marketing has too.

The methods of marketing have changed and improved, and we've become a lot more efficient at telling our stories and getting our marketing messages out there. E Marketing is the product of the meeting between modern communication technologies and the age-old marketing principles that humans have always applied.

THE BENEFITS OF E-MARKETING OVER TRADITIONAL MARKETING

- **Reach**

The nature of the internet means **businesses now have a truly global reach**. While traditional media costs limit this kind of reach to huge multinationals, eMarketing opens up new avenues for smaller businesses, on a much smaller budget, to access potential consumers from all over the world.

- **Scope**

Internet marketing allows the marketer to reach consumers in a wide range of ways and enables them to offer a wide **range of products and services**. eMarketing includes, among other things, information management, public relations, customer service and sales. With the range of new technologies becoming available all the time, this scope can only grow.

- **Interactivity**

Whereas traditional marketing is largely about getting a brand's message out there, eMarketing facilitates conversations between companies and consumers. With a **two-way communication channel**, companies can feed off of the responses of their consumers, making them more dynamic and adaptive.

- **Immediacy**

Internet marketing is able to, in ways never before imagined, **provide an immediate impact**. Imagine you're reading your favorite magazine. You see a double-page advert for some new product or service, maybe BMW's latest luxury sedan or Apple's latest iPod offering. With this kind of traditional media, it's not that easy for you, the consumer, to take the step from hearing about a product to **actual acquisition**.

With e Marketing, it's easy to make that step as simple as possible, meaning that within a few short clicks you could have booked a test drive or ordered the iPod. And all of this can happen regardless of normal office hours. Effectively, Internet marketing makes business hours 24 hours per day, 7 days per week for every week of the year.

By closing the gap between providing information and **eliciting a consumer reaction**, the consumer's buying cycle is speeded up and advertising spend can go much further in creating immediate leads.

- **Demographics and Targeting**

Generally speaking, the demographics of the Internet are a marketer's dream. Internet users, considered as a group, have **greater buying power** and could perhaps be considered as a population group skewed towards the middle-classes.

Buying power is not all though. The nature of the Internet is such that its users will tend to organise themselves into far more focussed groupings. Savvy marketers who know where to look can quite easily find **access to the niche markets** they wish to target. Marketing messages are most effective when they are presented directly to the audience most likely to be interested. The Internet creates the perfect environment for niche marketing to targeted groups.

- **Adaptivity and Closed Loop Marketing**

Closed Loop Marketing requires the **constant measurement and analysis** of the results of marketing initiatives. By continuously tracking the response and effectiveness of a campaign, the marketer can be far more dynamic in adapting to consumers' wants and needs.

With e Marketing, responses can be **analyzed in real-time** and campaigns can be tweaked continuously. Combined with the immediacy of the Internet as a medium, this means that there's **minimal advertising spend** wasted on less than effective campaigns.

Maximum marketing efficiency from e Marketing **creates new opportunities** to seize strategic competitive advantages. The combination of all these factors results in an improved ROI and ultimately, more customers, happier customers and an improved bottom line.

5.9 E- ADVERTISING

E-advertising is defined as the placement of electronic messages on a website or in e-mail to:

- Generate awareness for a brand
- Stimulate interest/preference for a product or service
- Provide the means to contact the advertiser for information to make a purchase

"E-advertising" is unique in that it can provide a one-tool process from introduction of a product to close of sale. Traditional advertising requires that the consumer take some action to make a purchase... call a phone number, mail a coupon, go into a store, etc. Electronic advertising allows a company to develop a tool capable of closing the sale by offering a "click here" button... the consumer need never get out of their chair.

The Web has become a pathway through multiple access points created to allow consumers to compare goods and services from one company to the next - with the click of a mouse. The ease of information flow has required some retailers and service organizations to re-think the way that they distribute information about their product, thus requiring integration between traditional and interactive advertising and marketing techniques.
