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NAVSARI AGRICULTURAL UNIVERSITY

ASPEE AGRIBUSINESS MANAGEMENT INSTITUTE

Navsari Agricultural University

Navsari-396450

COURSE No.: ABM-507

COURSE CREDIT: 3+0=3

INSTRUCTIONAL MANUAL

MARKETING MANGEMENT

Compiled by

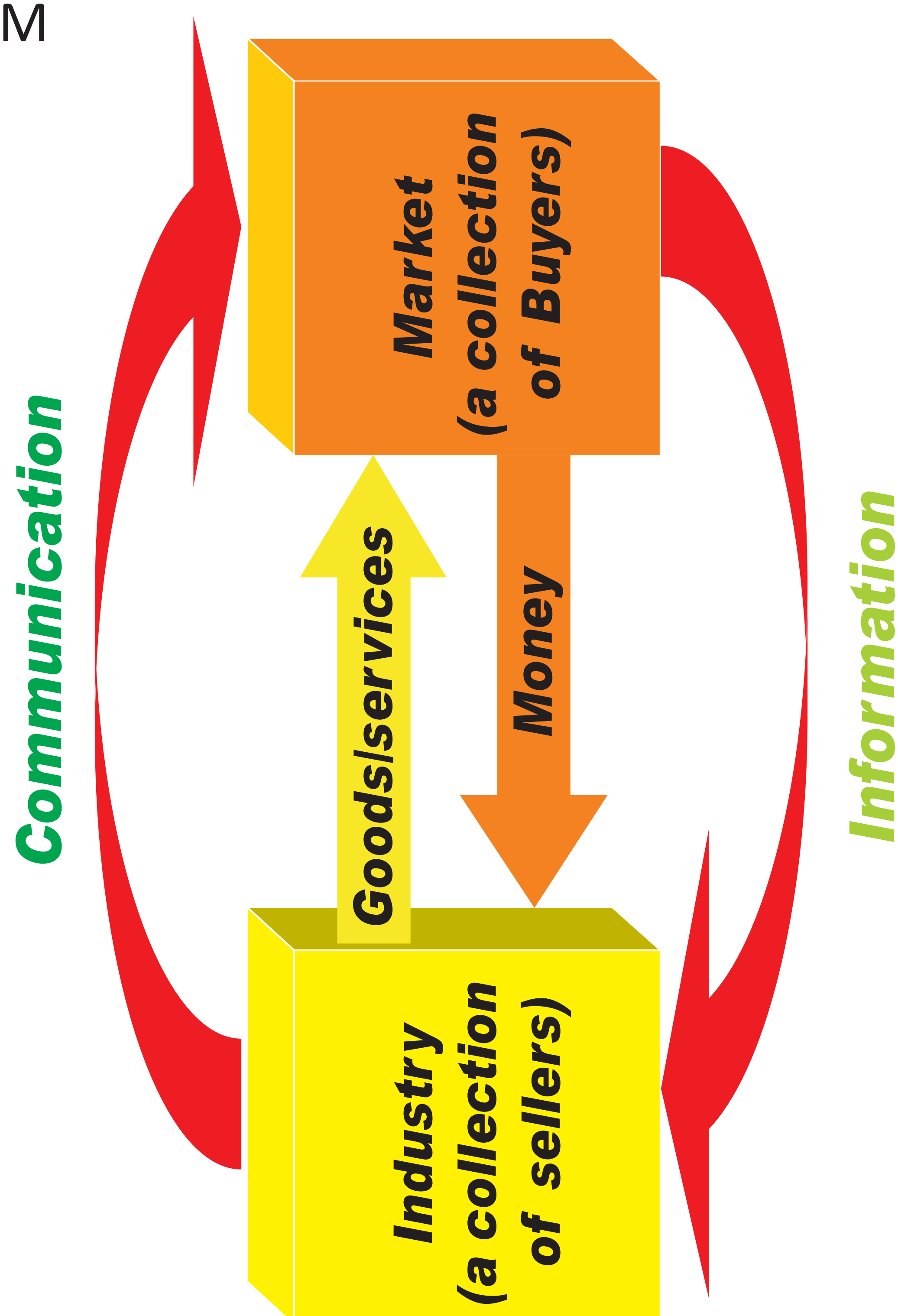
Dr. Ruchira Shukla

Department of Agribusiness Marketing, AABMI

Name of Student: ____________________________

Registration No.: ______________ Roll No.: ________

SIMPLE MARKETING SYSTEM



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FOREWORD

Agriculture sector needs 'Well-functioning Market' to drive growth, employment and economic prosperity. Marketing is as critical to better performance in agriculture as farming itself. Farmers should be helped in marketing their agricultural produce at fair price and remunerative returns to them should be ensured. Regulating trade of agricultural produce most effectively and also by devising and implementing new technologies to reduce post harvest losses through appropriate post-harvest operations including grading, value addition, packaging, processing and transportation are important so as to get remunerative price to the farmers.

The agribusiness marketing chain typically consists of a primary market where farmers sell their product to wholesalers, wholesale markets where these products are sold to processors, and retail markets where consumers buy finished foods. There are often additional intermediaries in emerging markets, including village collectors who buy local farmers' output and resell it to wholesalers, as well as sub wholesalers who operate between wholesalers and retailers. Farmers in emerging markets have much to gain from capturing some of the substantial value-added along the agribusiness chain, beyond their own primary production. Population growth, increased incomes, and urbanization are expanding these marketing opportunities throughout the value chain.

Considering the importance of this Marketing management subject for Agribusiness students this instructional manual has been designed to give proper coverage of modern concepts of marketing management as applied to agriculture markets. The focus will be on imparting knowledge of the basic concepts, tools, and functions of marketing.This Instructional manual on marketing management focuses on Four “P” Approach and consumer orientation as applied to marketing. I am confident that this manual will be very helpful to the students of agribusiness management and marketing at post graduate level to understand the basic concepts of marketing with a consumer and market orientation.An attempt has been made in this instructional manual by authors to compile the available up-to-date information in the most easily understandable manner.

Date: 30-11-18

H. R. Pandya
Dean, AABMI

Ruchira A. Shukla
Associate Professor (Marketing)

PREFACE

Marketing systems are very dynamic; they are competitive and involve continuous change and improvement. Businesses that have lower costs, are more efficient, and can deliver quality products, are those that prosper. Those that have high costs, fail to adapt to changes in market demand and provide poorer quality are often forced out of business. Marketing has to be customer-oriented and has to provide the farmer, transporter, trader, processor and all involved in agri value chain with a profit. This requires those involved in marketing chains to understand buyer requirements, both in terms of product and business conditions.

New marketing linkages between agribusiness, large retailers and farmers are gradually being developed, e.g. through contract farming, group marketing and other forms of collective action. Farmers frequently consider marketing as being their major problem. Successful marketing requires learning new skills, new techniques and new ways of obtaining information.

My prime objective is to ensure that the instructional manual helps the students of Agribusiness Management to learn and practice the various aspects of Marketing Management. I have tried to collect and compile useful information about this very important subject for the students of Agribusiness Management.

I would like to express my gratitude to all those who provided support, talked things over, read, wrote, offered comments and assisted in the editing, proof reading and design.

My deepest thanks to Honourable Vice Chancellor of Navsari Agricultural University for providing constant encouragement and inspiration for preparation of quality instructional material. I am heartily grateful to the Director of Research and Dean PG Studies at Navsari Agricultural University for providing constant encouragement which helped in developing a confidence which was much needed for preparation of Instructional manual. I am grateful to the Principal of the Institute Dr, H,R.Pandaya for providing valuable suggestions and constant encouragement during the preparation of the manuscript.

I am grateful to all my well wishers and friends who have always appreciated and encouraged my efforts. My Colleagues at ASPEE Agribusiness Management Institute have provided necessary support, encouragement and constructive suggestions for the preparation of manuscript which is gratefully acknowledged. I am thankful to my students in the classroom whose queries and curiosities have helped me better understand their requirements.Lastly I shall be glad to receive constructive comments, suggestions and corrections from seniors ,colleagues and students.

Ruchira

Ruchira A. Shukla
Associate Professor (Marketing)

Date: 30-11-18

Syllabus

ABM-507 | **Marketing Management** | **Credit 3+0**

Objective

The objective of this course is to develop an understanding of the field of marketing. The focus will be on imparting knowledge of the basic concepts, tools, and functions of marketing.

Contents

- **UNIT I**
  The Concept of Marketing Management; Marketing Environment; Marketing Mix, Strategic Marketing, Market Segmentation, Targeting, and Positioning; Buyer Behavior, Marketing Information System, Marketing Organization and Control

- **UNIT II**
  Marketing potential and forecasting, Classification of Products; Product Life Cycle; New Product Development; Product Line and Product Mix; Branding, Packaging and labeling.

- **UNIT III**
  Factors affecting prices; Pricing Policies and Strategies; Pricing Methods.

- **UNIT IV**
  Types of Distribution Channels; Functions of Channel Members; Channel Management Decisions.

- **UNIT V**
  Promotion Mix; Introduction to Advertising, Personal Selling, Sales Promotion, Publicity and Public Relations. and Direct marketing, Managing integrated marketing promotion, Customer Relationship Management.

Suggested Readings

- Brassington 1997. *Marketing Management.* Pitman Publ. House.
- Kotler P. 2002. *Marketing Management – Analysis, Planning, Implementation and Control*. Pearson Edu.
- McCarthy 2003. *Marketing Management*. Tata McGraw -Hill.
- Saxena R. 2002. *Marketing Management*. Mc Graw Hill.
- Stanton WJ, Etzel MJ & Walker BJ. 1996. *Fundamentals of Marketing*. McGraw-Hill.

INDEX

CHAPTER 1 : INTRODUCTION TO MARKETING MANAGEMENT

Good marketing is no accident but a result of careful planning and execution. Financial Success depends upon marketing ability. Marketing is both Art and Science.

1.1 WHAT IS MARKETING?

'Marketing is a social and managerial process by which individuals and groups obtain what they want and need through creating, offering and exchanging products of value with others' - *Philip Kotler*

The American Marketing Association (AMA) uses the following: "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 objectives."

Management definition

It is the process of **planning** and **executing** the **product, pricing, promotion** and **distribution** of ideas, goods and services to **create exchanges** that satisfy **individual and organizational goals.**

Social definition

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

Shortest definition of marketing is "Meeting needs profitably"

Marketing is applicable to services and ideas which are intangibles as well as to tangible products.

Marketing involves finding out what your customers want and supplying it to them at a profit.

This stresses two important points:

- The marketing process has to be **customer oriented**;
- Marketing, a **commercial process**, has to provide farmers, transporters, traders, processors, etc. with a profit or they will be unable to stay in business.

Marketing therefore involves:

- identifying buyers;
- understanding what they want in terms of products and how they want to be supplied;
- operating a production-marketing chain that delivers the right products at the right time;
- making enough profit to continue to operate.

Marketing systems are dynamic. They are competitive and involve continuous change and improvement. Suppliers who have lower costs, are more efficient and can deliver quality products are those who survive and prosper. Those who have high costs, do not adapt to changes in market demand and provide poorer quality are often forced out of business.

1.2 IMPORTANCE OF MARKETING

- Ensures we are able to provide our goods and services to our Customers efficiently and effectively.

- Delivers profitable growth
- Builds customer value
- Builds brand value and awareness
- Companies that focus on customer needs and deliver great customer experience are more successful than those who do not.

1.3 SIMPLE MARKETING SYSTEM

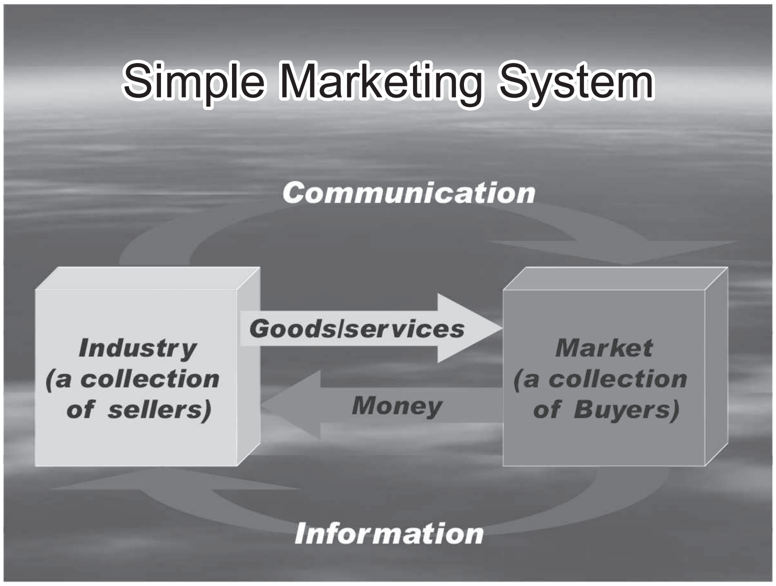


Fig. 1.1 Simple Marketing System

1.4 MARKETING MANAGEMENT PHILOSOPHIES

There are different philosophies guiding a marketing effort in a organization. These have evolved over a period of time.

Production concept

One of the oldest concepts (Industrial revolution-seventeenth century to 19th century).“Supply creates its own demand” it holds that consumers will prefer products that are widely available and inexpensive, so emphasis on achieving high production efficiency, low cost and mass distribution. Product features were not given importance.

Product concept

Consumers will favour those products that offer the most quality, performance or innovative features. Focus on making superior products.“Marketing Myopia” occurs when a marketer is excessively preoccupied with product development, manufacturing or selling and ignores customer needs, wants and interests

Selling concept

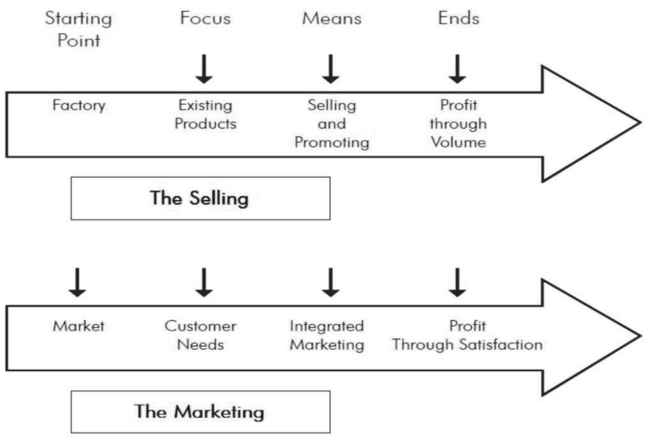
Organization should undertake an aggressive selling and promotion effort. The purpose is to sell more stuff to more people to make more money. Aim is to sell what they make rather than what market wants.

Marketing concept

Emerged in 1950's where instead of "product centered, make and sell" philosophy emphasizes on a "customer centered, sense and respond" philosophy. Marketing concept holds that key to achieve organizational goals is to be more effective than competitors in creating, delivering and communicating superior customer value to its chosen target markets. The companies embraced the concept of coordinated marketing management directed towards twin goals of customer orientation and profitability.

Marketing concept vs. Selling concept
Two approaches to marketing exist. The traditional selling concept emphasizes selling existing products. The philosophy here is that if a product is not selling, more aggressive measures must be taken to sell it e.g., cutting price, advertising more, or hiring more aggressive sales-persons.
The marketing concept, in contrast, focuses on getting consumers what they seek, regardless of whether this entails coming up with entirely new products.

Fig. 1.2 Marketing concept vs. Selling concept



Difference between Selling and Marketing

Selling	**Marketing**
Focuses on needs of seller	Focuses on needs and wants of buyer.
Converting product into cash	Satisfying consumer through product and whole cluster of things associated with creating, delivering and finally consuming it.
Short term focus	Long term focus
Begins when you have a product	Begins much before and long after a product
Focuses on product	Focus on Customer/ Service
Targets buyer	Targets needs and wants of customer
Strategy is sales force and promotion	Marketing mix

Societal Marketing Concept
Marketers carefully consider the role they are playing in terms of social welfare. The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They should balance the often conflicting interests of company profits, consumer want satisfaction and public interest. It believes that companies that act in socially responsible manner gain goodwill, apart from reaping profits.

Concepts	Meaning & Implications
Production Concept	Consumers favor products that areavailable and highly affordable Improve production and distribution
Product Concept	Consumers favor products that offer the most quality, performance, and innovative features
Selling Concept	Consumers will buy products only if the company promotes/ sells these products.
Marketing Concept	Focuses on needs/ wants of target markets& delivering satisfaction better than competitors. Focuses on needs/ wants oftarget markets & delivering superior value
Societal Marketing Concept	Society's well-being. Marketers need to be socially oriented too.

1.5 HOLISTIC MARKETING CONCEPT

A more broad, complete and integrated perspective of Marketing which focuses on Four main components

RELATIONSHIP MARKETING

Aim of building mutually satisfying long term relationships with key parties in order to earn and retain their businesses.

INTEGRATED MARKETING

All marketing activities are coordinated to maximize their joint effects.

INTERNAL MARKETING

Ensuring that everyone in the organization embraces appropriate marketing principles.

SOCIALLY RESPONSIBLE MARKETING(Societal Marketing Concept)

Marketers carefully consider the role they are playing in terms of social welfare. The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They should balance the often conflicting interests of company profits, consumer want satisfaction and public interest.
It believes that companies that act in a socially responsible manner gain goodwill, apart from reaping profits.

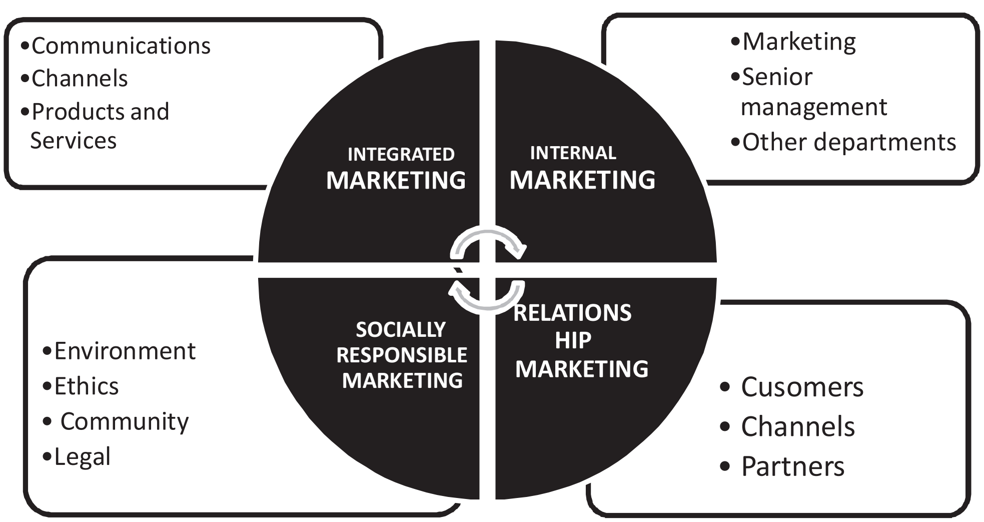


Fig 1.3 Holistic Marketing Concept

1.6 SOME IMPORTANT CONCEPTS

EXCHANGE

- Get something (product /service) by offering something in return. Eg. barter or money
- Exchange is a value creating process because it leaves normally both parties better off.

  (win – win situation)

TRANSACTION AND TRANSFER

- A transaction is a trade of values between two or more parties. A transaction is an exchange between **two things of value** on **agreed conditions and a time and place of agreement.**
- A transfer is a one way exchange without receiving anything in return. (gifts,subsidies,charity)

NEEDS, WANTS AND DEMAND

- Needs are basic human requirements like food, shelter, security etc.
- Wants are needs directed to specific objects/services that might satisfy the need. Wants are many. W ants are shaped by one's society.
- Demand is the wants for specific products backed by an ability to pay and willingness to buy. Marketers are more interested in knowing the demand.

In this globalised era and competitive world, there is a change from "make n sell" philosophy to "sense and respond" meaning, marketers should respond to changing customer needs and preferences.

VALUE AND SATISFACTION

The offering will be successful if it delivers value and satisfaction to target buyer.

- Value = Benefits/Costs
- Value reflects the perceived tangible and intangible benefits and costs to the customers.
- Benefits = Functional Benefits + Emotional benefits
- Costs = Monetary costs + Time + Energy + Psychic costs

Value can be seen primarily as a combination of quality, service and price called the customer value triad.

Satisfaction reflects a person's comparative judgments resulting from a product's perceived performance in relation to his /her expectations

MARKET

Traditionally a market was a physical place where buyers and sellers gathered to sell and buy goods.

Economics- (Buyers +sellers =Market) who transact over a particular product or product class.

Marketers Definition of Market : Potential +Existing customers sharing common need/want, able and willing to engage in exchange to satisfy their needs /wants.

Sellers is industry, Buyers is market

- Need markets (ex. diet seeking)
- Product markets (shoe market)
- Demographic markets(youth market)
- Geographic markets (french market)

Key customer markets

- Consumer markets
- Business markets
- Global markets
- Nonprofit and Governmental markets

WHAT IS MARKETED?

- A **Product** is anything offered to satisfy needs and wants. it includes the following:
    - Goods
    - Services
    - Events
    - Experiences
    - Persons
    - Places
    - Properties
    - Organizations
    - Information
    - Ideas

Marketing people are involved in marketing 10 types of entities: goods, services, experiences, events, persons, places, properties, organizations ,information, and ideas.

Goods. Physical goods constitute the bulk of most countries' production and marketing effort. Physical goods, from eggs to steel to hair dryers are marketed.

Services. As economies advance, a growing proportion of their activities are focused on the production of services. Services include airlines, hotels, and maintenance and repair people, as well as professionals such as accountants, lawyers, engineers, and doctors. Many market offerings consist of a variable mix of goods and services.

Experiences. By orchestrating several services and goods, one can create, stage,and market experiences. Ex. Amusement parks and theme restaurants.

Events. Marketers promote time-based events, such as the Olympics, tradeshows, sports events, and artistic performances

Persons. Celebrity marketing has become a major business. Artists, musicians,CEOs, physicians, high-profile lawyers and financiers, and other professionals draw help from celebrity marketers.

Places. Cities, states, regions, and nations compete to attract tourists, factories, company headquarters, new residents and investments. Place marketers include economic development specialists, real estate agents, commercial banks, state governments, 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 this calls a marketing effort by real estate agents (for real estate) and investment companies and banks (for securities).

Organizations. Organizations actively work to build a strong, favorable image in the mind of their publics. Universities, museums, and performing arts organizations boost their public images to compete more successfully for audiences and funds. Information. The production, packaging, and distribution of information is one of society's major industries. Among the marketers of information are schools and universities; publishers of encyclopedias, nonfiction books, and specialized magazines; makers of CDs; and Internet Web sites.

Ideas. Every market offering has a basic idea at its core. In essence, products and services are platforms for delivering some idea or benefit to satisfy a core need.

A **Brand** is when the product is from a known source. An identifying symbol /word/mark distinguishing a product/ company from its competitors.

1.7 CREATION OF UTILITY:

Marketing adds cost to the product; but, at the same time, it adds utilities to the product. The following four types of utilities of the product are created by marketing:

(a) Form Utility: The processing function adds form utility to the product by changing the raw material into a finished form. With this change, the product becomes more useful than it is in the form in which it is produced by the farmer. For example, through processing, oilseeds are converted into oil, sugarcane into sugar, cotton into cloth and wheat into flour and bread. The processed forms are more useful than the original raw materials.

(b) Place Utility: The transportation function adds place utility to products by shifting them to a place of need from the place of plenty. Products command higher prices at the place of need than at the place of production because of the increased utility of the product.

(c) Time Utility: The storage function adds time utility to the products by making them available at the time when they are needed.

(d) Possession Utility: The marketing function of buying and selling helps in the transfer of ownership from one person to another. Products are transferred through marketing to persons having a higher utility from persons having a low utility.

1.8 MARKETING MANAGEMENT TASKS

- Developing marketing strategies and plans
- Capturing marketing insights : from environment ,marketing research.
- Connecting with customers
- Building strong brands
- Shaping the market offerings
- Communicating value
- Creating long term growth

REVIEW QUESTIONS:

1. Define Marketing and discuss its significance in the Modern World.
2. "Marketing Begins and Ends with the Consumer "Discuss.
3. Briefly discuss the various concepts of marketing.
4. Discuss in detail the modern marketing concept.

CHAPTER 2 : MARKETING ENVIRONMENT

2.1 CONCEPT OF MARKETING ENVIRONMENT

One of the major responsibilities of marketing executives is to monitor and search the environment which is constantly changing. Company and marketers need to constantly monitor the changing environment more closely so that they will be able to alter their marketing strategies to meet new challenges and opportunities in the environment.

The marketing environment surrounds and impacts upon the organization. There are three key perspectives on the marketing environment, namely the 'macro-environment,' the 'micro-environment' and the 'internal environment'.

The micro-environment

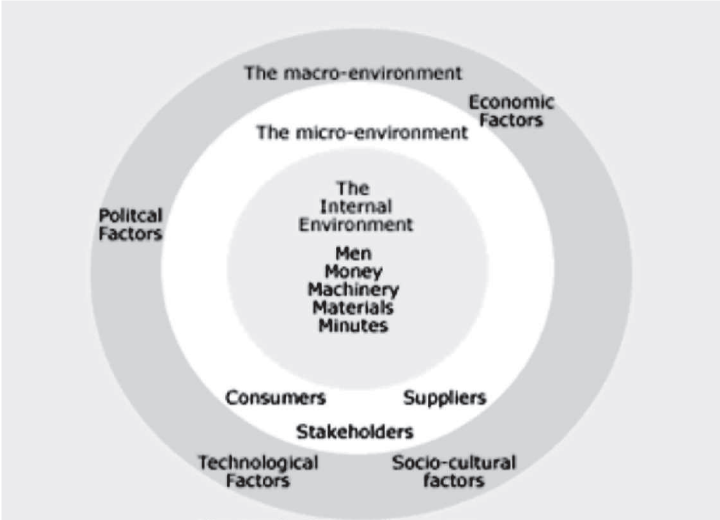
This environment influences the organization directly. It includes suppliers that deal directly or indirectly, consumers and customers, and other local stakeholders. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

The macro-environment

This includes all factors that can influence and organization, but that are out of their direct control. A company does not generally influence on any laws. It is continuously changing, and the company needs to be flexible to adapt. There may be aggressive competition and rivalry in a market. Globalization means that there is always the threat of substitute products and new entrants. The wider environment is also ever changing, and the marketer needs to compensate for changes in culture, politics, economics and technology.

The internal environment.

All factors that are internal to the organization are known as the 'internal environment'. They are generally audited by applying the 'Five Ms' which are **M**en, Money, **M**achinery, **M**aterials and **M**arkets. The internal environment is as important for managing change as the external. As marketers we call the process of managing internal change 'internal marketing.'



The Marketing Environment

2.2 IMPORTANCE OF ENVIRONMENT ANALYSIS

The manager needs to be dynamic to effectively deal with the challenges of environment. Some of the following benefits of environment scanning are as follows:

- It creates an increased general awareness of environmental changes on the part of management

- It guides with greater effectiveness in matters relating to Government
- It helps in marketing analysis
- It suggests improvements in diversification and resource allocation
- It helps firms to identify and capitalize upon opportunities rather than losing out to competitors
- It provides a base of objective qualitative information about the business environment that can subsequently be of value in designing the strategies.

2.3 MICRO ENVIRONMENT

The micro environment consists of the actors in the company's immediate environment that affects its ability to serve the markets: the company, suppliers, market intermediaries, customers, competitors and publics.

SUPPLIERS

Suppliers are business firms who provide the needed resource to the company and its competitors to produce the particular goods and services. Any sudden change in the 'suppliers' environment will have a substantial impact on the company's marketing operations. Sometimes some of the inputs to the company might cost more and hence managers have to continuously monitor the fluctuations in the suppliers side. Sudden supply shortage labor strikes and other events can interfere with the fulfillment of delivery promise customers and lose sales in the short run and damage customer goodwill in long run.

MARKETING INTERMEDIARIES

Channel members are the people who connect the company with the customers. There are number of middle men who operate in this cycle. Agent middle men like brokers and agents find customers and establish contacts, merchant middlemen are the wholesalers, retailers, who take title to and resell the merchandise. The behavior and performance of all these intermediaries will affect the marketing operations of the company and the marketing executives have to prudently deal with them.

COMPETITORS

If one company plans a marketing strategy at one side, there are number of other companies in the same industry doing such other calculations. Not only that the competition comes from the branded segment but also from the generic market. Basically every company has to identify the competitor, monitor their activities and capture their moves and maintain customer loyalty.

PUBLICS

A public can facilitate or seriously affect the functioning of the company, Philip Kotler defines public as any group that has an actual or potential interest or impact on a company's ability to achieve its objectives .Ex. Customer protection groups, media, environmentalists and governments.

CUSTOMERS

- Customers are the fulcrum around whom the marketing activities of the organization revolve. The marketer has to face the following types of customers.
- Customer Markets: Markets for personal consumption.
- Industrial Markets: Goods and services that could become the part of a product in those industry.
- Institutional Buyers: Institutions like schools, hospital, which buy in bulk.
- Reseller Markets: The organizations buy goods for reselling their products.
- Government Markets: They purchase the products to provide public services.
- International Markets: Consists of Foreign buyers and Governments.

2.4 MACRO ENVIRONMENT

Macro environment consists of six major forces viz, demographic, economic, physical, technological, political/ legal and socio-cultural. The trends in each macro environment components and their implications on marketing are discussed below:

DEMOGRAPHIC ENVIRONMENT

Demography is the study of human population in terms of size, density, location, age, gender, occupation etc. The demographic environment is of major interest to marketers because it involves people the people make up markets. This has major implications for business. Thus, marketers keep close track of demographic trends developments in their markets and accordingly evolve a suitable marketing programme.

ECONOMIC ENVIRONMENT

Markets require purchasing power as well as people. Total purchasing power is functions of current income, prices, savings and credit availability.

Availability of discretionary income shall have the impact on purchasing behavior of the people. Inflation leads consumers to research for opportunities to save money, including buying cheaper brands, economy sizes, etc. These changing consumer expenditure patterns has an impact on marketing and the marketing executives need to know such changes in economic environment for their marketing decisions.

NATURAL ENVIRONMENT

There are certain finite renewable resources such as wood and other forest materials which are now dearth in certain parts of world. Similarly there are finite non-renewable resources like oil coal and various minerals, which are also not short in supply. In such cases, the marketers have to find out some alternative resources. There has been increase in the pollution levels in the country due to certain chemicals. Marketers should be aware of the threats and opportunities associated with the natural environment and have to find our alternative sources of physical resources.

SOCIO CULTURAL ENVIRONMENT

The socio-cultural environment comprises of the basic beliefs, values and norms which shapes the people. People in a given society hold many core beliefs and values, that will tend to persist. People's secondary beliefs and values are more open to change. Marketers have more chances of changing secondary values but little chance of changing core values.. Marketers have a keen interest in anticipating cultural shifts in order to identify new marketing opportunities and threats.

TECHNOLOGICAL ENVIRONMENT

Technology advancement has benefited the society and also caused damages. Technology is accelerating at a pace the many products seen yester-years have become obsolete now. This technology developments has tremendous impact on marketing and unless the marketing manager cope up with this development it cannot survive in the competitive market.

POLITICAL AND LEGAL ENVIRONMENT

Marketing decisions are highly affected by changes in the political/legal environment. The environment is made up of laws and government agencies that influence and constraint various organizations and individuals in society. Legislations affecting business has steadily increased over the years. Hence, the marketing executives needs a good working knowledge of the major laws affecting business and have to adapt themselves to changing legal and political decisions.

All the above micro environmental actors and macro environmental forces affect the marketing systems individually and collectively. The marketing executives need to understand the opportunities and threats caused by these forces and accordingly they must be able to evolve appropriate marketing strategies.

REVIEW QUESTIONS:

1. Discuss importance of Marketing environment for any organization.
2. How do various macro environmental affect any industry? Discuss in context of any agro-industry?
3. Some of the Environmental forces are controllable whereas the others are beyond the control of a firm – Discuss.

NOTES

CHAPTER 3 STRATEGIC MARKETING PLANNING

3.1 STRATEGIC MARKETING PLANNING

Many companies operate without formal plans, yet these plans can provide many benefits such as:
- Encouraging management to think ahead systematically.
- Forcing managers to clarify objectives and policies.
- Better coordination of company efforts.
- Clearer performance standards for control.
- Helping the company to anticipate and respond quickly to environmental changes and sudden developments.

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic marketing planning is a comprehensive planning about setting a company's long term goals and objectives and identifying resources and skills required to achieve these goals and objectives.

Figure 3.1 Strategic Planning, Implementing, and Controlling

- **Corporate objectives :** Objectives at a corporate level relate to the organization's overall direction in terms of its general attitude towards growth. At this higher level, managers are likely to be concerned with long-term profitability.The key corporate objective could be to increase profitability by 10 per cent over the next three years. Expanding market share becomes a strategy for achieving the organization's principal objective.

- **Functional objectives:** At a functional level expanding market share becomes an objective. Each functional area – finance, human resources, operations and marketing – will develop a strategy to support this objective. In terms of the marketing function it is concerned about which products/services should be sold into which markets. At a fundamental level marketing strategy is about products and markets

- **Operational objectives:** At this level the functional level marketing strategy becomes the objective. Strategies have to be developed for each element of the marketing mix to support these operational objectives.

This hierarchy ensures that at each level the objectives developed are consistent with the objectives that lie at the level above them. However, there has to be strong co-ordination between functional areas otherwise conflicting actions may be taken as each functional area conducts independent actions in order to fulfil their objectives. In many situations there will be more than three levels to this hierarchy, increasing the complexity of the situation even more:

- **Strategic business unit (SBU) objectives:** In an organization with a divisional structure this hierarchy will have an additional level of the business (or SBU) level objectives. These will be derived from the corporate level objectives and strategy and then feed into the functional level objectives.

3.2 STRATEGIC MARKETING PLANNING PROCESS

It starts with determining the vision of an organization and then moving ahead. **VISION:** Vision is an organization's long term objective that at the peak of its accomplishments, or after decades of hard work, how the organization will eventually look like. For instance, the vision of a fast food restaurant may be, "We will be the best fast food restaurant in the world".

MISSION: Mission of an organization states the core values or objectives of a company's future business plans, services, customer services, community services, etc. For example, the mission of ICI Pharmaceutical is to be a leading healthcare company worldwide.

GOALS AND OBJECTIVES: These are specific targets or end results an organization intends to accomplish. For example, quality and innovativeness, market penetration, sales growth, market share growth, profitability enhancement, customer loyalty etc. Essentially, the goals should be SMART (specific, measurable (in quality and quantity), achievable, reliable and time specific).

STRATEGY: Strategy is a plan of action or action plan. The common strategies are

Cost leadership : Cost Leadership is about minimizing the cost to the organization of delivering products and services. It is tried to attain through mass production and economies of scale. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs.
- Increasing market share through charging lower prices.

Differentiation: Innovating a product's attributes, packaging, services, etc to dominate the market.Differentiation involves making your products or services different from and more attractive than those of your competitors. To make a success of a Differentiation strategy, organizations need:

- Good research, development and innovation.
- The ability to deliver high-quality products or services.
- Effective sales and marketing

Focus: Focusing narrow markets segments or niche markets with unique needs and wants of customers .Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers.

Further strategies are:

Market penetration: involves focussing intensely on selling your existing products in existing markets to increase market share.

Market development: i.e. exploring or attracting new markets/customers for existing products,

Product development: introducing new products in the existing market.

A “horizontal strategy” leads to acquire or buy the competitor’s business within the same business and technology line.

A “vertical strategy” leads to buy sources of raw material or packaging (called backward integration) and supply chains i.e. distribution channels (called forward integration).

POLICY: Policy is a principle. Companies formulate organizational and department wise policies, for instance human resources/ HR policies for recruitment, promotion, paid leave, etc, marketing policies about innovative product features, including packing, pricing, promotional discounts, coupons, offers, distribution policies, etc.

PLANNING: Planning is thinking about future and determining a course of action.Planning can be short term or long term. Vision, mission, goals and objectives, strategies, and policies are all plans. Vision and mission are long term plans, while goals and objectives, strategies, and policies are either short-term (under or up to 1 year) or long-term (over 1 year, usually of 3 to 5 years). Planning is done at 3 levels or hierarchy of management. Strategic planning is done by top management such as designing programs and policies i.e. (group of projects and setting policies); tactical planning is done by the middle level management, such as developing strategies, processes, etc; and operational planning is done by lower level management; such as implementing the strategies, policies, planning, processes, procedures, etc.

PROCESS: Process is a series of actions, changes, and functions or operations that bring result. A process generates a series of procedures, for example, the process to analyze consumer behavior, competitor strategies, advertising campaigns, etc.

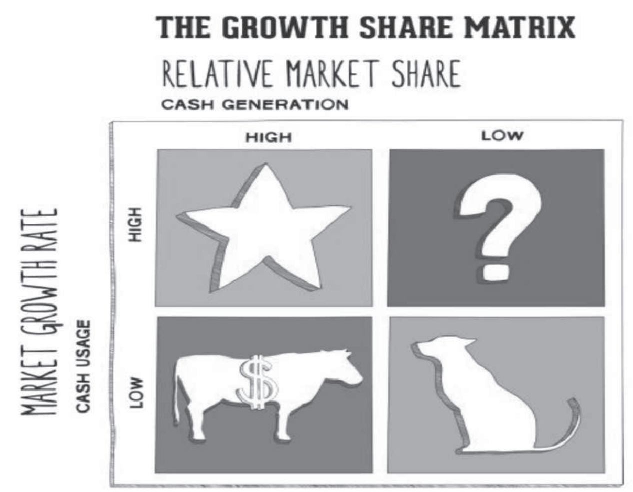
PROCEDURE / METHOD: It’s the way of action to complete a task, such as procedures to avail gift coupons, bonus schemes, etc. Marketing planning is implemented and feedback is received from the market, finally, marketing and sales personnel take corrective actions, if required, which is called controlling.

3.3 SOME APPROACHES FOR STRATEGIC PLANNING

BOSTON CONSULTING GROUP’S GROWTH SHARE MATRIX

The Boston Consulting group’s product portfolio matrix (BCG matrix) is designed to help with long-term strategic planning, to help a business consider growth opportunities by reviewing its portfolio of products to decide where to invest, to discontinue or develop products. It's also known as the Growth/Share Matrix.

The Matrix is divided into 4 quadrants derived on market growth and relative market share, as shown in the diagram below.



ESSENTIAL MARKETING MODELS HTTP://BIT.LY/SMARTMODELS

The strategy is first to build the market share, then hold it, harvest it (i.e. generate short term cash flows regardless of long term effect), and finally divest or disinvest dogs and invest in other profitable business.

1. Dogs: These are products with low growth or market share.

2. Question marks or Problem Child: Products in high growth markets with low market share.

3. Stars: Products in high growth markets with high market share.

4. Cash cows: Products in low growth markets with high market share.

STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS (SWOT ANALYSIS)

SWOT become highly popularized worldwide and is applied in marketing and business research, strategic planning, and marketing. Before doing a business, a feasibility or viability report is made to determine the chances for its survival; SWOT has its applications there. Strengths and weaknesses pertain to an organization's internal environment and opportunities and threats pertain to an organization's external environment.

STRENGTHS are capacities/ capabilities or strong areas of a product or organization. For example, strengths of X mobile sets are innovative features, picture sharpness, camera resolution, sound system, strong signals, reasonable prices, customer service, and so on.

WEAKNESSES are inabilities or weaker area of a product or organization. For example, the weaknesses of X mobile are poor quality, unskilled management, poor customer service, mal practices, etc.

OPPORTUNITY is a need that can be met profitability. For example an emerging market with diverse customer needs and wants can provide new opportunities for marketers, like mandatory requirements or new laws about wearing helmets on bikes, using CNG busses, studying new courses,making dental insurance, etc.

THREAT is a challenge that risks sales growth, market share or profit. For example, the competitors may reduce price, increase advertising, increase products with innovative attributes, which can decrease a company's relative sales and market share.

4. THE MARKETING PLAN

Marketing plan is the plan that provides the strategy and details of how to achieve the business' strategic objectives.A marketing plan supports the business strategy and business objectives. It must also align with the company values.

Marketing Plan Template

1. **Executive Summary** – Short summary of main goals and recommendations so that leadership/management team can get a quick idea of the key points.
2. **Current Situation** – Overview of the market
   a. Market description – What is the market? Who is the market? What are the trends?
   b. Environment – What is happening at a macro level and a micro level? What is the potential impact to the business?
   c. Product review – Include information about offers, sales, gross margin and stage of product lifecycle.
   d. Competitive review – Discuss both direct and indirect competitors. Include a SWOT of main competitors along with their market position, sales, pricing, distribution, marketing strategy and marketing programs.
   e. Channel and logistics review – Include sales team, partners, ecommerce, referrals and delivery systems.

3. **SWOT** – Perform an assessment of your company's strengths, weaknesses, opportunities, and threats. Take the basic SWOT analysis one step further to make it actionable. Use this tool to help determine the best strategies based on your strengths and opportunities.

Actionable SWOT	Strengths 1. 2. 3.	Weaknesses 1. 2. 3.
Opportunities 1. 2. 3.	Strengths – Opportunities Leverage strengths to pursue the best opportunities	Weaknesses – Opportunities Identify what weak areas you need to overcome to pursue opportunities
Threats 1. 2. 3.	Strengths - Threats Leverage strengths to minimize or avoid threats	Weaknesses -Threats Minimize weaknesses to avoid

4. **Objectives and Issues -** Present the marketing objectives for the period covered in the plan and address issues that could impact reaching the objectives. For example, the marketing objectives could be to capture additional 5% market share or increase sales units by 10%.
5. **Marketing Strategy** – This is the rationale of how your company plans to engage customers, deliver value, create strong relationships and attain the business and marketing objectives.
a. Positioning – What makes you distinctive in the mind of a customer? Would your customer agree?
b. Value proposition – Why would someone buy from you vs. a competitor?
c. Product Strategy – What is the roadmap (or future plan) for the product?
d. Pricing – What is the pricing strategy (e.g. economy, luxury) and should it be revised?
e. Distribution – What channels are used to move the product through the supply chain? Are there improvements or new channel opportunities?
f. Marketing Communication Strategy
1. Lead generation/Sales – Identify the programs that will be used to generate sales and/or leads for sales teams.
2. PR - How will you share news, get mentions and build credibility?
3. Online and Offline – What types of programs, tools and resources do you need to reach objectives? This can include advertising, content, and sponsorships.
4. Events – What trade shows, conferences and other events will contribute to reaching the objectives?
g. Market Research – This is important as ongoing research to understand your customers and market is critical. This will help you monitor and be aware of the perception (what is being said) about you the in the market.
6. **Action programs** – The details to turn the strategies into a calendar of programs.
7. **Financials / Budget** – The costs of all related programs including anticipated sales, revenue and costs of all marketing related activities.
8. **Controls –** The metrics you will use to measure results

REVIEWQUESTIONS:

1. Discuss the process of Strategic Marketing planning.
2. Carry out a SWOT analysis of any one industry of your choice.
3. A Food processing company wants to launch a new Ready to Eat Food product in market.
   Make your own assumptions and prepare a market plan for the launch.

CHAPTER 4 : MARKETING SEGMENTATION, TARGETING AND POSITIONING

The purpose for segmenting a market is to allow your marketing/sales program to focus on the subset of prospects that are "most likely" to purchase your offering. If done properly, this will help to insure the highest return for your marketing/sales expenditures. Depending on whether you are selling your offering to individual consumers or a business, there are definite differences in what you will consider when defining market segments.

4.1 MARKET SEGMENTATION

It is the sub-dividing of market into homogenous sub-sections of customers, where any sub-section may conceivably be selected as a market target to be reached with a distinct marketing aspects.

"Market segmentation is the process in marketing of dividing a market into distinct subsets(segments) that behave in the same way or have similar needs."

Because each segment is fairly homogeneous in their needs and attitudes, they are likely torespond similarly to a given marketing strategy. That is, they are likely to have similar feelings andideas about a marketing mix comprised of a given product or service, sold at a given price, distributedin a certain way and promoted in a certain way.

4.2 LEVELS OF MARKET SEGMENTATION

Starting point is mass marketing.Most companies now are turning to micromarketing at one of four levels.

Segment Marketing

A market segment consists of a group of customers who share a similar set of needs and wants.

Preference segments can follow different patterns:

- Homogenous preferences
- Diffused preferences
- Clustered preferences

Niche Marketing

A niche is more narrowly defined customer group seeking a distinctive mix of benefits. while segments are large and attract several competitors, niches are small and normally attract one or two competitors. Customers in the niche have distinct set of needs, they will pay premium to firm that best satisfies their needs.

Local marketing

Tailored to the needs and wants of local customer groups. Marketing activities concentrate on getting as close and personally relevant to individual customers as possible.

Customerization One-to one marketing, Customized marketing. it empowers customers to design the product and service offering of their choice

4.3 SEGMENTATION BENEFITS

"Dividing the markets for conquering them."

- ❖ Facilitates proper choice of target market.
- ❖ makes the marketing effort more efficient and economic. Marketing effort is concentrated on well defined and carefully chosen segments.
- ❖ Helps marketers understand needs of different customers better and serve them with better value propositions. it helps marketers to adapt the offer to the target.

- ❖ Can design better marketing mix suiting the target segment
- ❖ Helps identify less satisfied segments and concentrate on them.
- ❖ Helps increase customer loyalty as marketers can focus with enhanced quality and service features.
- ❖ Benefits the customer as well

4.4 BASES FOR MARKET SEGMENTATION

Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private sector. Small segments are often termed niche markets or specialty markets.
However, all segments fall into either consumer or industrial markets.
The common bases of marketing segmentation used for consumer markets are as follows :

Geographic segmentation : Market is divided acc. to factors such as climatic zones, localities, regions, cities, states urban/rural area and countries.

Demographic segmentation :

- Market is divided into groups based on demographic attributes such as Income, Age, gender, education, occupations ethnicity, and family life cycle stage, family size.
- Highly effctive, easier to measure.

Psychographic segmentation (Personality, Lifestyle and Values) : Consists of psychological, and sociological factors. It helps in understanding buyer behavior better and design communication programs better. Segmentation based on psychographic factors such as

- Lifestyle
- Personality
- Values

Values ,Personality and Lifestyle significantly affect the product and brand choices of consumers.One of the most popular commercially available classification systems based on psychographic measurement is SRI Consulting Business intelligence VALS framework. The acronym **VALS**, (for "Values, Attitudes and Lifestyles") is a well-known psychographic segmentation. It was developed in the 1970s to explain changing U.S. values and lifestyles. It has since been reworked to enhance its ability to predict consumer behaviour.

Behaviourial segmentation: Based on the behavior that customers show towards the usage of products**.**
Behaviorial variables:

- **Occasions**
- **Benefits** (benefits seeked by consumers)
- **User status** (non users, ex-users, potential users, first time users, regular users)
- **Usage rate** (Light ,medium, heavy users)
- **Loyalty status** (Hard core loyals, split loyals, shifting loyals, switchers)
- **Buyer readiness stage** (awareness ,interest, desire ,action)
- **Attitudes**(enthusiastic, positive, indifferent, negative and hostile)

4.5 SEGMENTATION OF MARKETS FOR INDUSTRIAL GOODS

An industrial market is vastly different from a consumer goods market. It can be segmented on the basis of
1) Customer size
2) Purchasing methods and policies

3) Geographical location
4) Kind of organization

4.6 SEGMENTATION, TARGETING, AND POSITIONING :

The process of segmentation is distinct from targeting (choosing which segments to address) and positioning (designing an appropriate marketing mix for each segment). The overall intent is to identify groups of similar customers and potential customers; to prioritize the groups to address; to understand their behavior; and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment. Revenues are thus improved.

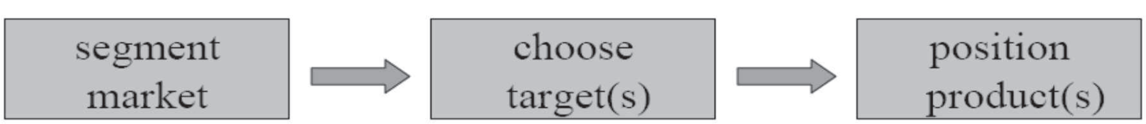
Improved segmentation can lead to significantly improved marketing effectiveness. With the right segmentation, the right products can be designed, advertising results can be improved and customer satisfaction can be increased.

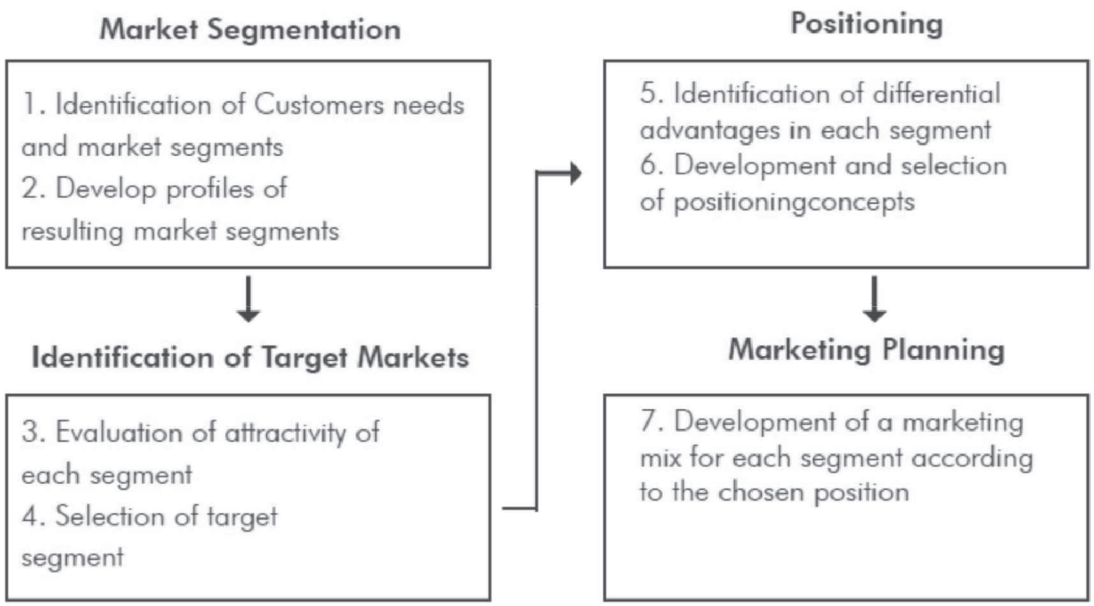
Our choice of segmentation should generally depend on several factors.

First, how well are existing segments served by other manufacturers?
Secondly, how large is the segment, and how can we expect it to grow?
Thirdly, do we have strengths as a company that will help us appeal particularly to one group of Consumers?
Segmentation, targeting, and positioning together comprise a three stage process. We first
(1) determine which kinds of customers exist, then
(2) select which ones we are best off trying to serve and, finally,
(3) implement our segmentation by optimizing our products/services for that segment and communicating that we have made the choice to distinguish ourselves that way.

Segmentation, Targeting, Positioning

- ***Segmentation***: grouping consumers by some criteria
- ***Targeting***: choosing which group(s) to sell to
- ***Positioning***: select the marketing mix most appropriate for the target segment(s)





Market Targeting

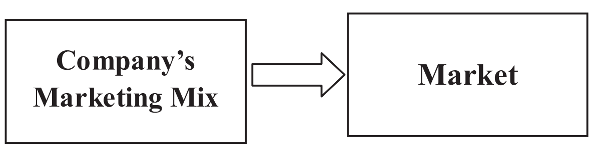
It is the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospects with the highest potential.

Selecting a target market strategy

There are three basic target market strategies

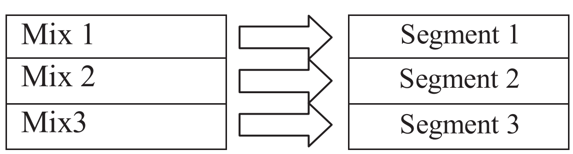
1) Undifferentiated marketing

It is a marketing strategy created by the same marketing mix product, price, place and promotion for all markets. The firm requires extensive distribution in the maximum number of retail outlets.



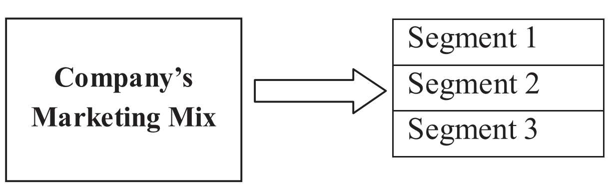
2) Differentiated Marketing

It involves devising multiple marketing mix offerings.



3) Concentrated Marketing

It involves devising a marketing mix on one product, one segment principle. For example, Johnson & Johnson has chosen to position itself as a maker of baby care products.



Hence, it can be seen that targeted marketing consists of segmenting the market, choosing which segments to serve and designing the marketing mix in such a way that it is attractive to the chosen segments.

POSITIONING

Positioning involves implementing our targeting. Positioning is the placement of a product, service, outlet, etc. in the mind of the consumer. Al Ries and Jack Trout coined this term. They see positioning as a creative exercise done with a product. It includes

- Determine what consumers currently think about your product (w,r,t competing products)
- Decide what you *want* consumers to think about your product.
- Designing the company's offering and image to occupy a distinctive place in the mind of the target market.
- Result of positioning strategy is successful creation of a *customer –focused value proposition.*
- Positioning is not what you do to the product but what you do the mind of the prospect.

Positioning takes into account the uniqueness of a company's marketing mix in a relation to that of competitors. The uniqueness or differentiation may be tangible or intangible depending upon the physical attributes or the psychological attributes of the product. Establishing and communicating these distinctive aspects is termed positioning.

Repositioning involves an attempt to change consumer perceptions of a brand, usually because the existing position that the brand holds has become less attractive.

REVIEW QUESTIONS:

1. What is meant by Market Segmentation? What are the criteria of effective Market segmentation?
2. Briefly discuss the process of STP .How it is useful?
3. What are the various bases for segmentation of Consumer markets? Discuss.
4. What is positioning? Giving examples of some FMCG products discuss the variables which are used for positioning.

NOTES

CHAPTER -5 : MARKETING MIX

MARKETING MIX

Marketing mix is one of the major concepts in modern marketing. It is the combination of various elements which constitutes the company's marketing system. It is set of controllable marketing variables that the firm blends to produce the response it wants in the target market. Though there are many basic marketing variables, it is Mc Carthy, who popularized a four-factor classification called the four Ps: Product, Price, Place and Promotion. Each P consists of a list of
particular marketing variables. Marketers often refer to the "Four *P*s," or the marketing portfolio, as a way to describe resources available to market a product.

When marketing their products firms need to create a successful mix of: the right product, sold at the right price in the right place using the most suitable promotion.

For example, a company like Kellogg's is constantly developing new breakfast cereals - the product element is the new product itself, getting the price right involves examining customer perceptions and rival products as well as costs of manufacture, promotion involves engaging in a range of promotional activities e.g. competitions, product tasting etc, and place involves using the best possible channels of distribution such as leading supermarket chains.

A detailed discussion on each of the above four P's follows now:

5.1 PRODUCT

Product stands for various activities of the company such as planning and developing the right product and/or services, changing the existing products, adding new ones and taking other actions that affect the assortments of products. Decisions are also required in the area such as quality, features, styles, brand name and packaging.

A product is something that must be capable of satisfying a need or want, it includes physical objects, services, personalities places, organization and ideas.

The second aspect of product is product planning and development .Product planning embraces all activities that determine a company's products. It include

a)Planning and developing a new product;

b) Modification of existing product lines; and

c) Elimination of unprofitable items.

Product development encompasses the technical activities of product research, engineering and decision. The product is the central point on which marketing energy must focus. Marketing therefore plays a key role in determining such aspects as:

- The appearance of the product - in line with the requirements of the market
- The function of the product - products must address the needs of customers as identified through market research.

The third aspect of product is product mix policies and strategies. Product mix refers to the composite of products offered for sale by a company. The product mix is four dimensional. It has breadth, length, depth and consistency. The product range and how it is used is a function of the marketing mix. The range may be broadened or a brand may be extended for tactical reasons, such as matching competition or catering for seasonal fluctuations. Alternatively, a product may be repositioned to make it more acceptable for a new group of consumers as part of a long-term plan. Yet another integral part of product is packaging.

5.2 PRICE

The second element of marketing mix is price. Price stands for the monetary value that customers pay to obtain the product. In pricing, the company must determine the right price for its products and then decide on strategies concerning retail and wholesale prices, discounts, allowances and credit terms. Of all the aspects of the marketing mix, price is the one, which creates sales revenue -all the others are costs. The price of an item is clearly an important determinant of the value of sales made. In theory, price is really determined by the discovery of what customers perceive is the value of the item on sale. Researching consumers' opinions about pricing is important as it indicates how they value what they are looking for as well as what they want to pay. An organization’s pricing policy will vary according to time and circumstances.

Before fixing prices for the product, the company should be clear about its pricing objectives and strategies. The objectives may be set low initial price and raising it gradually or set high initial price and reducing it gradually or fixing a target rate of return or setting prices to meet the competition etc. But the actual price setting is based on three factors namely cost of production, level of demand and competition.

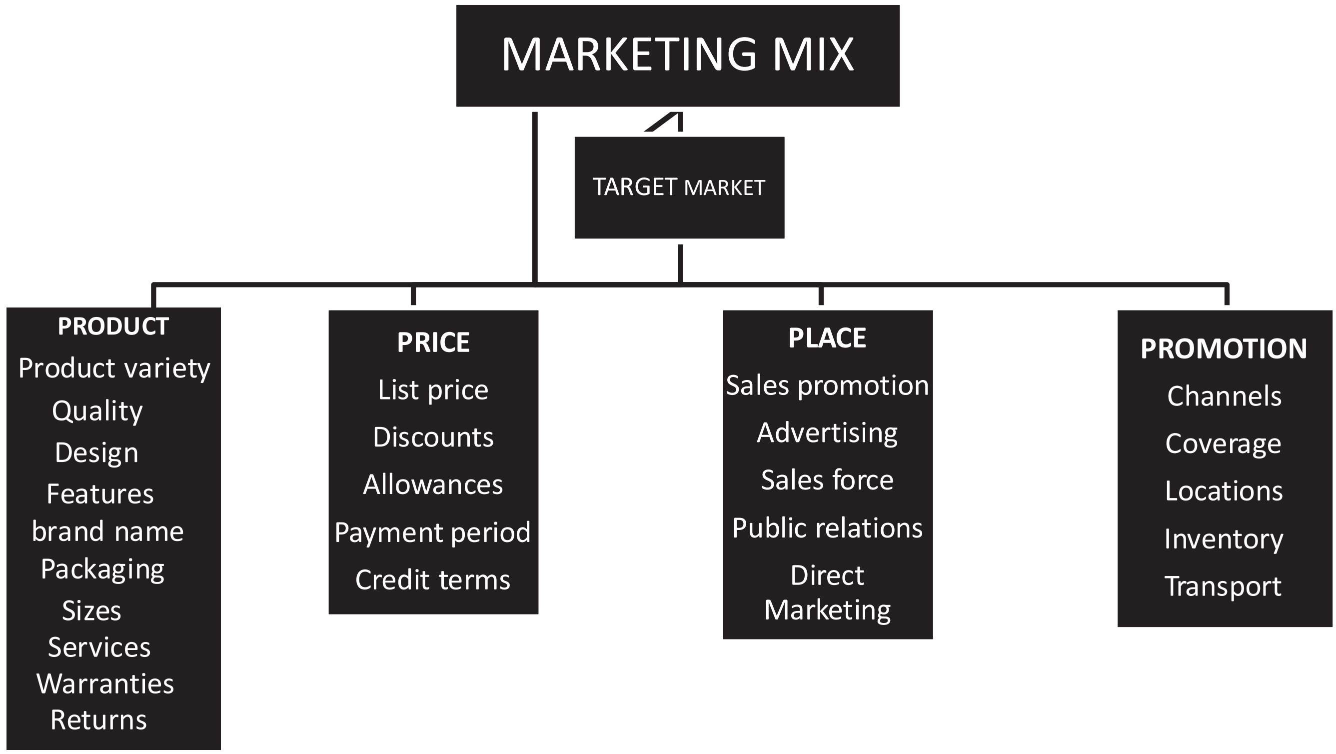
Different strategies may be taken with respect to price. Generically, there are two ways to make a profit—sell a lot and make a small margin on each unit or make a large margin on each unit and settle for lesser volumes. Firms in most markets are better off if the market is balanced—where some firms compete on price and others on other features (such as different taste preferences for different segments). The same idea applies at the retail level where some retailers compete on price while others compete on service while charging higher prices.

5.3 PLACE

The third element of marketing mix is place or physical distribution. Place stands for the various activities undertaken by the company to make the product accessible and available to target customers. Although figures vary widely from product to product, roughly a fifth of the cost of a product goes on getting it to the customer. 'Place' is concerned with various methods of transporting and storing goods, and then making them available for the customer. Getting the right product to the right place at the right time involves the distribution system. The choice of distribution method will depend on a variety of circumstances. It will be more convenient for some manufacturers to sell to wholesalers who then sell to retailers, while others will prefer to sell directly to retailers or customers.

There are large-scale institutions such as departmental stores, chain stores, mail order business, super-market etc. and small-scale retail institutions such as small retail shop, automatic vending, franchising etc. The company must chose to distribute their products through any of the above retailing institutions depending upon the nature of the products, area of the market, volume of scale and cost involved. The actual operation of physical distribution system requires company’s attention and decision-making in the areas of inventory, location of warehousing, materials handling, order processing and transportation.

5.4 PROMOTION : The fourth element of the marketing mix is promotion. Promotion stands for the various activities undertaken by the company to communicate the merits of its products and to persuade target customers to buy them. Advertising, sales promotion and personal selling are the major promotional activities. A perfect coordination among these three activities can secure maximum effectiveness of promotional strategy. The cost associated with promotion or advertising goods and services often represents a sizeable proportion of the overall cost of producing an item. However, successful promotion increases sales so that advertising and other costs are spread over a larger output. Though increased promotional activity is often a sign of a response to a problem such as competitive activity, it enables an organization to develop and build up a succession of messages and can be extremely cost-effective.



REVIEW QUESTIONS:

1. Briefly discuss the major elements of Marketing Mix.
2. Discuss the marketing mix of any one Agribusiness product /services.
3. Design marketing mix for the following product:
   (1) Branded multigrain Atta (flour) (2) Organic Fertiliser

NOTES

CHAPTER 6 : CONSUMER BEHAVIOUR

The truth is that marketing may promote a given product, service or practice but unless the target audience perceives that product, service or practice to be relevant to their needs then they will never try it. The purpose of studying buyer behaviour is to better meet the needs of customers. Only by doing so will the marketing enterprise continually and consistently meet its own needs.

Buyer/consumer behaviour may be defined as the activities and decision processes involved in choosing between alternatives, procuring and using products or services.

IMPORTANCE

- Helps marketers understand and obtain in depth knowledge of the purchase behavior ,buying motives, buying habits of different consumers.
- Helps design marketing strategies, product mix, promotion strategies.
- Reduces risk associated with different marketing strategies.
- Helps marketers forecast future buying behavior and device mktg. strategies accordingly.

6.1 FACTORS AFFECTING BUYER BEHAVIOUR

The behaviour of buyers is the product of two broad categories of influence; these are endogenous/internal factors (i.e. those internal to the individual) and exogenous/external factors (i.e. those external to the individual). The most important of these two categories of factors are depicted in figure below.

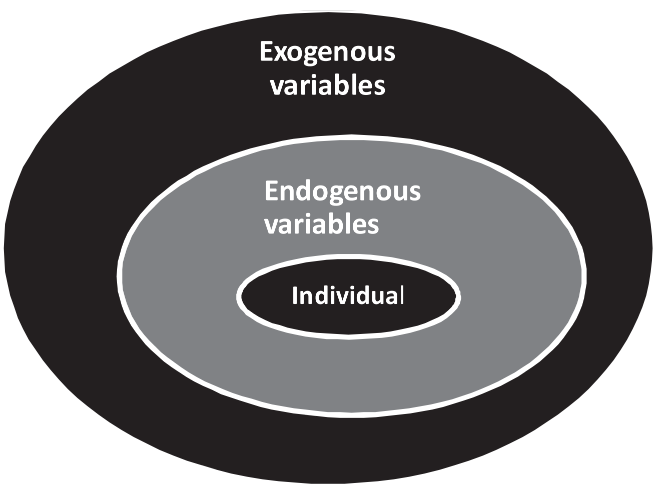


Figure 6.1 Endogenous and exogenous factors impinging upon buyer behaviour

EXOGENOUS FACTORS AFFECTING BUYER BEHAVIOUR

Factors which are external to the individual but have a substantial impact upon his/her behaviour are social and cultural in nature. These include culture, social class or status, reference groups and family membership.

Culture: Culture is perhaps the most fundamental and most pervasive external influence on an individual's behaviour, including his/her buying behaviour. Culture has been defined as:

"…the complex of values, ideas, attitudes and other meaningful symbols created by people to shape human behaviour and the artifacts of that behaviour as they are transmitted from one generation to the next."

Culture is the mechanism by which each society evolves its distinctive behavioural patterns and values and transmits these to subsequent generations.Creative marketers who do have a knowledge of cultural norms and values can profit by aligning product benefits and characteristics with these social standards.

Within any particular society the culture will comprise of a number of subcultures. That is, there will be various racial, ethnic and religious groups. Each, to some degree, will have distinct beliefs and values. Food is very culturally sensitive item.

Social status

Empirical research suggests that people from the same social group tend to have similar opportunities, live in similar types of housing, in the same areas, by similar products from the same types of outlets and generally conform to similar styles of living.The variables used to stratify a population into social classes or groups normally include income, occupation, education and lifestyle. Every status has its roles - a set of proper behaviors specified by culturally defined rules. A group influences its members primarily through the roles and behavioral norms expected of them. The marketer needs to know what role a person of a given status is playing and what is expected of that individual by the group which has conferred the status upon him/her. Such an understanding can significantly affect the marketing strategy employed with respect to that category of customer.

Reference groups

People are social animals who tend to live in groups. The group(s) to which a person belongs exerts an influence upon the behaviour, beliefs and attitudes of its members by communicating norms and expectations about the roles they are to assume. Reference groups provide a standard of comparison against which an individual can judge his/her own attitudes, beliefs and behaviour.

An individual need not belong to a given group in order for that group to exert an influence upon his/her behaviour. Shibutani[4] has identified three distinct reference groups:

- a group to which an individual belongs (also known as a peer group)
- a group to which an individual aspires, and
- a group whose perspective has been adopted by the individual

Reference groups can have a significant influence on patterns of product use and consumption also.

Families as reference groups

The family is another group which influences the behaviour of individuals including buying behaviour. Families often form a Decision-Making Unit (DMU) with respect to household purchases, with each member performing a different role. When marketing to families it is essential to know which members play a role in certain types of decision and what role they play. Thus, for instance, the cereals manufacturer may target mass media advertising at children since they trigger a purchase whilst in-store merchandising and promotion is designed to appeal to the housewives or other female heads of household because they make the brand choice.

ENDOGENOUS INFLUENCES ON BUYER BEHAVIOUR

Endogenous influences are those which are internal to the individual. These are psychological in nature and include needs and motives, perceptions, learning processes, attitudes, personality type and self-image.

Needs and motives

When an individual recognises that he/she has a need, this acts to trigger a motivated state. Need recognition occurs when the individual becomes aware of a discrepancy between his/her actual state and some perceived desired state.More formally, a need is a perceived difference between an ideal state and some desired state which is sufficiently large and important to stimulate a behavioural reaction. Once the need is recognised then the individual concerned will form a motive. A motive may be defined as an impulse to act in such a way as to bring about the meeting of a specific need.

Perception

How an individual perceives situations, products, promotional messages, and even the source of such messages, largely determines how an individual acts. A basic definition of perception would be 'how people see things'.Perception is defined asthe process by which an individual selects, organizes, and interprets information inputs to create a meaningful picture of the world.

Individuals can have vastly differing interpretations of the same situation. Moreover, individuals can hold widely differing perceptions, or interpretations, of the same stimulus due to three perceptual processes, i.e. selective attention, selective distortion and selective retention.

Selective attention: All people are daily bombarded by stimuli, both commercial and non-commercial. People simply cannot pay attention to all these messages and therefore they develop mechanisms to reduce the amount of information that they actually process.People pay attention to stimuli which meet an immediate need.

Selective distortion: Incoming information is often distorted to fit existing beliefs, opinions and expectations. Such beliefs are based on perceptions rather than experiences.

Selective retention: People forget all too easily. The information retained is generally that which supports the decision maker's existing attitudes and beliefs. Thus a consumer who is strongly loyal to a particular brand will easily recall the benefits claimed for that product in advertising campaigns but will forget the claims made for a competing product.

Learning

Much of human behaviour is learned. The evidence of learning is a change in a person's behaviour as a result of experience. Theory suggests that learning is the product of interactions between drives, stimuli, cues, responses and reinforcement.

Attitudes

Attitude is defined as a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object.

Attitudes reflect an individual's predispositions towards another person, an event, product or other object. A person may be either favourably or unfavourably predisposed towards an object; or they may be indifferent towards that object and therefore fail to display any behavioural pattern with respect to the object. Marketers have to work hard at creating positive attitudes towards the organisation, its products or services and any intermediaries it may channel these products/services through. Changing negative attitudes requires even more effort.

Personality and self-concept

Individuals tend to perceive other human beings as 'types of persons'. There are, for example, people perceived to be nervous types, ambitious types, self-confident types, introverts, extroverts, the timid, the bold, the self-deprecating and so on. These are personality traits. Moreover, where there is an element of risk in adopting an innovative product the self-confident personality will be more often among the risk-takers than the risk-averse..

6.2 THE CONSUMER BUYING DECISION PROCESS

Buying decisions may be made by individuals or a group such as a family or a committee within a commercial or industrial organisation. Where a group is involved, the term Decision-Making Unit (DMU) is commonly used. Marketers are interested in identifying all of the parties involved in the decision making process and are careful to distinguish between buyers and users. Mother in the family may be the chief buyer of household foods but children may have a major influence on the purchase of those food items of which they are the main consumers.

Typically, the buying decision models comprised five stages: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. Such models underline the fact that the actual decision to purchase is but a single event in a process which begins sometime beforehand and continues after the item is bought.

Figure 6. 2 A five-stage model of the buying process

Problem recognition: The buying process begins with a recognition on the part of an individual or organisation that they have a problem or need. Problems and needs can be triggered by either internal or external stimuli. Marketing research needs to identify the stimuli that trigger the recognition of particular problems and needs. Research should be directed towards establishing the needs/problems that arose, how these were brought about and how buyers arrived at the decision that a particular product was likely to meet their need or solve their problem. By so doing marketers can design products/services capable of meeting those needs/problems and develop marketing strategies that can trigger customer interest in those products or services.

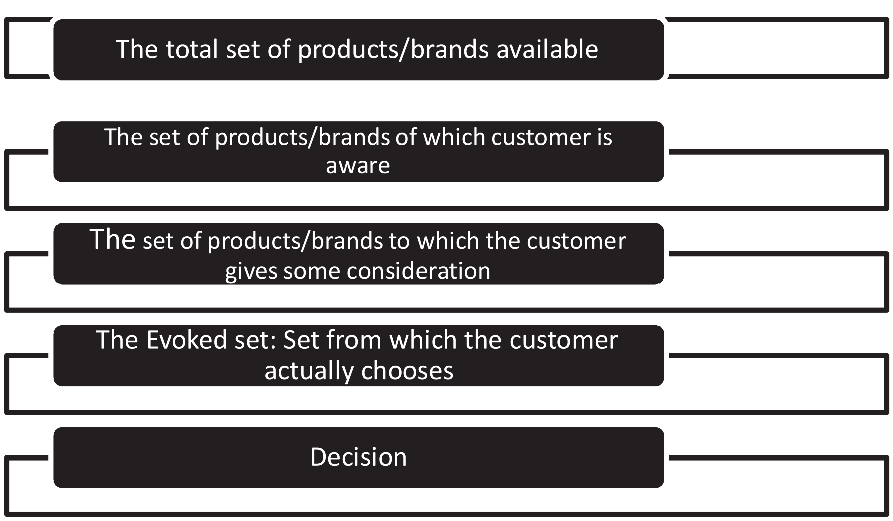
Information search: Information gathering may be passive or active. Passive information gathering occurs when an individual or group simply becomes more attentive to a recognised solution to a given need. That is, he/she exhibits heightened attention. The potential buyer becomes more aware of advertisements or other messages concerning the product in question. In other circumstances the individual is proactive rather than reactive with respect to information. Marketers will be interested to establish what information sources tend to seek out. Kotler[8] states that the information sources used will fall into four categories:

- personal sources (family, friends, work colleagues, neighbours, acquaintances)
- commercial sources (promotional materials, press releases, technical journals or consumer magazines, distributors, packaging)
- public sources (mass media)
- experiential (handling, using the product).

The extent of information seeking will vary with the intensity of the drive to 'solve' the problem and the amount of information that the individual already possesses.

In highly competitive markets where there is a large number of competing products or brands the customer rarely makes a choice from the entire set of alternatives available. Rather, the customer selects from a subset of the alternative products or brands that are actually available, termed 'the evoked set'. Figure 5.5 illustrates the process involved in arriving at the evoked set, i.e. the set of products/brands from which the customer actually chooses.

Figure 6.3 The concept of an evoked set



Since a customer's information is likely to be imperfect he/she will be ignorant of the existence of a number of products/brands that are actually available on the market. The customer is only aware of a subset of the total set. Some of these will fail to meet the customer's initial screening criteria. Some will lie outside the customer's price range (they may be either too expensive or too cheap), some will have too high or too low a specification.. Therefore, the set of products/brands of which the customer is aware is then reduced to a further subset of products/brands to which the customer gives serious consideration. However, as the prospective customer gathers more information the set of alternatives is further reduced until he/she arrives at an **evoked set**. This is the set of alternative products or brands from which a customer's actual choice is made.

The important implication of the evoked set theory for marketing managers is that they must know when their products are failing to get into the evoked set and should determine what criteria potential customers are using as a basis for including and excluding products/brands from their evoked sets.

Evaluation of alternatives: The process of evaluating alternatives not only differs from customer to customer but the individual will also adopt different processes in accordance with the situation. It is likely that when making judgments customers will focus on those product attributes and features that are most relevant to their needs at a given point in time. A quite different set of criteria might be used in deciding between alternative products and suppliers within the evoked set e.g. the period of credit given by the supplier, the ability of the supplier to deliver the total order in periodic batches and the reliability of the supplier in the past.

Purchase decision: At the evaluation stage the prospective customer will have arrived at a judgement about his/her preference among the evoked set and have formed a purchase intention. However, two factors can intervene between the intention and the purchase decision: the attitude of others and unanticipated events. If the attitude of other individuals or organisations who influence the prospective customer is strongly negative then the intention may not be converted to a firm commitment or decision. Unanticipated events can also intervene between intention and action. Whenever human beings form judgements or seek to make decisions they invariably make assumptions. These assumptions are often implicit rather than explicit. A farmer may state an intention to purchase a mechanical thresher within the next twelve months but when his/her implicit assumption of ‘a good harvest’ is not realised, due to drought, the purchase of the machine is postponed.

Post purchase behaviour: The process of marketing is not concluded when a sale is made. Marketing continues into the post purchase period. The aim of marketing is not to make a sale but to create a long term relationship with a customer. Organisations maintain profitability and growth through repeat purchases of their products and services by loyal customers.

Having procured the product the customer will experience either satisfaction or dissatisfaction with his/her purchase. The level of satisfaction or dissatisfaction is largely a function of the congruence between the buyer's expectations of the product and the product's perceived performance. If the product's perceived performance either matches or exceeds its expected performance then the buyer is likely to feel highly satisfied. It is in the best long term interests of commercial organisations not to oversell their products. That is, the claims made for products should faithfully reflect the product's actual performance capabilities.

Another aspect of post purchase behaviour that is of interest to marketers is how the buyer actually uses the product. It is common to find buyers using a product in a different way from that for which it was either designed or intended. Such deviations can present problems or opportunities to the product supplier.

Buyers do not invariably pass through all five stages described here. Much depends upon the circumstances surrounding the purchase decision. In the case of less expensive and/or frequently purchased items there would probably be far less searching for information. If the prospective buyer is loyal to a particular brand then the evaluation of alternatives may not figure at all.

6.3 ORGANISATIONAL BUYING BEHAVIOUR

Organisational buying behaviour has been defined as "…the decision-making process by which formal organizations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers."

Organisational buying decisions are likely to be made by a group rather than wholly by an individual. Webster and Wind coined the term 'decision making unit' (DMU) to describe such groups. Members of DMUs may have different roles, including:

Users	The individuals who are most likely to use the product often initiate the buying process by signaling a need for it and outlining its specifications, e.g. the production manager in a factory might identify the need to buy a certain amount of raw material.
Influencers	Others in an organisation may have an influence on the specifications and also provide information on alternatives, e.g. the quality control personnel.
Decision-makers	Decision-makers ultimately have the power to reach conclusions on the product, product specifications and/or suppliers.
Approvers	There could be some person with authority to sanction the purchase specified by the decision-maker.
Buyers	Buyers have the formal responsibility for choosing suppliers and agreeing the terms and conditions attached to the contract of sale.
Gatekeepers	Access to members of the DMU may be controlled by secretaries, personal assistants and the like. These individuals may also filter information intended for members of the DMU.

When attempting to market to organisations it is imperative that information be gathered on the structure of the DMU within each target enterprise. Intelligence gathering should include attempts to understand the relative roles of each identified member of the DMU. It is also important to appreciate the status or authority of members of the DMU.

Organisational markets

Organisational markets fall into one of three categories: industrial markets, reseller markets and government markets.

Industrial markets

Industrial buyers procure raw materials, components, semi-finished goods and services as input to the production of other goods and services. Thus industrial markets are characterised by derived demand. That is, the demand for industrial goods ultimately derives from the demand for consumer goods. Since this is the case marketers of industrial products must maintain an interest in patterns of consumer demand and the forces which shape that demand.

Most large industrial commercial organisations employ professionally trained buyers. The tasks of industrial buyers can be categorised as straight rebuys, modified rebuys and new tasks.

Straight rebuys: Where a buyer, or purchasing department, routinely reorders an item it is referred to as a straight rebuy. The buyer will either reorder from the same supplier as last time or from an approved list of past suppliers. Entry for a new supplier is difficult and will possibly only be achieved if a potential supplier can either innovate in the form of new products or marketing systems.

Modified rebuy: On occasion the buyer will want to modify the product specifications and/or the terms and conditions attached to a sale contract. Sometimes this opens up opportunities for enterprises which have not previously been suppliers to the buyer's organisation.

New buy task: Periodically buyers are faced with buying a product for the first time. The buyer's information search will almost certainly be more extensive. Since new buying tasks carry inherent risks, the buyer is likely to consult more widely with his/her colleagues and other advisers.

In summary, industrial marketers require a clear understanding of the needs of their prospective clients, an awareness of who is involved in the DMU, a knowledge of the criteria used in making buying decisions and an appreciation of the buying procedures involved.

Reseller markets

Wholesalers, traders, sales agents, retailers and the like procure goods and services to resell or rent them to others, at a profit. These individuals and organisations comprise the reseller market.The key to success in marketing to resellers is to seek to assist resellers in better meeting the needs of their customers.

Government markets

In most, if not all, countries the government is the largest single customer for goods and services. Government buys to fulfill mandated public objectives. Government buying procedures usually take the form of either open bids or negotiated contracts. Open-bid buying involves a government agency in inviting tenders from pre-approved suppliers for carefully specified products, materials, works or services. In most cases, the government agency will also specify the terms and conditions attached to the contract.

REVIEW QUESTIONS:

1. Briefly discuss the stages of consumer purchase decision making process with its implications for marketers.

2. What are the factors which influence the Consumer Behaviour in the purchase of a product?

3. What do you mean by Organizational Buying? Discuss the various buying roles and buying situations in Organizational Markets?

NOTES

CHAPTER 7: MARKETING INFORMATION SYSTEM AND MARKETING RESEARCH

Market information may be broadly defined as a communication or reception of knowledge or intelligence. It includes all the facts, figures, opinions and other information, which affect the marketing of goods and services. Market information is useful to all the sections of the society -Farmer, Producer, Middlemen, General Economy, and government.

Market information is of two types

1) Market intelligence

This includes information relating to such facts as the prices that prevailed in the past and market arrivals over time. It is historical nature. An analysis of the past helps to take decision about the future.

2) Market News

This term refers to current information about prices, arrival and changes in the market conditions. The availability of market news in time and with speed is of utmost value.

Marketing Information System It may be defined as "a structured, interacting complex of persons, machines and procedures designed to generate an orderly flow of pertinent information, collected from both intra and extra firm sources for use as the basis for decision - making in specified responsibility areas of marketing management.

It includes the subsystems like 1) Internal records 2) Marketing Intelligence 3) Marketing Research and 4) Analysis of Information

Marketing Research Marketing research is the systematic and objective research for analysis of information relevant to the identification and solution of any problem in the field of marketing.

7.1 TYPES OF MARKETING RESEARCH

Marketing Research can be identified as

1) Exploratory Research It is concerned with identifying the real nature of research problems and perhaps of formulating relevant hypotheses for various tests.

2) Descriptive Research It is concerned with measuring and estimating the frequencies with which things occur or the degree of correlation or association between various variables.

3) Causal Research It is basically concerned with establishing cause and effect relationship and an attempt to explain why things happen.

4) Predictive Research The main purpose of predictive research is to arrive at a forecast or prediction or some measurement of interest to the researcher.

7.2 STEPS IN MARKETING RESEARCH

a) Identifying the marketing problem
b) Developing a marketing research plan
c) Designing a marketing research strategy
d) Collection of Data
e) Analysis of collected data
f) Preparation of the Research Report

7.3 ROLE OF MARKETING RESEARCH

i) Consumers A typical consumer demand for a given consumption good depends on the age, income educational level, tastes, habits and mobility patterns of the consumers. That can be known only by marketing research.

2) Market Intermediaries Market intermediaries are an integrate link between the producer and the final buyers. Marketing research helps him select the right kind of channel.

3) Business Firms Every business concern is interested in improving its position in the market by a) increasing its market share b) increasing its profitability . Marketing research is the essential plank to base decisions

4) Marketing Research Agencies There are numerous specialized agencies engaged in conducting marketing research covering different segments of markets, both actual and potential. Indian Market Research Bureau, Hindustan Thompson Associates Ltd., MARG and URG are some of the agencies involved in Marketing research.

5. Government Research in various areas is also done by government departments.

6. Producers Marketing research helps in the analysis of the structure of the market and selection of the product category which will sell in the teeth of stiff opposition

Marketing Research

It is defined as gathering, recording and analyzing of all facts about problems relating to the transfer and sale of goods and services from producer to consumer .

Market Research

It describes research on markets, their size, geographical distribution, and incomes and so on. It is a sub-function of marketing research.

Marketing Information System is defined as a set of procedures and methods for the regular and planned analysis and presentation of information for the use of marketing decisions.

Marketing Information System (MIS)	Marketing Research
1. It suggests methods to prevent and solve the problems for the whole organization under different perspectives e.g. sales advertising, cost of distribution etc.	It presents the problems pertaining to a particular field of activity
2.The past experiences form the basis for future and the results are future oriented.	It is only a post mortem of what had taken place already, in most cases.
3.It is fairly a wide concept and includes marketing research as one element.	It remains as a source for contributing necessary information to the MIS.
4.It is a continuous process	It operates more often on specific problems
5.It anticipates, prevents as well as solves problems related, to marketing	It is concerned with finding out solutions for marketing problems.

7.4 ELEMENTS OF MARKETING RESEARCH

- Market Research
- Sales Research
- Product Research
- Packaging Research
- Advertising Research
- Business Economics Research
- Export Marketing Research

Scope and uses of Marketing Research

It helps in a) production of marketable goods b) distribution of marketable goods c) size, nature and organization of sales and d) demand creation activities.

REVIEW QUESTIONS:

Q1. Differentiate between Marketing Information Systems and Marketing Research.

Q2. Discuss the role and uses of Marketing Research**.**

Q3. "Marketing Research is vital for the Evaluation of a sound Marketing Strategy" Explain this statement.

CHAPTER 8 : PRODUCT DECISIONS

Product, the first of the four Ps of marketing mix has a unique position as it constitutes the most substantive element in any marketing offer. The other elements – price, place and promotion –are normally employed to make the product offering unique and distinct. Product is, thus, the number one weapon in the marketer's arsenal.
Product is complex concept which has to be carefully defined. In common parlance, any tangible items such as textiles, books ,television and many others are called as products. But an individual' s decision to buy an item is based on not only on its tangible attributes but also on a variety of associated non-tangible and psychological attributes such as services, brand, package, warranty, image etc.

According to Alderson, "Product is a bundle of utilities consisting of various product features and accompanying service". The bundle of utilities is composed of those physical and psychological attributes that the buyer receiver when the buys the product and which the marketer provides a particular combination of product features and associated services.
Precisely, the answers to the following question the product policy of a firm:

- What products should the company make?
- Where exactly are these products to be offered?
- To which market or market segment?
- What should be the relationship among the various members of a product line?
- What should be the width of the product mix?
- How many different product lines can the company accommodate?
- How should the products be positioned in the market?
- What should be the brand policy?
- Should there be individual brands, family brands and/or multiple brands?

8.1 PRODUCT LEVELS

Core benefit: The service or benefit the consumer is really buying. e.g.Hotel guest is buying "rest and sleep".

Basic product: At this level the marketer has to turn the core benefit into a basic product. e.g.: Hotel room includes bed , bathroom , towel etc.

Expected product: At this level a marketer prepares an expected product , set of attributes and conditions buyers normally expect when they purchase this product e.g.::Hotel guest expect a clean bed and a clean towel

Augmented product: At this level a marketer prepares an augmented product that exceeds consumer expectations.

Potential product: This level encompasses all the possible augmentations and transformations the product or offering might under go in the future.

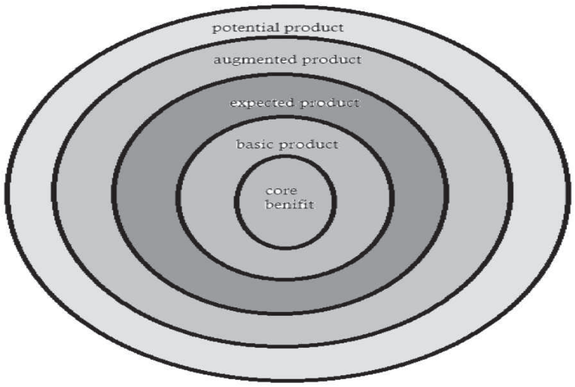


Fig 8.1 : Levels of Product

In order to further understand, it will be appropriate to know the meaning of some other terms also which often recur in any discussion about product.

Need Family: The core need that actualizes the product family. Example: Safety.

Product Family: All the product classes that can satisfy a core need with more or less effectiveness.

Product Line: A group of products within a product class that are closely related, because they function in a similar manner or sold to the same customer groups or are marketed through the same types of outlets or fall within given price ranges.

Product Item: A distinct unit within a brand or product line that is distinguishable by size, price, appearance or some other attribute.

8.2 PRODUCT CLASSIFICATION

Marketers have developed several product classification schemes based on product characteristics as an aid to developing appropriate marketing strategies.

Product can be classified into three groups according to their **durability:**

Durable Goods: Durable goods are tangible goods that normally survive many users. Examples include refrigerators, tape recorders, televisions etc.

Non-Durable Goods: These are tangible goods that normally are consumed for short period. Example include soap, match box etc.

Services: Services are activities, benefits or satisfactions that are offered for sale. Examples include banking, transport, insurance service etc.

Another method of classifying products is on the basis of **consumer shopping habits** because they have implications for marketing strategy. Basing on this, goods may be classified into three:

Convenience Goods: Goods that the customer usually purchased frequently, immediately and with the minimum effort. The price per unit is low, Example: soaps, match box etc.

Shopping Goods: These goods are purchased infrequently. The price per unit is comparatively higher. The customer, in the process of selection and purchase of these goods compares the suitability, quality, price and style. Example includes furniture, clothing, footwear etc.

Specialty Goods: Goods with unique characteristics and/or brand identification for which a significant group of buyers are willing to make a special purchasing effort. The goods are expensive and purchased rarely. Examples include personal computers, cars, hi-fi components etc.

Industrial Products

One of the ways of classification of industrial products involves two broad categories viz.,

(1) products that are used in the production of other goods and become a physical part of another product, and (2) products necessary to conduct business that do not become part of another product. The products that become part of another product are raw materials, semi-manufactured goods, components and subcontracted production services.

The products that are needed to conduct the business include: Capital goods, operating supplies, contracted industrial services, contracted professional services and utilities.

Raw material include crude oil, coal, iron ore, other mined minerals ,lumber, forestry product, agricultural products, livestock, poultry and diary products and the products of fisheries.

Semi-manufacturing goods are products, that when purchased ,have already undergone some processing but are incomplete in themselves. Examples are cotton fiber, castings, plate glass and plastics.

Components are completed products meant to become part of another larger, more complicated product. Examples include automobile batteries, headlights, tyres etc.

Subcontracted production Examples are, subcontracting for installation of electrical, heating ,air-conditioning and plumbing facilities to others.

Capital goods are manufacturing plants and installations, tools, machines, trucks etc.

Operating supplies are industrial products used to keep a business operating normally. These include lubricating oils, paperclips, cash registers etc. The operating supplies usually have a relatively low unit value, and are consumed quickly.

Contracted industrial services include such items as machine servicing and repair, cleaning, remodeling, waste disposal and the operation of the employees' canteens.

Contracted professional services include printing executive recruitment, advertisement, advertising, legal advice, professional accounting, data processing and engineering studies.

The industrial products in the category of **utilities** consist of energy, telephone, and water.

8.3 PRODUCT MIX DECISIONS

Product Mix: A product mix (also called product assortment) is the set of all product lines and items that a particular seller offers to sale.

A company's product mix can be described as having a certain width, length, depth, and consistency.

The width of the product mix refers to how many product lines the company carries.

The length of product mix refers to the total number of items in its product mix.

The depth of product mix refers to how many product variants are offered of each product item in the line.

The consistency of the product mix refers to how closely related the various product lines are in end use, product requirements, distribution channels or some other way.

These four dimensions of the product mix provide the bases for defining the company's product strategy. The company can grow its business in four ways.

The company can add new product lines, thus widening its product mix to capitalize the company's reputation or the company can lengthen its existing product lines to become a more full line company or the company can add more product variants to each product and thus deepen its product mix. Finally the company can pursue more product-line consistency or less, depending upon whether it wants to acquire a strong reputation in a single field or participate in several fields.

PRODUCT LINE DECISIONS

Product Line

A product line is a group of products that are closely related, because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product line managers have two important information needs. First they must know the sales and profits of each item in the line. Second, they must know how the product line compares to competitor's product lines in the same markets (Product Positioning).

One of the major issues facing product-line managers is the optimal length of the product line. The manager can increase the profits either by adding the product items if the line is too short or by dropping the items if the line is too long.

The issue of product-line length is influence by company objectives. Companies that want to be positioned as full-lines companies and/or are seeking high market share and market growth will carry longer lines.

They are less concerned when some items fail to contribute to profit. Companies that are keen on high profitability will carry shorter lines consisting of selected items. Product lines tend to increase over time. Excess manufacturing capacity will put pressure on the product-line managers to develop new items. The sales force and distributors will also pressure for a more complete product line to satisfy their customers.

LINE-STRETCHING DECISION

Line stretching occurs when a company lengthens its product-line beyond its current range. The company can stretch its line downward, upward or both ways.

Downward Stretch

Many companies initially locate at the high end of the market and subsequently stretch their line downward. For instance, TATA who are the producers of medium and high price/big car segment, stretched downward by entering into small car segment by releasing TATA Indica.

The company is attached at the high end and decides to invade the low end. The company initially entered the high end to establish a quality image and intended to roll downward.

In making a downward stretch the company faces some risks. The new low-end item may cannibalize higher-end items. Or the low-end items might provoke competitors to counteract by moving into the higher end. Or the company's dealers may not be willing or able to handle the lower end products, because they are less profitable or dilute their image.

Upward Stretch

Companies in the lower end of the market might contemplate entering the higher end. They may be attracted by a higher growth rate, higher margins or simply the chance to position themselves as full-line manufacturers. Again, it is Maruti who initially entered in the small car segment entered higher end by production Maruti 1000 and Maruti Esteem.

An upward decision can be risky. Not only the higher end competitor well entrenched but they may counter attack by entering the lower end of the market. The company's sales representatives and distributors may lack the talent and training to serve the higher end of the market.

Two-way Stretch

Companies in the middle range of the market may decide to stretch their line in both directions.

Line-Filling Decisions

A product line can also be lengthened by adding more items within the present range of the line. There are several motives for line-filling such as reaching for incremental profits; trying to satisfy dealers to complain about lost sales because of missing items in the line; trying to utilize excess capacity; trying to be the leading full-line company and trying to plug holes to keep on competitors. If line-filling is overdone it may result in cannibalization and customer confusion. The company needs to differentiate each item in the consumer's mind.

Each item should possess a just noticeable difference. The company should check that the proposed item enjoys more market demand as is not being added simply to satisfy an internal need.

Line Pruning

It means weeding out older products and products that are not selling as well in favor of putting more emphasis on newer and better-selling products. The most obvious reason for discontinuing a product is that it's no longer profitable. Even if a product is profitable, it might prevent you from making more money by producing and selling other items. For example, if the time you spend making one product can be spent making another more profitable product, you might discontinue the product with the lower margin or lower volumes. Products may be pruned from product line if they become redundant or do not fit into the brand image.

Line Modernisation

Product lines need to be modernized. n rapidly changing product markets modernization is continuous. Companies plan improvements to encourage customer migration to higher valued and better priced items. Microprocessor companies like Intel and AMD and software companies such as Microsoft and Oracle continually introduce more advanced versions of their products. A major issue is timing improvement so they do not appear too early damaging the sales of the current line or too late after the competition has established a strong reputation for more advanced equipment.

REVIEW QUESTIONS:

1. Define Product. Discuss the various level of the Product.
2. How can we classify the Products? Discuss.
3. What are the various strategies related to product line? Discuss with examples.
4. Explain the Concept of Product Mix with an example?

NOTES

CHAPTER 9 : PRODUCT LIFE CYCLE

Like human beings, every product has a life span. When a new product is launched in the market, its life starts and the product passes through various distinct stages and after the expiration of its life span dies in terms of its capacity to generate sales and profit. This is called Product Life Cycle (PLC).

The Product Life Cycle is an attempt to recognize 'distinct stages" in the 'sales history' of the product. In each stage, there are distinct opportunities and problems with respect to marketing strategy and profit potential. Hence, products require different marketing, financing, manufacturing, purchasing and personnel strategies in the different stages of their life cycle. The PLC concept provides a useful framework for developing effective marketing strategies in different stages of the Product Life Cycle.

There are four stages in the Product Life Cycle – introduction, growth, maturity and decline.

9.1 INTRODUCTION STAGE

The introduction stage starts when the new product is first launched. In this stage only a few consumers will buy the product. Further, it takes time to fill the dealer pipeline and to make available the product in several markets. Hence, sales will be low a profit will be negative or low. The distribution and promotion expenses will be very high. There are only a few competitors. Regarding pricing, the Management can pursue either skimming strategy i.e. fixing a high price or penetration strategy i.e. fixing a low price.

The company might adopt one of several marketing strategies for introducing a new product. It can set a high or low level for each marketing variable, such as price, promotion, distributions and product quality. Considering only price and promotion, for example, management might launch the new product with a high price and lose promotion spending. The high price helps recover as much gross profit per unit as possible which the low promotions spending keeps marketing spending down. Such a strategy makes sense when the market is limited in size, when most consumers in the market know about the product and are willing to pay a high price, and when there is little immediate potential competition.

On the other hand, a company might introduce its new product with a low price and heavy promotion spending. This strategy promises to bring the fastest market penetration and the largest market share. It makes sense when the market is large, potential buyers are price sensitive and unaware of the product, there is strong potential competition and the company's unit manufacturing costs fall with the scale of production and accumulated manufacturing experience.

9.2 GROWTH STAGE

If the new product satisfies the market, it will enter a growth stage. This stage is market by quick increase in sales and profits. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favourable word of mouth. New competitors enter the market, attracted by the opportunities for high profit. The market will expand. Prices remain the same. Companies maintain their promotional expenditure at the same level or slightly higher level to meet competition and continue educating the market.

During this stage, the company uses the following marketing strategies:

- The company improves product quality and adds new-product features and models.
- It enters new market segments.
- It enters new distribution channel.
- It changes the price at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product improvement, promotion and distribution, the company can capture a dominant position. In doing so, it gives up maximum current profit, which it hopes to make up in the next stage.

9.3 MATURITY STAGE

This stage normally lasts longer than the previous stages and it poses strong challenges to marketing management. At this stage, sales will slow down. This stage can be divided into three phases. – growth maturity, stable maturity and decaying maturity.

In the growth maturity phase, the sales start to decline because of distribution saturation. In the stable maturity phase, sales become static because of market saturation. In the decaying maturity phase, the absolute level of sales now starts to decline and customers starts moving toward other products and substitutes. Competitions become acute.

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

Marketing Modification: The company should seek to expand the market and enters into new markets. It looks for new users and find ways to increase usage among present customers.

Product Modification: the company should modify the product's characteristics such as quality improvement, features improvement, style improvement to attract new users and/or usage from current users.

Marketing-mix Modification : The company should also try to stimulate sales through modifying one or more marketing-mix elements such as price cut, step-up sales promotion, change advertisement copy, extending credit etc. A major problem with marketing-mix modification is that they highly imitable by competitors. The firm may not gain as much as expected and in fact all firms may experience profit erosion as they complete each other.

9.4 DECLINE STAGE

In this stage, sales decline and eventually dip due to number of reasons including technological advances, consumer changes in tastes and acute competitions. As sales and profit decline some firms withdraw from the market. Those remaining may reduce the number of product offerings.

They may drop smaller market segments and marginal trade channels. They may reduce the promotion budget and prices further. Hence, companies need to pay more attention to their aging

products. The firm has to identify those products in the decline stage by regular reviewing sales, market shares, costs and profit trends. Then, management must decide whether to maintain, harvest, or drop each of these declaiming products.

Marketing Strategies during the Decline Stage

Identify the weak products by appointing a product-review committee with representatives from marketing, manufacturing and finance.The firms may adopt the following strategies.

i) Management may decide to maintain its brand without change in the hope that competitors will leave the industry.

ii) Management may harvest by selling whatever is possible in the market.

iii) Management may decide to drop the product from the line.

When a company decides to drop a product, the firm can sell or transfer the product to someone else or drop it completely. It must decide to drop the product quickly or slowly. It must decide on how much parts in inventory and service required to maintain service to past consumers.

9.5 USES OF PLC CONCEPT

PLC concept's usefulness varies in different decision-making situations. As a planning tool, the PLC concept characteristics the main marketing challenges in each stage and suggests major alternative marketing strategies the firm might pursue. As a control tool, it allows the company to compare product performance against similar products in the past.

9.6 CRITICISM OF PLC CONCEPT

1. PLC stages do not have predictable duration. It may vary from product to product.
2. The marketer cannot tell at what stage the product is in as there is no definite line of demarcation between one stage to another stage.
3. Not all products pass through all the stages. It is possible that the product may travel to the first and second stage and die out.
4.Not all products pass through all the stages of its life cycle. Some products are introduced and die quickly; others stay in the nature stage for a long time. Some enter the decline stage and then recycled back into the growth stage through strong promotion or repositioning.

Fig 9.2 : Product Life Cycle

9.7 MAIN CHARACTERISTICS OF PRODUCT LIFE CYCLE AT VARIOUS STAGES

	Introduction	**Growth**	**Maturity**	**Decline**
Sales	Low	Rapidly rising	Peak sales	Declining
Costs	High	Average	Low	Low
Customer	Innovators	Early adopters	Middle majority	Laggards
Profits	Negative	Rising	High	Declining
Competitors	Few	Growing no.	Stable no.	Declining no.
Marketing Objective :				
Product	Offer Basic product	Extension, services	Diversify brand & items models	Phase out weak
Price	Charge cost plus	To penetrate market	To match or best competitor	Cut price
Distribution	Selective	Intensive	More intensive	Go selective
Advertising	Awareness among early adopters & dealers	Awareness & interest in the mass market	Stress brand differences & benefits	Reduce to level needed to retain hard-core loyal
Sale promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increases to encourage brand switching	Reduce to minimal level

REVIEW QUESTIONS:

1. Discuss the characteristics of various stages of Product Life Cycle with the help of a diagram for a standardized product.
2. Elaborate the various strategies available at each stage of PLC.
3. Discuss the uses of PLC concept as well as its limitations.

NOTES

CHAPTER 10 : BRANDING, PACKAGING AND LABELLING

10.1 ELEMENTS OF BRANDING

A brand is a name, term, design, symbol, or combination of these elements that identifies a product or service and distinguishes it from its competitors.

Brands include elements such as:

• Brand and trade names

• Trade and brand marks, and trade characters

A **brand name** , also called a product brand, is a word, group of words, letters, or numbers that represent a product or service.

A **trade name** , or corporate brand, identifies and promotes a company or a division of a particular corporation.

A **brand mark** is a unique symbol, coloring, lettering, or other design element. It is recognizable visually and does not need to be pronounced.

trademark A brand name, brand mark, trade name, trade character, or a combination of these elements that is given legal protection by the government.

Importance of Brands in Product Planning

The use of brands is important in product planning for several reasons:

• To build product recognition and customer loyalty

• To ensure quality and consistency

• To capitalize on brand exposure

Types of Brands

There are three classifications of brands, one for each type of company that brands its products:

- **National brands** (manufacturers) : are owned and initiated by national manufacturers or by companies that provide services
- **Private distributor brands** (wholesalers and retailers): Brands that are developed and owned by wholesalers and retailers; also known as private brands, store brands, dealer brands, or private labels
- **Generic brands:** are products that do not carry a company identity. Companies that manufacture and sell generic brands do not heavily advertise or promote these products.

Branding Strategies

Some branding strategies used to meet sales and company objectives are:

- **Brand extensions**: is a branding strategy that uses an existing brand name to promote a new or improved product in a company's product line.
- **Brand licensing:** A legal authorization by a trademarked brand owner to allow another company (the licensee) to use its brand, brand mark, or trade character for a fee.
- **Co-branding:** strategy combines one or more brands in the manufacture of a product or in the delivery of a service. It can also happen when two or more retailers share the same location.

10.2 PACKAGING AND LABELING

A package is the physical container or wrapping for a product. Developing a product's package is an integral part of product planning and promotion because the package is a selling tool.

Functions of Packaging

Packaging fulfills several functions, including:

• Promoting and selling the product

• Defining product identity

• Providing information

- Expressing benefits and features
- Ensuring safe use

Sometimes multiple complementary items are bundled together in one package. The practice of packaging different products and services together is known as mixed bundling.

Price bundling occurs when two or more products are placed on sale for one package price.

Attractive, colorful, and visually appealing packages have promotional value and can carry important messages about the product's performance, features, and benefits.

Packages often promote an image such as prestige, convenience, or status. They also give directions for using the product and information about:

- Contents and nutritional value
- Product guarantees
- Potential hazards

Packaging comes in different sizes to meet the needs of different market segments, from individuals to families.

Packaging can help improve product safety for the customer. Many products formerly packaged in glass now come in plastic containers. To encourage customer safety, goods such as nonprescription drugs, cosme tics, and food items are sold in tamper-resistant blisterpacks

Packaging needs to protect a product during shipping, storage, and display. The package design should also prevent or discourage tampering, prevent shoplifting, and protect against breakage and spoilage.

Packaging gives companies the opportunity to incorporate the latest technologies and address lifestyle changes as well as environmental, social, and political concerns.

LABELING

A label is an information tag, wrapper, seal, or imprinted message that is attached to a product or its package. Its main function is to inform customers about the product's contents and give directions for its use.

There are three kinds of labels: • **Brand • Descriptive • Grade**

The **brand label** gives the brand name, trademark, or logo. It does not supply sufficient product information.

A **descriptive label** gives information about the product's use, construction, care, performance, and other features. A descriptive label includes date and storage information for food items. Instructions for proper use and product care are provided on nonfood items.

A **grade label** states the quality of the product.

REVIEW QUESTIONS:

1. Discuss the concept and elements of brand. What is its importance ?
2. Discuss the functions of packaging.

CHAPTER 11 : NEW PRODUCT DEVELOPMENT

11.1 NEW PRODUCT DEVELOPMENT

Development of original products, product improvements, product modifications, and new brands through the firm's own R & D efforts.

- Product development means making changes in the size, design, color, shape, characteristics, packing etc.
- It may include addition of a new product line, addition of a new product item in a particular product line, changes in the size, color, design, packing, characteristics, and prices.
- A new product is any product which is perceived by the customer as being new.

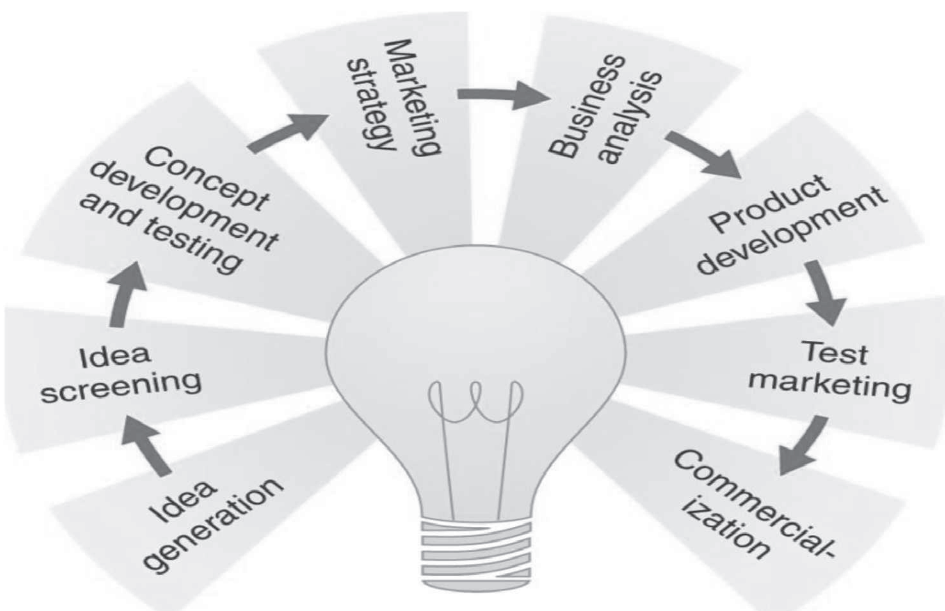
11.2 REASONS FOR NEW PRODUCT DEVELOPMENT

1} New products become necessary for meeting the changes in consumer needs.
2} New products become necessary for making new profits.
3} New products become necessary for combating environmental threats.

IMPORTANCE:

- **Remaining competitive.**
- Keeping up with technological change.
- Changing consumer tastes.
- Following market trends.
- Diversifying the product offering to lower risk.
- The challenge is to overcome the high rate of new product failure.

11.3 STAGES OF NEW PRODUCT DEVELOPMENT PROCESS



Stage 1: Idea Generation

The systematic search for new product ideas.

- Internal idea sources: R & D, brainstorming, employees from all departments
- External idea sources:-Customers, competitors, distributors, suppliers

Stage 2: Idea Screening The purpose is to identify good ideas and drop poor ones to avoid spending any more money on developing them.

Criteria used:-

- Usefulness to consumers.
- Good fit with company objectives and strategies.
- Have the resources.
- Add value.

Stage 3: Concept Development and Testing

Concept development creates a detailed version of the idea stated in meaningful consumer terms. Concept testing asks target consumers to evaluate product concepts.

4. Develop Product Ideas into AlternativeProduct Concepts
5. Concept Testing - Test theProduct Concepts with Groups of Target Customers
6. Choose the Best One

Stage 4: Marketing Strategy Development

Marketing Strategy Statement Formulation: Target Market,Planned Product Positioning, Sales & Profit Goals, Market Share, Product's Planned Price,Distribution, Marketing Budget, Marketing Mix Strategy

Stage 5: Business Analysis

Review of Product Sales, Costs, and Profits Projections to See if They Meet Company Objectives, if yes move to Product development otherwise eliminate product idea.

Stage 6.Product Development

Prototype development and testing

- At this stage the company will determine whether the product idea can be translated into technically & commercially feasible product.
- Its goal is to find a prototype that consists the key attributes described in the product concept & that performs safely under normal use & conditions and that can be produced within the budgeted cost.

Stage 7. Test Marketing

The product here is actually tested in the selected market segments. Based on the outcomes of the test marketing, the marketer lunches large scale manufacture of the new product. It is a controlled marketing experiment to decide the soundness & feasibility of fully fledged marketing of the product.

Standard Test Market: Full marketing campaign in a small number of representative cities.

Controlled Test Market: A few stores that have agreed to carry new products for a fee.

Simulated Test Market: Test in a simulated shopping environment to a sample of consumers.

Stage 8 Commercialisation: At this stage the company takes decision to go in for large scale production & marketing of the new product.

- Various marketing strategies are employed by the company at this stage, when it starts commercializa tion of a new product idea.
- The important factors to which strategists should focus here are: Market entry timing period.

- Whether to launch the product in a single locality, a region, several regions, nationally or internationally, i.e. geographic strategy.
- To whom the new product should target for i.e. targeting & segmenting.

REVIEW QUESTIONS:

1. What is a new Product? Why do Companies keep on developing new products?
2. Discuss the various stages in New Product Development.
3. Company X has dominant share in the Indian tomato sauce market and also owns a successful brand in the category. Research showed that there was a need for sauce with unique taste which could be taken with Indian as well as western snack foods. The Company introduced “Tomi-Imli” a new tomato sauce with tamarind and tangy spices. Product is targeted at children in the age group of 14 years and above. As a marketing manager ,which steps would you take while launching this product? How will you conduct test marketing of this product?

NOTES

CHAPTER 12: PRICING DECISIONS

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

Price is the sum of all the values that customer exchange for the benefits of having or using the product or service. Price may be defined as the value of product attributes expressed in monetary terms which a customer pays or is expected to pay in exchange and anticipation of the expected or offered utility.

Pricing helps to establish mutually advantageous economic relationship and facilities the transfer of ownership of goods and services from the company to buyers.

The managerial tasks involved in product pricing include establishing the pricing objectives, identifying the price governing factors, determining product value in monetary terms and formulation of price policies and strategies. Thus, pricing play a far greater role in the marketing-mix of a company and significantly contributes to the effectiveness and success of the marketing strategy and success of the firm.

12.1 FACTORS INFLUENCING PRICING

Price is influenced by both internal and external factors. In each of these categories some may be economic factors and some psychological factors; again, some factors may be quantitative and yet others qualitative.

Internal Factors influencing pricing.

- Corporate and marketing objectives of the firm. The common objectives are survival, current profit maximization, market-share leadership and product-quality leadership.
- The image sought by the firm through pricing.
- The desirable market positioning of the firm.
- The characteristics of the product.
- Price elasticity of demand of the product.
- The stage of the product on the product life cycle.
- Costs of manufacturing and marketing.
- Product differentiation practiced by the firm.
- Other elements of marketing mix of the firm and their interaction with pricing.
- Consumption of the product line of the firm.

External Factors Influencing Pricing

- Market characteristics
- Buyers behaviors in respect to the given product.
- Bargaining power of the customer.
- Bargaining power of the major suppliers.
- Competitor's pricing policy.
- Government controls/ regulation on pricing.
- Other relevant legal aspects
- Social considerations.
- Understanding, if any, reached with price cartels.

12.2 PRICING PROCEDURE

The pricing procedure usually involves the following steps:

1. Development of Information Base

The first step in determining the basic price of a company's product(s) is to develop an adequate and up-to-date information base on which price decisions can be based. It is composed of decision-inputs such as cost of production, consumer demand, industry, prices and practices, government regulations.

2. Estimating Sales and Profits

Having developed the information base, management should develop a profile of sales and profit at different price levels in order to ascertain the level assuring maximum sales and profits in a given set of situation. When this information is matched against pricing objectives, management gets the preview of the possible range of the achievement of objectives through price component in the marketing-mix.

3. Anticipation of Competitive Reaction

Pricing in the competitive environment necessitates anticipation of competitive reaction to the price being set. The competition for company's product(s) may arise from similar products, close substitutes. In order to anticipate such a variety of reactions, it is necessary to collect information about competitors in respect of their production capacity, cost structure, market share and target consumers.

4. Scanning the Internal Environment

Before determining the product price it is also necessary to scan and understand the internal environment of the company. In relation to price the important factors to be considered relate to

the production capacity sanctioned, installed and used, the ease of expansion, contracting facilities, input supplies, and the state of labour relations. All these factors influence pricing decisions.

5. Consideration of Marketing-mix Components

Another step in the pricing procedure is to consider the role of other components of the marketing-mix and weigh them in relation to price. In respect of product the degree of perishability and shelf-life, shape the price and its structure; faster the perishability lower is likely to be the price.

6. Selections of Price Policies and Strategies

The next important step in the pricing procedure is the selection of relevant pricing policies and strategies. These policies and strategies provide consistent guidelines and framework for setting

as well as varying prices to suit specific market and customer needs.

7. Price Determination

Having taken the above referred steps, management may now be poised for the task of price determination. For determination of price, the management should consider the decisions inputs

provided by the information base and develop minimum and maximum price levels. These prices should be matched against the pricing objectives, competitive reactions, government regulations,

marketing-mix requirements and the pricing policing and strategies to arrive at a price. However, it is always advisable to test the market validity of its price during test marketing to ascertain its

match with consumer expectations.

12.3 GENERAL PRICING APPROACHES

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

(1) The cost-based approach

- Cost-Plus Pricing
- Break-Even Analysis and Target -Profit Pricing

(2) The Buyer-based approach

- Perceive-Value Pricing

(3) The Competition based approach

- Going-Rate Pricing
- Sealed-Bid Pricing

The cost-based approach

1. Cost-Plus Pricing

This is the easiest and the most common method of price setting .In this method, a standard mark up is added to the cost of a product to arrive at its price. For example, the cost of manufacturing a fan is Rs. 1000/- adds 25 per cent mark up and sets the price to the retailer at Rs. 1250/-. The retailer in turn, may mark it up to sell at Rs. 1350/- which is 35 per cent market up on cost. But this method is not logical as it ignores current demand and competition and is not likely to lead to the optimum price. Still mark up price is quite popular.

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2. Break-Even Pricing and Target-Profit Pricing

An important cost-oriented pricing method is what is called target-profit pricing under which the company tries to determine the price that would produce the profit it wants to earn. This pricing

method uses the popular 'break-even analysis'. According to it, price is determined with the help of a break-even chart. The break-even chart depicts the total cost and total revenue expected at different sales volume. The break-even point on the chart is that when the total revenue equals total cost and the seller neither makes a profit nor incurs any loss. With the help of the break-even chart, a marketer can find out the sales volume that he has to achieve. In order to earn the

targeted profit, as also the price that he has to charge for his product.

Buyer-based Approach

1.Perceive-Value Pricing

Many companies base their price on the products perceived value.They take buyer's perception of value of a product, and not the seller's cost, as the key to pricing. As a result, pricing begins with analyzing consumer needs and value perceptions, and price is set to match consumers' perceived value.

Such companies use the non-price variables in their marketing mix to build up perceived value in the buyer's minds, e.g. heavy advertising and promotion to enhance the value of a product in the

minds of the buyers.

Competition-based Approach

1. Going Rate Pricing

Under this method, the company bases its prices largely on competitor's prices paying less attention to its own costs or demand. The company might charge the same prices as charged by

its main competitors(Parity pricing), or a slightly higher(Premium Pricing) or lower price than that.(Discount Pricing)

The smaller firms in an industry follow the leading firm in the industry and change their prices when the market leader's prices changes. The marketer thinks that the going price reflects the

collective wisdom of the industry.

2. Sealed-Bid Pricing

This is a competitive oriented pricing, very common in contract businesses where firms bid for jobs. Under it, a contractor bases his price on expectations of how competitors will price rather than on a strict relation to his cost or demand.

12.4 PRICING OBJECTIVES

A businesses firm will have a number of pricing objectives. Some of them are primary; some of them are secondary; some of them are long-term while others are short-term. However, all pricing objectives emanate from the corporate and marketing objectives of the firm.

Some of the pricing objectives are discussed below:
1. Pricing for a target return.
2. Pricing for market penetration.
3. Pricing for market skimming.
4. Discriminatory pricing
5. Stabilizing pricing.

1. Pricing for a target return.

This is a common objectives found with most of the established business firms. Here, the objective is to earn a certain rate of Return On Investment (ROI) and the actual price policy is worked out to earn that rate of return. The target is in terms of ‘return on investment’. There are companies which set the target at, for example, 20% return on investment after taxes.

2. Pricing for market penetration.

When companies set a relatively ‘low price’ on their new product in initial stages hoping to attract a large number of buyers and win a large market-share it is called penetration pricing policy. They are more concerned about growth in sales than in profits. Their main aim is capturing and to gain a strong foothold in the market. This object can work in a highly price sensitive market. When market share increases considerably, the firm may gradually increase the price.

3. Pricing for market skimming.

Many companies that launch a new product set ‘high prices ’initially to skim the market. They set the highest price they can charge given the comparative benefits of their product and the available substitutes. After the initial sales slowdown, they lower the price to attract the next price-sensitive layer of customer.

4. Discriminatory pricing

Some companies may follow a differential or a discriminatory pricing policy-charging different prices for different customers or allowing different discounts to different buyers.

Discrimination may be practiced on the basis or product or place or time. For example, doctors may charge different fees for different patients; railways charge different fares for usual passengers and regular passengers/ students. Manufacturers may offer quantity discounts or quote different list prices to bulk-buyers, institutional buyers and small buyers.

5. Stabilizing pricing.

The objective of this pricing policy is to prevent frequent fluctuations in pricing and to fix uniform or stable price for a reasonable period. When price is revised, the new price will be allowed to remain for sufficiently a long period. This pricing policy is adopted, for example, by newspapers and magazines.

12.5 NEW PRODUCT PRICING

Pricing a new product is an art. It is one of the most important and dazzling marketing problems faced by a firm.

Apart from the problem of estimating the demand for an entirely new product, certain other initial problems likely to be faced are:
1) Discovering a competitive range of price.
2) Investigating probable sales at several possible prices, and
3) Considering the possibility of relation from products substituted by it

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

Test marketing can be helpful in deciding the suitable pricing policy. Under test marketing, the product is introduced in selected areas,often at different prices in deferent areas. These tests will provide the management an idea of the amount and elasticity of the demand for the product, the competition it is likely to face, and the expected sales volume and profits simulation of full-scale production and distribution.

The next important question is “whether to charge high initial priceor a low penetration price”.

A high Initial Price (Skimming Price)

A high initial price, together with heavy promotional expenditure, may be used to launch a new product if conditions are appropriate. For example:

(a) Demand is likely to be less price elastic in the early stages than later, since high prices are unlikely to deter pioneering consumers. A new product being a novelty commands a better price.

(b) Is the life of the products promises to be a short one, a high initial price helps in getting as much of it and as fast as possible.

(c)High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital.

A Low Penetration Price

In certain conditions, it can be successful in expanding market rapidly thereby obtaining larger sales volume and lower unit costs. It is appropriate where:

(a) there is high short-run price elasticity;

(b) there are substantial cost savings from volume production;

(c) the product is acceptable to the mass of consumers;

(d) there is a threat of potential competition so that a big share of the market must be captured quickly.

The objective of low penetration price is to raise barriers against the entry of prospective competitors.

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12.6 PRODUCT-MIX PRICING STRATEGIES

The strategy for setting a project’s price often has to be changed when the product is a part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix.Pricing is difficult because the various products have related demand and costs and face different degrees of competition.

Product-mix Pricing Situations

Product Line Pricing: Companies usually develop product lines rather than single products.The price steps should take into account cost differences between the products in the line, customer evaluations of their different features ,and competitor’s prices. if the price difference between two successive products is small, buyers usually will buy the more advanced product.This will increase company profits if the cost difference is smaller than price difference.

Optional-Product Pricing: Many companies use optional-product pricing – offering to sell optional or accessory products along with their main product. Forexample, a car buyer may choose to order power widows, central locking system, and with a CD player. Automobi le companies have to decide which items to include in the base price and which to offer as options.

Captive-Product Pricing:

Companies that make products that must be used along with a main product are using captive-product pricing. Examples of captive products are razor blades, camera film, and computer software. Producers of the main products (razors, cameras, and computers) often price them low
and set high markups on the supplies. Thus, Kodak prices its cameras low because it makes its money on the film it sells.

In the case of services, this strategy is called **two-part pricing**. The price of the service is broken into a fixed fee plus a variable usage rate. Thus, a telephone company charges a monthly rate – the fixed fee – plus charges for calls beyond some minimum number – the variable usage rate.

The fixed amount should be low enough to induce usage of the service, and profit can be made on the variable fees.

By-Product Pricing:

In producing petroleum products, chemicals and other products, there are often by-products. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the seller to reduce the main product's price to make it more competitive.

Product-Bundle Pricing:

Using product-bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price. Thus computer makers include attractive software packages with their personal computers. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough toget them to buy the bundle.

12.7 PRICE-ADJUSTMENT STRATEGIES

Companies usually adjust their basic price for various customer differences and changing situations.

Types of Price-Adjustment Strategies

(1) Discount and Allowance Pricing: Reducing prices to reward customer response such as paying early, volume purchases, and off-season buying. A cash discount is a price reduction to buyers who pay their bills promptly. A quantity discount is a price reductions to buyers who buy large volumes. A seasonal discount is a price reduction to buyers who buy merchandise or services out of season.

A trade discount is offered by the seller to trade channel members who perform certain functions, such as selling, storing and record-keeping.

Allowances are another type of reduction from the list price. Trade allowance is given, for example, on exchange offers. Promotional allowances are payment or price reductions to reward dealers for participating in advertising and sales-support programs

(2) Segment Pricing: Adjustment prices to allow for differences in customers, product, or locating. Segmented pricing takes several forms.

Customer-segment pricing : Different customers pay different prices for the same product or service. Railways, for example, charge a concessional fare to children and senior citizens.

Product-form pricing: Different version of the product are priced differently, but not according to differences in their costs.

Location pricing: Different locations are priced differently, even though the cost of offering each location is the same. For instance ,theaters vary their seat prices because of audience preferences for certain locations.

Time pricing: Prices vary by the season, the month, the day, and even the hour. Public utilities vary their prices to commercial users by time of day and weekend versus weekday. The telephone company offers lower "off-peak" charges.

(3) **Psychological Pricing**: Adjusting prices for psychological effect. Price says something about the product. For example, many consumers use price to judge quality. In using psychological pricing, sellers consider the psychology of prices and not simply the economics.

(4) **Promotional Pricing:** Temporarily reducing prices to increase short-run sales. Supermarkets and departments stores will price a few products as loss leaders to attach customers to the store in the hope that they will buy other items at normal markups. Sellers will also use special event pricing in certain seasons to draw more customers.

(5**) Value Pricing**: Adjusting prices to offer the right combination of quality and service at a fair price. In many cases, this has involved the introduction of less expensive versions of established, brand name products.

(6) Geographical Pricing: Adjusting prices to account for the geographic location of customers.

(7) International Pricing: Adjustment prices for international markets.Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price.

12.8 ADMINISTERED PRICE

An administered or administrative price is set by a company official in contrast to the competitive market prices described in theory. Administered price may, therefore, be defined as the price resulting from managerial decisions of the company.

The administrative price is set by management after considering all relevant factors impinging on it, viz, cost, demand and competitors' reactions. Since all companies set administrative prices on more or less identical considerations, the prices in respect of similar products available in the market tend to be uniform. The competition, therefore, is based on non-price differentiation through branding, packaging and advertising, etc.

REGULATED PRICE

The concept of administrative price may possibly impart a notion that a company is free to fix whatever price if deems fit and buyer have but one choice – either to buy or not to buy. But in real life situation it is not like this. For fear of damages to consumer and national interests, administered prices are subject to state regulation. Therefore, whenever the administered price is managed within the state regulation it is termed as regulated price. The price may be set by a company within the framework or on the basis of the formula given by the State. In India companies, for example, the fertilizer, aluminium and steel industries sell their products at prices fixed by the government, while companies, for example, the cotton textile industry sell products at the price fixed on the basis of a given formula.

12.9 PRICING OVER THE PRODUCT LIFE CYCLE

The price policy can be considered in terms of product life cycle. In the initial stages the skimming policy can be useful for getting a better understanding of the extent of demand or consumer response as well as to earn adequately to cover the product development costs. The policy may then lead to slow reduction of the price with a view to expand the market. For the new company (as compared with the new product)pricing a product in the maturity stage, the preferred strategy would be penetration pricing – the opposite of skimming. This is unavoidable when the whole demand is elastic and the new entrant company's first aim is to gain entry, a standing or recognition in the market even at a loss for a short period. This policy may also be applied for new product, if the firm expects serious competition very soon after introduction.

12.10 GOVERNMENT CONTROL ON PRICING

Price controls refer to the Governmental regulations in respect of price fixation. Usually statutory price control entails imposition of price ceiling so that it does not exceeds consumer capacity to pay The firms manufacturing these products are assured retention prices which are based on costs, and ensure fair return on investment. Example Fertlisers .The statutory price control also envisages the announcement of 'support price' for certain agricultural products like cotton, food grains etc, so as to protect cultivators from price fluctuation.

REVIEW QUESTIONS:

1. Explain the Objectives of Pricing Policy of a business firm.
2. Discuss the general approaches to Pricing based on cost, buyer and competition.
3. Throw light on the various factors which influence pricing .
4. Discuss the various Product Mix pricing Strategies.

CHAPTER 13 : MARKETING CHANNELS (DISTRIBUTION)

13.1 CHANNEL MANAGEMENT AND PHYSICAL DISTRIBUTION

A distribution channel may be defined as: "…the set of firms and individuals that take title, or assist in transferring title, to a good or service as it moves from the producer to the final consumer or industrial user."

For a long time, marketers only gave thought to appropriate channels of distribution after the product had been developed. However in today's competitive and increasingly global marketplace, managers plan for product distribution *as* they plan their products.

Modern distribution systems are based on strategic planning, adhere to the marketing concept, focus on target markets, and are consistent and flexible.

Strategic planning: Distribution channels must be compatible with the strategic marketing plan. As new products are introduced, existing channels have to be reassessed since they may not be the right channels for the new product. In some cases, a company will decide not to launch a new product because it does not fit in with existing distribution channels and existing strategy.

It can happen that as the product proceeds through its life cycle the appropriateness of the distribution channel can change. When developing the strategy, thought should be given to how the needs of the product might differ over its life span.

An organisation's distribution strategy is often interconnected with its promotional strategy.

The distribution system can be depicted as a channel through which products and services move from producer to end user. If the agribusiness concerned believes that its product(s) can be meaningfully differentiated from others on the market, then it may elect to direct the greater part of its promotional effort towards end users. This is termed a ***pull strategy*,** whereby the objective is to create such a strong preference for the product among end users that the resulting demand pulls the product through the channel of distribution.

Where the product is perceived by end users to be a commodity (or one where there is little difference between brands) then the channel strategy of the agribusiness may be to target much of its promotional effort on intermediaries. If intermediaries can be persuaded to stock the product, in preference to those of competitors, then when customers visit a sales outlet and ask for a product by its generic name it is the product of the company which is supplied. This is termed as ***push strategy*.** In practice, the promotional strategies of most agribusinesses will be a combination of pulling and pushing the product through the channel of distribution, but there is likely to be more emphasis on one or the other.

Target marketing: Another important criteria on the selection of distribution channels is the extent to which these focus on the specific market segments that the producer or supplier wishes to penetrate. For example, Agri input dealers distribute a wide range of agricultural inputs to smallholders but do very little business with plantations and estates.

Thus, it can be seen that channel decisions are central to the organization's overall marketing strategy.

"Channels are interlocking, highly interdependent, and often complex. Effective distribution is not a patchwork quilt of randomly selected channel members; rather it requires a carefully planned network whose members have clearly assigned functions. The flow of products from manufacturer to wholesaler to retailer to the final buyer depends on systematic, strategic planning and management."

13.2 FUNCTIONS OF MIDDLEMEN

There are many functions to be carried out in moving the product from producer to customer. Those functions each require funding and, often, specialist knowledge and expertise. Few producers have either the resources or the expertise to carry out all of the necessary functions to get a product/service to the ultimate user. A middleman's remuneration should depend upon the number of marketing functions he/she performs and, more especially, by the efficiency with which they are performed.

The advantages of using middlemen as opposed to marketing direct to end-users can be demonstrated very easily. The efficiency of most marketing systems is improved by the presence of effective intermediaries. This is illustrated in figures 12.1 a and b. These show that an intermediary between a number of producers and consumers reduces the number of transactions and thereby procurement and selling costs and time are all reduced.

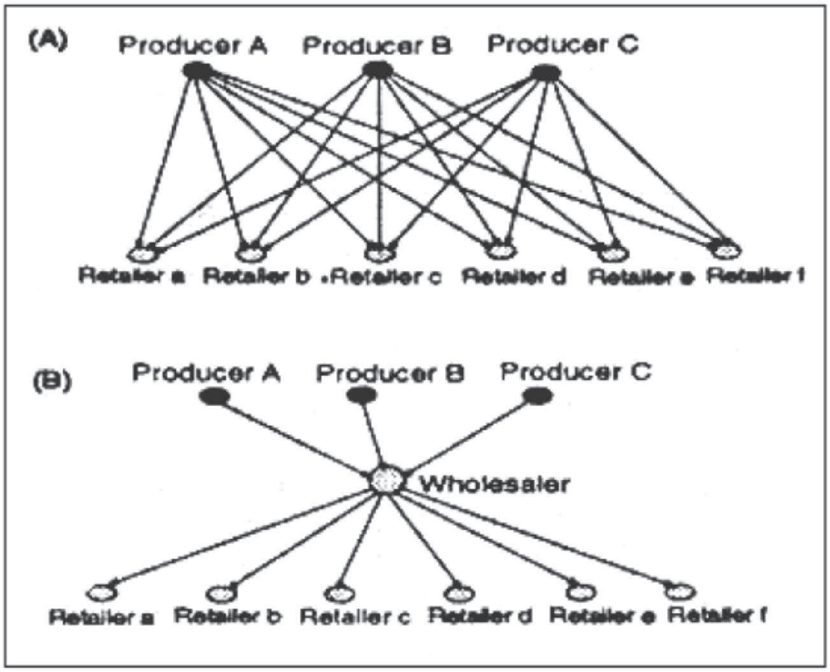


Figure 13.1 A direct marketing system and a marketing system with intermediaries

A middleman's existence is justified just so long as he/she performs marketing functions which others cannot or will not, or can perform his/her marketing functions more efficiently than can the producer and/or alternative intermediaries.

Reasons why middlemen are commonly employed by producers:

- intermediaries provide wider market exposure
- few producers have sufficient capital to market direct and
- producers can usually earn a higher return on investment by employing available capital in activities other than those of direct marketing.

McVey states that:

"You can do away with the middleman but you cannot do away with his functions."

In other words, those functions have to be carried out by someone and the expense and risk of doing so has to be met. The real question is not whether middlemen are needed but whether the middleman's remuneration is commensurate with the levels of risk carried and the services provided in the form of marketing functions performed. Furthermore, intermediaries can only be justified if they can perform these functions more efficiently and effectively than the other actual or potential market participants.

13.3 KEY DECISIONS IN CHANNEL MANAGEMENT

There are a number of key decision areas pertaining to the appointment of intermediaries. These include: price policy, terms and conditions of sale, territorial rights and the definition of responsibilities. In addition, a choice has to be made between extensive and intensive coverage of the market.

Price policy: List prices, wholesale/retail margins and a schedule of discounts have to be developed. These have to reflect the interests of the intermediary, as well as those of the producer/supplier if lasting alliances are to be formed with channel members.

Terms and conditions of sale: In addition to price schedules the producer/supplier must explicitly state payment terms, guarantees and any restrictions on where and how products are to be sold. If the product enjoys a sizeable demand then the producer/supplier may evaluate intermediaries on the basis of performance criteria such as the achievement of sales quota targets, inventory levels, customer delivery times, etc.

Territorial rights: In the case of certain products, distributors will be given exclusive rights to market a product within a specified territory. In deciding upon the boundaries of territories the manufacturer or supplier has to strike a balance between defining territories which are sufficiently large to provide good sales potential for distributors but small enough to allow distributors to adequately service the customers within the territory.

Definition of responsibilities: The respective duties and responsibilities of supplier and distributor have to be clearly defined. For instance, if a customer experiences a problem with a product and requires technical advice or a repair needs to be effected, then it should be immediately clear to both the supplier and the distributor as to which party is responsible for responding to the customer.

The intensity of distribution i.e. the total proportion of the market covered, will depend upon decisions made in the context of the overall marketing strategy. Three principal strategies thesefor distribution being; intensive, selective and exclusive distribution.

Extensive distribution: Those responsible for the marketing of commodities, and other low unit value products, are, typically, seek distribution, i.e. saturation coverage of the market. This is possible where the product is fairly well standardised and requires no particular expertise in its retailing. Mass marketing of this type will almost invariably involve a number of intermediaries because the costs of achieving extensive distribution are enormous. It is simply too expensive in most cases. Where commercial organisations do opt for extensive distribution, channels are usually long and involve several levels of wholesaling as well as other middlemen.

Selective distribution: Suppliers who appoint a limited number of retailers, or other middlemen, are chosen to handle a product line, have a policy of selective distribution.The distribution channel is usually relatively short with few or no intermediaries between the producer and the organisation which retails the product to the end user.

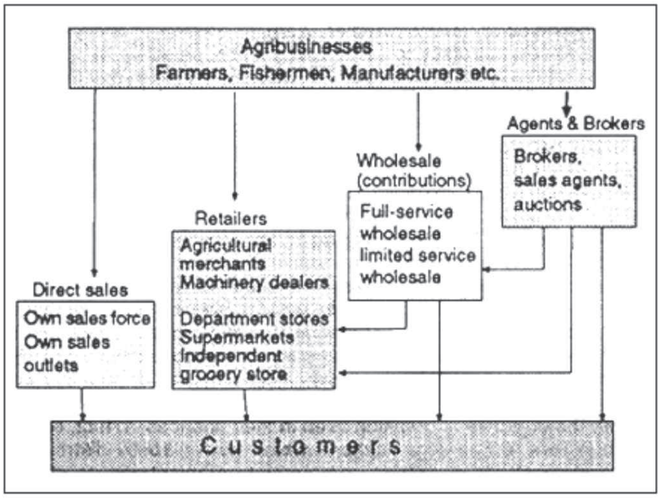
Selective distribution is common among new businesses with very limited resources. Their strategy is usually one of concentrating on gaining distribution in the larger cities and towns where the market potential can be exploited at an affordable level of marketing costs.

Exclusive distribution: Exclusive distribution is an extreme form of selective distribution. That is, the producer grants exclusive right to a wholesaler or retailer to sell in a geographic region. This is not uncommon in the sale of more expensive and complex equipment. A Tractor Company, for example, appoints a single dealer to distribute its products within a given geographical area.

Some market coverage may be lost through a policy of exclusive distribution, but this can be offset by the development and maintenance of the image of quality and prestige for the product and by the reduced marketing costs associated with a small number of accounts. In exclusive distribution producers and middlemen work closely in decisions concerning promotion, inventory to be carried by stockists and prices.

13.4 TYPES OF DISTRIBUTION SYSTEM

Figure 13.2 The principal types of distribution system



Direct marketing systems: Where distances between producers and consumers are short, direct transactions between the two groups can take place. Farmers who elect to market their products directly have to trade off the benefits of doing so against the time they are away from farming activities. In the case of industrial markets, direct transactions are common where there are a relatively small number of customers .

Retail institutions: The retail sector includes a wide range of outlets such as merchants, equipment dealers, department stores, supermarkets and smaller grocery stores. They are characterised by their dealing with the end user of the product or service.

Wholesalers: Wholesalers make marketing systems more efficient by buying a variety of products, in fairly large quantities, and selling these items on to other businesses who require relatively small quantities of a variety of goods. Wholesalers may service consumer and/or industrial retail outlets. For instance, fruit and vegetable wholesalers often sell to both grocery stores (consumer) and hotels, hospitals, schools, prisons, etc. Some wholesalers offer a full-service i.e. they perform all the distribution functions such as selling, pre-delivery inspection, technical advice, extension of credit, storage, and delivery. Other wholesalers provide only a limited service.

Sales agents and brokers: Sales agents and sales brokers are distinguished from the other types of channel member already described in that they do not take title to the goods. The role of agents and brokers is to facilitate distribution by bringing buyers and sellers together. Sales agents often have close relations with particular growers/processors/manufacturers and contract to sell on their behalf in return for a commission. Brokers, on the other hand, earn a commission for informing buyers of possible sellers and informing sellers of possible buyers. Clients use the services of a broker intermittently since their supply of the product to the market is intermittent.

Vertical marketing systems: This is a system in which the producer(s), wholesaler(s) and retailer(s) act as a unified system. Usually one channel member owns the others, or has contracts with them, or has franchises with others in the channel. The argument for vertically integrated marketing systems is based upon increased efficiency of the system by the removal of duplicated services. They also achieve economies through size, bargaining power and reductions in potential conflicts of interest. Examples include:

Franchisers operate by vertically linking several levels of the marketing system. Thus Coca Cola 'wholesales' its syrup concentrate (product) to franchisees who carbonate and bottle and distribute the brand (processing, packaging and physical distribution) to consumers who have been targetted by Coca Cola's heavy advertising (promotion)..

Small scale retailers have responded to the competitive advantage of supermarkets by voluntarily integrating their buying and/or wholesaling and marketing operations. This has enabled them to achieve lower operating costs and to offer consumers lower prices than they otherwise could.

Horizontal marketing systems: Channels can also develop into horizontal marketing systems in which two or more companies, at the same channel level, cooperate to pursue marketing opportunities. The basis of the marriage is that in combining resources and expertise the partners can achieve some goal that individually they could not. Thus, for example, a seed company and a grain merchant might set up a joint venture to offer farmers a complete package where he buys certified seed from the new enterprise which guarantees to buy his/her grain crop at prevailing market prices.

13.5 POWER AND CONFLICT IN DISTRIBUTION CHANNELS

Within a distribution channel there is usually a balance of power, and the characteristics of the channel are shaped by the manner in which power is exercised. Sometimes the balance of power in a channel lies with the producer/manufacturer and in other it lies with the intermediary. Moreover, there is always the potential for conflict between channel members.

Conflict between channel members can arise for one or more of the following reasons:

Incompatibility of goals: Organisations can have conflicting goals

Confusion over roles and rights: For example, a grower may sell part of the produce through local agents and part direct to supermarkets. This may cause conflict because the local agent believes that all sales should go through him/her.

Differences in perceptions: Among the many potential differences in perceptions, which can result in conflict, are: who the customer is; what the market wants; the objectives of other channel members in participating in the market; and the role which other channel members play in helping the organisation achieve its own objectives.

Degree of interdependence: The greater the degree of interdependence between two members of the distribution channel, the greater the potential for conflict. This is because the actions of one directly impinge upon the performance of the other.

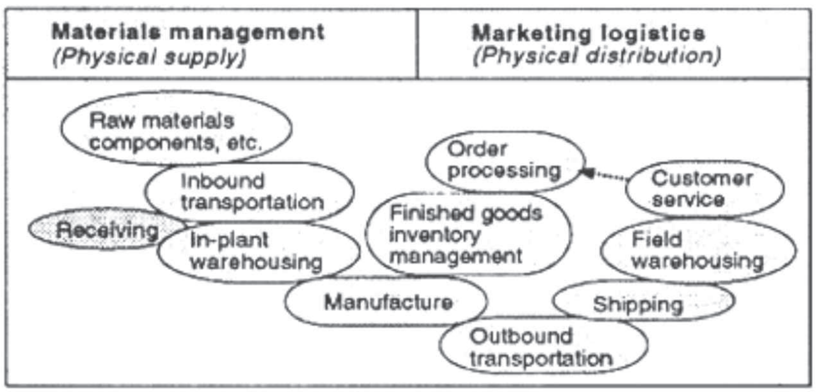
13.6 PHYSICAL DISTRIBUTION

Physical distribution is defined as :

"…all activities involved in planning, implementing, and controlling the physical flow of raw materials, in-process inventory, and finished goods from point-of-origin to point-of-consumption. The main activities include customer service, inventory control, material handling, transportation, warehousing and storage."

Thus, it is suggested that physical distribution has two components: materials management and marketing logistics. Materials management is concerned with physical supply operations such as procurement and the storage and movement of raw materials to and through processing into a finished product. Marketing logistics deals with the transfer of finished goods to intermediaries, final buyers and end-users.

Figure 13.3 The elements of business logistics



Physical distribution is often viewed as a necessary support system for the organisation's marketing programme. An organisation which is able, for instance, to supply a wide variety of products speedily at specified times helps reduce the inventory holding costs of the intermediaries being served. Thus the way physical distribution is managed is explained by its potential as a powerful marketing instrument, the opportunity to realise significant savings in marketing costs and by the importance of physical distribution to customer service levels.

13.7 CUSTOMER SERVICE LEVELS

The level of customer service provided by a company is part of the marketing mix. In some instances, a company offers an exceptionally high level of customer service as the principal means of differentiating itself from competitors. Customer service levels are as pertinent to the intermediaries which the agribusiness serves.

A large part of customer service is effected through the physical distribution function. A wide range of criteria may be used in evaluating the service level offered by an agribusiness but these are likely to include:

- timeliness of delivery
- order cycle time, i.e. time interval between order placement and delivery
- percentage of items out of stock
- percentage of times an item cannot be supplied from stock
- percentage of orders filled accurately
- percentage of orders arriving in good condition,
- ease and flexibility of order placement, and
- competitors' service levels.

Maintaining high levels of customer service carries heavy costs and can only be justified when doing so results in marketing opportunities which otherwise would not be realised. This means considering the trade-offs between the costs involved and the service level offered. It is possible, after all, to provide a level of service above that required or appreciated by the customer.

13.8 THE TOTAL DISTRIBUTION CONCEPT

The total distribution concept and the total cost approach are widely applied by managers of physical distribution. They are based on the notion that all elements of physical distribution are so interdependent that a decision made about one element will impact on some or all of the others. Since, in general, physical distribution managers appreciate that their challenge is to minimise the total costs of the distribution system, rather than the costs of a particular element, they tend to employ the total cost concept.

Management must calculate the trade-offs between three categories of cost: transportation costs, order processing costs and stockholding costs.

Storage costs: Because of economies of scale a large warehouse can be operated at a lower cost than can several smaller warehouses. Each separate site will require its own management team and this increases distribution costs further. Increasing the number of warehouses will, almost invariably, increase storage costs However this may be necessary to meet customer expectations with a minimum standard of service.

Transportation costs: The increase in storage costs may be offset, either in whole or in part, by savings made in transportation costs As the number of warehouses increases, unit transport costs decline due to lower mileages being travelled by delivery vehicles. For most manufacturers and producers transportation is the major physical distribution cost.

Inventory carrying costs: The cost of maintaining sufficient stocks to meet any level of demand is usually prohibitive. Instead, the firm seeks to reach a balance between inventory carrying costs and an acceptable level of customer service.

Among the chief determinants of inventory carrying costs are:

- the greater the number of locations at which stock is held, the greater the level of stocks and carrying costs.

- longer order cycles result in higher stocks, and vice versa and
- as the product portfolio increases so does the amount invested in stocks

System Costs: The last category of the costs are those termed system costs. These include costs attached to order processing activities, the maintenance of information systems and communications between sites.

Total distribution cost: Changes in one element of the distribution system can have a dramatic, and often unexpected effect on other elements of the system and upon the system as a whole. Hence the need to view the physical distribution system as a whole. Total distribution costs analysis can be used to this end. By bringing together the various types of distribution cost, the effects of proposed changes in one area of distribution can be assessed in terms of their impact on other individual elements and upon the system as a whole.

13.9 WAREHOUSE MANAGEMENT

The functions of warehouses are to provide cost-effective storage, in suitable conditions, for the organisation's products and materials. The existence of a warehouse is justified by the extent to which it contributes to the efficiency and effectiveness of physical distribution functions. The geographical location of a warehouse should be determined by production sites and the physical position of target markets.

Warehouse managers have a number of important challenges including:

- determining the most appropriate capacity
- optimising space utilisation
- reducing the movement of labour, equipment and products/materials to a minimum
- establish a safe, secure warehouse environment and
- keeping costs to a minimum.

13.10 INVENTORY MANAGEMENT

The management of inventory can have a major impact upon the profitability of an organisation. If inventory levels are too low then there is the risk of stockouts, i.e. the inability to meet an order. This can result in a loss of revenues, profits and customer goodwill. On the other hand, if the inventory levels are too high then the organisation can experience cash flow problems since so much of its capital is tied up in stocks. When inventory levels are high then there is also an increased risk of spoilage, pilferage and obsolescence.

REVIEW QUESTIONS:

1. “You can do away with the middleman but you cannot do away with his functions.” Do you agree? Why? Discuss the functions of market intermediaries.

2. Discuss the three important strategies for Distribution channels management.

3. Discuss the reasons for conflict in marketing channel.How can they be managed?

4. Discuss the major types of Distribution systems.

5. Explain Push and Pull strategy with the help of suitable example.

CHAPTER 14: PROMOTION (MARKETING COMMUNICATIONS) DECISIONS

14.1 NATURE OF MARKETING COMMUNICATIONS

Marketing communications are intended to both inform and persuade a target audience, with a view to influencing the behaviour of that group.

In fact, without effective marketing communications the consumer remain unaware of products and services they need, who might supply them and the benefits which both product and suppliers can offer. Moreover, it is impossible to develop effective and efficient marketing systems without first establishing channels of communication. Even the best products do not sell themselves. Marketing communications serve five key objectives:

- the provision of information
- the stimulation of demand
- differentiating the product or service
- underlining the product's value,
- regulating sales.

Marketing communications takes four forms - **advertising, sales promotion, personal selling and publicity**. These must be formulated within a co-ordinated marketing communications plan. Like all other elements of the marketing mix, it must be tuned to the characteristics and needs of the target market.

Advertising: Advertising is the most visible element of the communications mix because it makes use of the mass media, i.e. newspapers, television, radio, magazines, bus hoardings and billboards. Mass consumption and geographically dispersed markets make advertising particularly appropriate for products that rely on sending the same promotional message to large audiences. Many of the objectives of advertising are only realised in the longer term and therefore it is largely a strategic marketing tool.

Sales Promotion: Sales promotion employs short-term incentives, such as free gifts, money-off coupons, product samples etc., and its effects also tend to be short-term. Therefore, sales promotion is a tactical marketing instrument. Sales promotions may be targeted either at consumers or members of the channel of distribution, or both.

Public relations: Public relations is an organisation's communications with its various publics. These publics include customers, suppliers, stockholders (shareholders, financial institutions and others with money invested in the business), employees, the government and the general public. In the past, organisations thought in terms of publicity rather than public relations. The distinction between advertising and publicity was based on whether or not payment was made to convey information via the mass media. Advertising requires payment by the sponsor of the message or information whilst publicity is information which the media decides to broadcast because it is considered newsworthy and therefore no payment is received by the media from a sponsor. It is more common these days to speak of public relations than of publicity. Public relations is much more focused in its purposes.

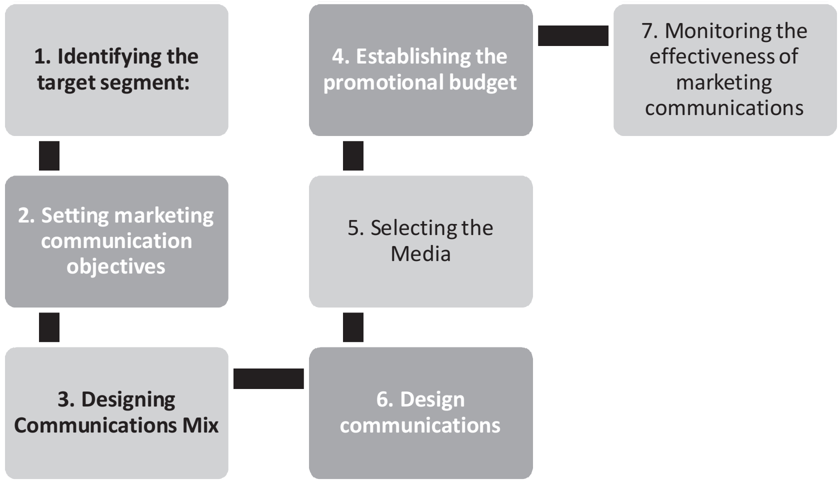
The objectives of public relations tend to be broader than those of other components of promotional strategy. It is concerned with the prestige and image of the organisation as a whole . To the extent that public relations is ever used in product promotion, it constitutes an indirect approach to promoting an organizations products and/or services.

Personal selling: This can be described as an interpersonal influence process involving an agribusiness' promotional presentation conducted on a person-to-person basis with the prospective buyer. It is used in both consumer and industrial marketing and is the dominant form of marketing communication in the case of the Industrial marketing.

14.2 DEVELOPING AN APPROPRIATE COMMUNICATIONS PROGRAMME

Once the overall marketing strategy has been determined and the marketing plan has been outlined, it is necessary to develop a set of operational communication objectives. It is only when this is done that an appropriate marketing communications mix can be designed. Having decided upon the communications mix, the promotional message can be determined and the medium or media best suited to delivering this message can be chosen. If the cost of the communications programme exceeds the resources available to the organisation, then there may have to be an adjustment in the communications mix. Once the budget has been set the programme can be implemented. The effectiveness of the programme has to be measured against its objectives and, if necessary, adjustments or revisions of the programme will be made. Major 7 steps in developing marketing communications programme are as follows:

Fig. 14.1 Seven Steps In Developing Marketing Communications Programme



1. Identifying the target segment: The identification of the target audience is obtained from the marketing strategy and marketing plan. There may, however, need to be a refinement of the target group for a p articular promotional campaign. If the target group is defined with precision this greatly assists in deciding upon both the content of the promotional message and the medium chosen to carry it.

2. Setting marketing communication objectives

The question arises as to how operational communication objectives can be developed, given that these cannot be usefully defined in terms of sales volumes.

Intended behavioural changes: There should be a clear understanding of what behavioural changes the communications programme is intended to bring about. Is it: To increase usage among existing customers? To convert non-users to users? To establish new uses for an existing products? To reduce the amount of brand switching and encourage more users to be brand loyal? Marketing communication objectives can only become operational when the intended behavioural changes are stated with precision and without ambiguity.

Deciding what needs to be done: The third step in developing operation objectives for marketing communications, is to specify the required course of action. To increase the number of uses of a product might only require an awareness campaign, to improve the way in which a product is used (e.g. farmer's application of plant growth chemicals) would probably involve an educational campaign, to create a liking of the product a programme aimed at attitudinal change would be necessary, and the conversion of non-users of the product to users is likely to focus upon creating a conviction about its benefits and attributes.

3. Designing Communications Mix

Factors influencing the communications mix

There are at least 5 major influences on what makes a given mix of promotional techniques appropriate. These are: the nature of the market, the nature of the product, the stage in the product life cycle, price and the funds available for promotional activities.

Nature of the market: An organisation's target audience greatly influences the form of communication to be used. Where a market is comprised of relatively few buyers, in reasonable proximity to one another, then personal selling may prove efficient as well as effective.

Another important consideration is the state of the prospective customer's knowledge and preferences with respect to the product or service. In some cases, the task will be to make potential customers aware of a product which is entirely new to them, whilst in others, the aim will be to attract them away from a competing product. The two tasks are quite different in nature and may require the use of differing forms of communication.

Nature of the product: Highly standardised products, with minimal servicing requirements, are less likely to depend upon personal selling than are custom designed products that are technically complex and/or require frequent servicing. Standardised, high sales volume products, especially consumer products, will probably rely more on advertising through the mass media.

Stage in the product life cycle: The promotional mix must be matched to a product's stage in the product life cycle. During the introductory stage, heavy emphasis is placed upon personal selling to convey the attributes and benefits of the product. Advertising at this stage is chiefly informative, and sales promotion techniques, such as product samples and money-off coupons, are designed to achieve the goals of getting potential customers to try the product.

As a product graduates into the growth and maturity stages, advertising places greater emphasis upon persuasion, with the ultimate objective of encouraging the target market to become purchasers of the product. As more competitors enter the market, advertising begins to stress product differences to establish brand loyalty. Reminder advertisements begin to appear in the maturity and early decline stages.

Price: The fourth factor impinging upon the promotional mix is that of price. Advertising and/or sales promotion are the dominant promotional tools for low unit value products due to the high per contact costs in personal selling.

Promotional budget: A real barrier to implementing any promotional strategy is the size of the promotional budget. Mass media advertising tends to be expensive although the message can reach large numbers of people and hence the cost per contact is relatively low. For many new or smaller firms the costs are prohibitive and they are forced to seek less efficient but cheaper methods.

The marketing communications mix

Depending upon the situation, it is likely that more emphasis will be given to certain forms of promotion than to others. Table 13.1 provides a brief overview of the main advantages and disadvantages of each element of the promotional mix.

Table 14.1 The main promotional methods

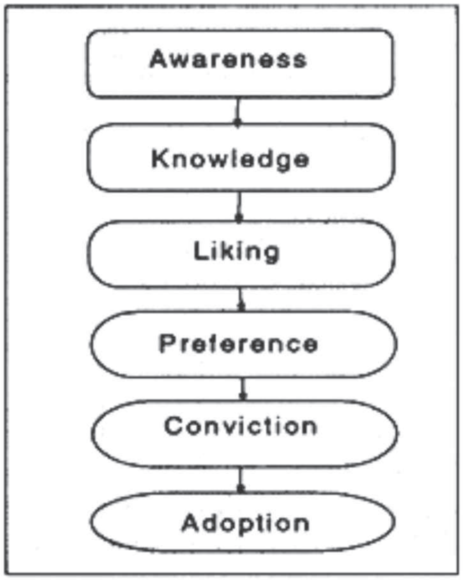
Form of Promotion	Advantages	Disadvantages
Personal selling	Permits flexible presentation and gains immediate response.	Costs more than all other forms per contact. Difficult to attract good sales personnel.
Sales promotion	Gains attention and has instant effect.	Easy for others to imitate
Advertising	Appropriate for reaching mass audiences. Allows direct appeal and control over the message.	Considerable waste. Hard to demonstrate product. Hard to close sale. Difficult to measure results.
Public relations	Has a high degree of believability when done well.	Not as easily controlled as other forms. Difficult to demonstrate or measure results.

ADVERTISING

Advertising is non personal and paid form of communication which by its sponsor .It is transmitted via mass media such as television, radio, cinema screens, newspapers, magazines and direct mail. It is intended to both inform and persuade.

Since the effects of advertising are only evident in the longer term it should be treated as a strategic rather than tactical tool of the marketing communications mix. Advertising does not have the immediate impact of creating a customer. Instead, it has a hierarchy of effects as depicted in figure 14.1. Lavidge and Steiner's hierarchy of effects model describes communication as a process rather than a simple outcome in the form of a sale.

Figure 14.1 The hierarchy of effects model



Awareness: The initial step is for advertising to create an awareness of benefits of products to consumers with respect to new products. Levels of awareness can be measured and thereby used as a measure of the effectiveness of advertising.

Knowledge: The next step is to instill, a given level of knowledge/understanding about features and attributes of product. It is unlikely that advertising alone can communicate this type of information.

Liking : Once an awareness and understanding has been built up among the target audience the marketer can then focus on establishing a liking or positive attitude towards the Product. This might be done, for instance, by promoting the virtues of the new product,

Preference: Even though the campaign may create a positive predisposition towards the product or service, the product may not be preferred to the alternatives. Preference can be created by promoting the *comparative* advantages of the new product or service over its alternatives. To create preference the promotional message must convey benefits which alternatives do not possess.

Conviction: It is possible that whilst the target audience has developed a preference for a product or service their conviction about that product or service is not yet strong enough to actually cause them to adopt it. Here, the role of communication is to convince the target audience that the claimed benefits of the product or service are both real and sufficiently great to warrant a change in their behaviour. Advertisements followed by demonstrations may help create conviction of consumer.

Adoption: The final step is for the target audience to adopt the product or service. It emphasizes that the ultimate objective of promotion is to encourage a long term change in behaviour and not a one-off trial or purchase. To facilitate the initial purchase or trial of the product or service the promotional campaign might centre around a low introductory price or enable potential customers to try it on a limited basis.

In summary, what needs to be recognised is that it is unlikely that all of the steps in the communication process can be accomplished by a single advertisement or advertising campaign.

SALES PROMOTION

In contrast to advertising, sales promotion is more tactical than strategic. It is usually applied to create an immediate impact, but one which is unlikely to be sustained in the longer term. Thus, marketers tend to use sales promotion to address short term problems such as reducing the cash burden of overstocked products, stimulating demand during what is traditionally the low season, selling off stocks which are becoming obsolete. Sales promotions may be targeted at consumers, industrial buyers ,channel intermediaries or the organisation's own sales force.

Table 14.2 Types of consumer sales promotion

Sales Promotion Targe ted On Customers	
Type of promotion	**Examples**
Discount coupons or money-off packs	Discounts on the full price encourage product trial, e.g. Rs.5 off the regular price.
Premiums	Products offered free or at a discount act as an incentive to buy a related product, e.g. consumers buying large pack get a small pack of related product free.
Lotteries, games or competitions	Intended to create interest and excitement among customers, e.g. lucky coupons
Samples	Free samples encourage product trial, e.g. new toothpaste launched free sachets may be given to consumers.
Point-of-sale merchandising	These specially designed display units and literature are intended to create impulse (i.e. unplanned) purchases. They are located close to the place where the customer pays for the goods or service, e.g. the packs of chocolates arranged on an attractive rack close to the checkout in a supermarket.

Table 14.2 gives examples of typical forms which sales promotion takes. Many of these forms are equally applicable in consumer and industrial markets.

Sales promotions may be targeted on intermediaries as well, or instead of, consumers. Many types of promotion are used in both sectors. Sometimes, however, their objectives are slightly different. Table 14.3 describes the main forms of trade promotions and their various purposes.

Table 14.3 Types of trade sales promotions

Sales Promotions Targeted On Trade Channels	
Type of promotion	**Examples**
Trade allowances	These temporary price reductions are intended to be passed on, in whole or in part, to the end customer.Thus, intermediaries can elect to have a higher margin per unit or higher volume sales.
Bonus purchases	An merchant may be offered 24 packs of cold drinks for the price of 20. Such bonuses are not intended to be passed on to customers but are an incentive for the merchant to increase the order size.
Competitions	These are directed at the sales and/or service personnel to place particular emphasis on selling that supplier's products or services, e.g. a salesman achieving total orders in excess of 1,000 litres of agrochemical might win a cash prize.
Cash incentives	Cash bonuses paid to a middleman's sales personnel can help push the product through the channel of distribution.
Cooperative advertising/promotions	Suppliers and middlemen sometimes share the cost of an advertising campaign or promotion. Local dealer may get promotional support from manufacturer.
Trade shows and exhibitions	An industry's trade association may organise fairs and exhibitions which offer its members the opportunity to communicate with a well defined target audience.

PUBLIC RELATIONS

Publicity and public relations are not one and the same thing. Organizations often seek publicity, i.e. to disseminate newsworthy items of information about itself, its products/services or about its personnel through the media but does not pay to do so as in the case of advertising.

Instead, the organisation hopes that the item is sufficiently newsworthy to appear in an editorial feature, in a newspaper or magazine, or that a radio and/or television station will want to interview an official of the organisation about the item.

Publicity can be a highly effective communication tool, since ‘news’ is often perceived by the target group to have greater authenticity and credibility than ‘advertising’. The main disadvantage of publicity is that the organisation has relatively little control over it.

Public relations may be defined as:

“…the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its public.”[11]

The ‘public’ referred to in this definition is any group having an actual or potential interest in, or impact upon, an organisation's prospects of achieving its goals. Such publics would be:

The community: An organisation needs to be accepted by the local community. A public relations programme can give an organisation a ‘personality’ and, hopefully, one which the local community likes.

Consumers: Public relations should be used to nurture a positive image of the organisation and its products and services, a belief in its intrinsic fairness and perception that the organisation values loyal customers.

Other channel members: Wherever the organisation is placed within the marketing channel (as a grower, processor, wholesaler, retailer etc.) it should take cognizance of the need to develop and maintain positive relations with its partners within the marketing system.

Opinion leaders: Pressure groups and trade associations are examples of groups which can influence both public and government opinion and therefore should be a target for the organisation's public relations activities

Government: Public relations programmes should be designed to create a two-way flow of communications between industry and government (or between a trade association and government).

Financial institutions: Bankers, finance brokers, investment analysts and other lending institutions are an important public for all commercial organisations. They need to have confidence in the financial stability and prospects for growth as they will affect the organisation's access to debt capital

Media: Sound press relations can give an organisation access to the ‘news’ channel of communication through which it can disseminate positive information to all of its publics.

Employees: Organisations must recognize the need to ‘market’ themselves to their own employees as much as to other publics. The loyalty and commitment of employees to the organisation and its goals cannot be taken for granted.

The methods employed by public relations professionals include:

- Sponsorship
- In-house publications
- Community projects
- Press releases
- Video films
- Training courses,
- Annual reports.

Public relations has a complementary role to that of other forms of communication. It will be most effective when it is coordinated with the forms of marketing communication.

PERSONAL SELLING

Personal selling complements both advertising and sales promotion. Many organisations have a sales force comprised of a number of representatives who have face-to-face contact with the customer. The division of responsibilities between sales representatives may be based on geographical areas or on product groups. Personal selling is defined as :

"…the process of analysing potential customers' needs and wants and assisting them in discovering how such needs and wants can best be satisfied by the purchase of a specific product, service or idea."

Sales representatives have at least 7 key tasks:

Prospecting	Sales representatives find and develop business with new customers.
Communicating	Sales representatives communicate information about the organisation's philosophy, produce/products and/or services and communicate needs. preferences and problems which customers have and the organisation can meet or resolve.
Selling	Sales representatives should be trained in the art of selling approaching, presenting, countering objections, closing sales and nurturing a long-term customer relationship.
Servicing	Sales representatives provide various services to customers, such as helping resolve their problems with his/her own organisation, rendering technical assistance, arranging financing and expediting delivery.
Information gathering	Sales representatives carry out market research and intelligence work.Representatives are able to collect information on competitor activity as well as the future needs of customers.
Complementing advertising	The sales approach has to be consistent with the selling propositions conveyed through advertising and sales promotion. Where possible, customer visits should be timed to coordinate with the other promotional mix components.
Allocating	Sales representatives are able to evaluate the value of various customers to the organisation and advise on the allocation of scarce produce/products at times of shortage.

Thus, we observe that whilst selling is of fundamental importance, the sales representative has a number of other vital objectives, but at core he/she is part the organisation's promotional effort and is an important contributor to marketing communications.

3. Design communications

Developing the message

In most instances, the attention of the target audience can only be held for a relatively short time. That is, the potential customer will spend only a matter of seconds, or at most minutes, reading an advertisement in the printed media, will spare a limited time conversing with sales personnel or extension agents and will quickly lose interest in broadcast messages when these are perceived to be too long. Thus marketers must be selective in the points of information they seek to communicate. Whilst a product or service could have a large set of selling points, these will have to be narrowed down to a select few. Moreover, the single most important selling point will be the one to be included in the principal slogan or headline. This is sometimes termed the unique selling proposition (USP). A USP should only be decided upon after customer research has determined meaningful and important messages (e.g. nutritionally superior unpolished daal).

4. Selecting the media

The media plan has to be developed in connection with the overall marketing communications strategy. The hierarchy of effects model, described earlier in this chapter, stressed the multiple stages through which the target customer must be brought and that different media might be more successful at some stages than others. Therefore, it is likely that a mix of media will have to be used within a single marketing communications programme.

Criteria for selecting communications media include:

- level of exposure
- level of impact
- nature of the target audience
- cost and cost effectiveness.

Message exposure: Marketers are interested in the potential number of message exposures that a given medium offers. The total level of exposure is a function of **reach** and **frequency**. Reach is the number of people exposed to the message. For example, to the extent that a higher percentage of rural populations, in developing countries, have access to radio as opposed to television, radio will have the greater reach for this target audience. Frequency is the average number of times an individual is exposed to the message. If the target audience were say farmers, who tend to read a newspaper 2 – 3 times per week but listen to the farming news, on radio, 7 days per week, then radio is likely to achieve the higher frequency rating.

Invariably, there is a trade-off between reach and frequency. Communications budgets will stretch only so far and so more spent on one will reduce the amount that can be spent on the other.

Impact of the promotional message: It can be argued that the impact of a promotion has more to do with the message than the medium. Nonetheless, the medium is an influencing factor on the levels of awareness, comprehension, believability and retention.Retention of information is generally higher for audio-visual communications than only in audio form.

The target audience: Media have to be selected according to their ability to reach the target audience. This involves analysing the demographic structure of the market socio-economic groups, age groups, language, ethnic groups, etc. Thereafter, marketers can seek to identify media that reach the target group(s).

Cost and cost effectiveness: Some forms of media may prove too expensive for a particular communications budget and although these may have great potential in reaching the target audience, they will be unavailable. The marketer to identify the most cost effective media.

The cost-per-thousand method (CPM) is one of the most commonly used in measuring the cost effectiveness of promotional media.

6. Establishing the promotional budget

Deciding upon the amount to be spent on promotion is one of the most challenging tasks marketing managers have to face. There is no universally accepted formula for setting the promotional budget. Instead, a number of pragmatic approaches have been established over the years. The main budget setting methods are percentage-of-sales, fixed-sum-per-unit, competitive parity, residual-sum and objective-and-task.

Percentage-of-sales: The method involves setting the budget as a percentage of either last year's sales or forecasted sales for next year. Thus, brands or products which are performing well get additional promotional support. The popularity of this approach is probably due to its simplicity. However, it suffers from several weaknesses, for example high sales volumes do not necessarily reflect high profitability, There is little support for marketing managers wanting to turn ‘problem’ products into ‘rising stars’. Another problem with this approach is that using percentages of sales leads to sales determining the promotional mix.

Fixed-sum-per-unit: Some organizations elect to set a specified amount for each unit sold or produced.

Competitive parity: This approach is simply one of keeping pace with immediate competitors. The organization will try to work out approximate expenditure levels by two or three close competitors and will then seek to match those expenditures. It represents a reactive or defensive approach to promotional budget setting. The method also discourages organisations from taking a more aggressive marketing stance by seeking to gain a competitive advantage.

Residual-sum: This is a term for allotting what the organisation perceives itself to be able to afford after all other budgets have been set. The danger is that in years of good business there may be over-budgeting while in times of low sales, when demand needs to be stimulated, the amount available for promotion falls.

Objective-and-task: An organisation employing the objective-task approach will first specify its communication objectives and will then estimate how much it will cost to achieve those objectives. This is the approach to promotional budget setting recommended. It has the benefit of encouraging marketing managers to set specific communication goals. Perhaps the fundamental weakness of this budgeting method is the implied assumption of cause-and-effect. That is, there is an assumption of a direct relationship between promotion and marketing performance but as has already been said, other elements of the marketing mix will impact upon sale and many uncontrollable exogenous factors.

7. Monitoring the effectiveness of marketing communications

The last step in the development of a marketing communications programme is to evaluate the effectiveness of the programme. The evaluation has two components: communications effects and market performance.

Communications effects: Research into communications effects involves the evaluation of a single advertisement. Research in this area focuses upon measuring variables such as attention levels, message comprehension, message retention and intention to purchase. This type of research is often termed copy research. Both broadcast and printed promotional material can be evaluated. The techniques employed essentially involve exposing a sample of people drawn from the intended target group and exposing them to the proposed advertisements or promotions. After a suitable period of time these people are asked to recall the advertisements seen and to report as much of the detail of the content of the ads selling propositions, images, applications, etc. In the same way, an audience can be recruited to watch television programmes with trial advertisements inserted at the beginning of the programme(s) and/or in the commercial intervals and/or at the end of the programmes. They too can be questioned about the content of the advertisements and the impressions that they made upon the audience.

Market Performance: To a limited extent and in certain situations, the effects of promotion on sales can be measured. The effects of special offers and coupons can be measured by redemption rates. Two approaches which are widely pursued in industrialised countries are as follows:

Field experiments.	The organisation selects two geographical areas which are similar in terms of socio-economic groups, levels of disposable income etc. and launches a promotional campaign in one area but not the other. After a period of time, sales in the two areas are compared. The assumption is that the only difference between the two areas is the absence or presence of the promotional campaign and so differences in sales are explained by the promotional campaign.
Analysis of historical market data.	Promotional expenditures and sales data can be compared using mathematical or econometric models to first describe the relationship between sales and promotion.

Summary

The establishment of effective communication channels between sellers and buyers is a prerequisite of success in marketing. Marketing communications serve to both inform and persuade. More specifically, through the promotional mix advertising, sales promotion, personal selling and public relations organisations can provide information to other market participants, stimulate demand, differentiate products and services, underline a product's value and regulate sales.

Marketing communication objectives are derived from the marketing plan and must be consistent with the other elements of the marketing mix. These objectives must be operational and require identification of a target market, a specification of any desired changes in that target group's behaviour and a set of performance targets.

REVIEW QUESTIONS:

Q1. Enlist the major steps in developing an effective marketing communication programme.

Q2. What do you mean by Promotion mix. Discuss the advantages and limitations of all form of Promotion.

Q3. Discuss the various techniques of Sales promotion.

Q4. What are the major criteria for selecting communications media for Promotion? Discuss.

Q5. Define Advertising. Discuss the Hierarchy of Effects model ?

Q6. A multinational FMCG Company is planning to launch a new brand of “Fruit candy” in Indian markets. Candy will be made of fruit pulp and available in banana, strawberry and mango flavor. Design a suitable Promotional mix for the above product. Assume your own brand name, USP and clearly specify target markets.

CHAPTERS 15 : MARKETING ORGANISATION AND CONTROL

Organization is defined as a group of people working together to achieve common goals and objectives of the business. Marketing organization provides a vehicle for making decisions on products, marketing channels, physical distributions, promotions and prices.

Marketing Organisation: Marketing organization is the framework for planning and making marketing decision that are essential to marketing success such as product, price, place and promotion. Marketing organization provides a system of relationships among various marketing functions to be performed by coordinating among marketing people.

To be competitive in the market where consumer is the king we need to satisfy the consumer. So a good marketing organization is required to satisfy the customers. Marketing organization is the pillar for success for many organizations and provides a framework for the following:

a. Divide and fix authority among the sub ordinates

b. To locate responsibility

c. To establish sales routines

d. To enforce proper supervision of sales force

e. To avoid repetitive duties

f. To enable the top executives to devote more time for planning policy matters

15.1 FACTORS AFFECTING MARKETING ORGANIZATION

Factors influencing marketing org can be categorized into internal and external factors .

Internal:

1. Top Management Philosophy: Organizational planning and its working is greatly influenced by top management philosophy eg: Centralization Vs Decentralization
2. Product policy: the width of product line of an org determines its size as the product offerings becomes increasingly diverse.
3. People: The size of the organization is not an important factor in terms of number of people as well as capabilities, qualifications and human values such as Personality, Attitude, Ambition etc.

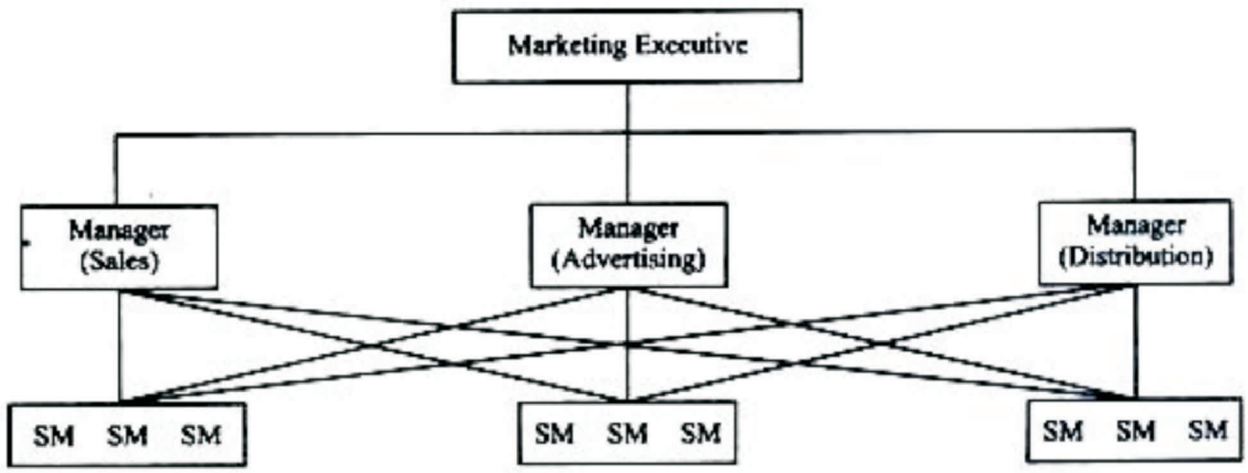
External Factors:

1. Business Environment: The type of environment in which the firm is operating in terms of operations and size. The rate of change in industries also decides on its size and working.
2. Markets: This is the factor which again affects the marketing organization i.e. one should note about its size, scope, nature and location etc.
3. Consumer requirements and expectations: Consumers have their own set of requirements and expectations from the organization.
4. Channels of distribution: It is the type of channel of distribution which a marketing firm selects based on its size. Ex. In case the company opts for indirect channel or channels it depends on outside sales force and hence the organization gets thinner .When the organization selects direct channel its size is increased as it has its own sales force.

15.2 TYPES OF MARKETING ORGANIZATION STRUCTURES

A marketing department can be organized according to functions, products, regions, or types of customers. The specific approach(es) that is (are) best depends on number and variety of the company's products, the characteristics and needs of people in the target market, and other factors. We shall now consider each organizational approach at some length :

A. **Functional Organization:** Some marketing departments are organized by general marketing functions such as marketing research, product development, distribution, sales, advertising, and customer relations. As shown in the following figure the personnel who direct these functions report directly to the top level marketing executive. This structure is fairly common because it works well for small businesses with centralized marketing operations. In large firms, with decentralized marketing operations, functional organization can raise severe coordination problems. The functional approach may, however, be useful in a larger centralized company in which the products and types of customers are neither numerous nor diverse.

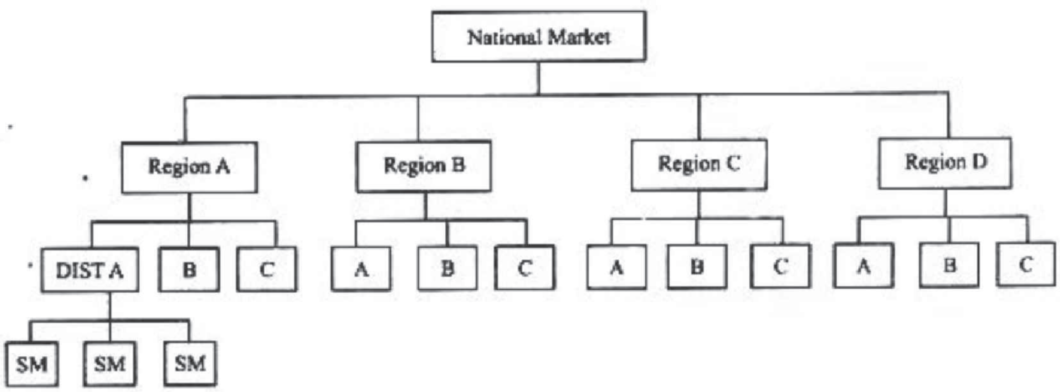


Functional Type

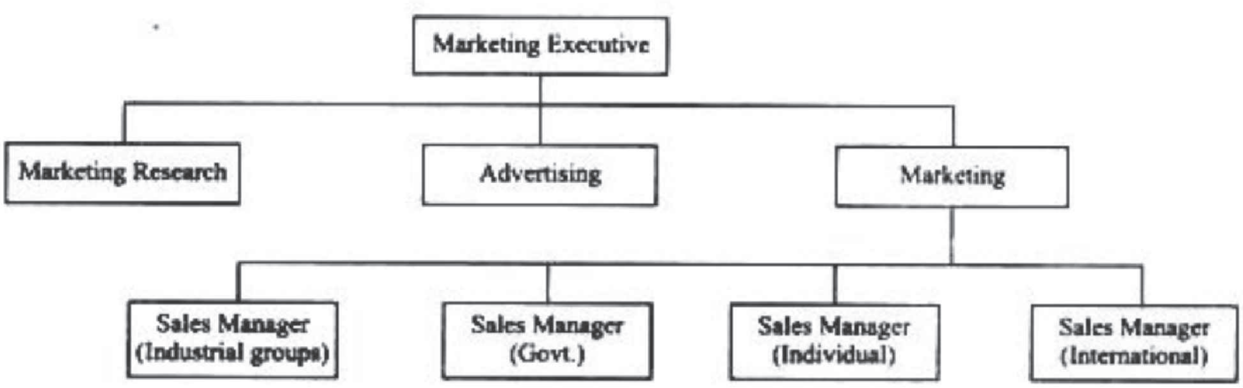
B. **Product Organization:** For an organization that produces and markets diverse products, the functional approach may be inadequate. The decisions and problems related to a single marketing function for one product may be quite different from those related to the same marketing function for another product. For this reason, organizations that produce diverse products sometimes organize their marketing department according to product groups. In this type of organization, a product manager takes full responsibility for the marketing of a product or product group.

Organizing by product groups gives a firm the flexibility to develop special marketing mixes for different products. The firm can hire specialists to market specific types of products. One disadvantage or organizing by products is that some marketing activities may be duplicated by different product groups. For example, salespersons from three product groups may call on the same customer in a single day.

C. **Geographic/Regional Organization:** A large firm that markets products nationally and possibly in foreign countries may organize its marketing activities by geographic regions. All the regional marketing managers report directly to the executive marketing manager. Managers of marketing functions for each region report to their regional marketing manager. This form of organization is especially effective for a company whose customers' characteristics and needs vary greatly from one geographic area to another. The company has a complete marketing staff at its headquarters to provide assistance and guidance to regional marketing managers. However, not all firms that organize their marketing department by regions have a complete top-level unit. Companies that try to penetrate the national market intensively sometimes divide regions into sub-regions.



D. **Customer Type Organization:** When the departmentation of sales organization is done on customer basis it is called customer oriented marketing organization. Departmentation by customer may be done in enterprise engaged in providing specialized services to different classes of customers.Usually, the managers of various marketing functions handle the activities needed to market products to a specific customer group.



Using Several Bases for Organizing: It is common for a company to use some combination of organization by products, functions, customer types, or regions. By using more than one type of organization, a flexible marketing department can develop and implement marketing plans to match customers’ needs specifically.

15.3 MARKETING CONTROL:

Marketing control is concerned with analyzing the performance of marketing decision, identifying the problem/opportunities and taking actions to take advantage of opportunities and resolving problems. It is the sequel to marketing planning. All manager need to exercise control over their decision and marketing operations.

Specifically marketing performance is measured in terms of market share, sales, profits. Hence most control measures are designed with these parameters in mind. But today's marketing needs to measure the following.

a) Market share
b) Sales and profits
c) Marketing effectiveness
d) Customer satisfaction
e) Customer perception of the firms and its brands

There are four types of controls with different objectives and tools and exist with different levels of management.

1) Annual plan control : It is with top or middle level mgmt to evaluate actual performance with targeted to analyze differences or gaps. The tools used are sales analysis, market share analysis, sales and expense ratios and financial analysis.
2) Profitability control : It is used by marketing department to examine profitability by product, territory, customer segment and trade channel.
3) Efficiency control : It is used to assess the effectiveness of money spent on sales force, advertising, sales promotion and distribution. It is used by both line and staff executives.
4) Strategic control: It is used by the top management to examine whether the firm and marketing capable to cope with environment or not. The major tool used here is marketing audit.

Marketing Control Process:

Marketing Control Process includes monitoring, evaluating and improving the performance in each activity. There are six steps in this

a) Decide the aspect of marketing operation to be evaluated:

The first step is deciding about the marketing operation to evaluate.
Eg : effectiveness of media for product advertisement, sales person performance, or performance of company product.

b) Establish measurement criterion

In this stage performance standards are decided against which actual performance is evaluated. Eg: for controlling sales person performance, one can measure new accounts obtained, call frequency ratio and order per call.

c) Establishing monitoring mechanism

After setting the standards, the next step is to develop monitoring mechanism tools like marketing information system(MIS). MIS is used to record performance of all marketing areas like monthly sales volume for products.

d) Compare actual results with standards of performance

In this stage, results obtained through monitoring process are compared with pre established standards of performance.

e) Analyze performance improvement

If the results/performance are not up to the desired standards, a corrective action is to be taken to enhance the performance levels. For this performance improvement analysis is to be done.

REVIEW QUESTIONS:

Q1. State the need for Marketing Organizations. Discuss Functional and Geographic Organizations with examples.

Q2. Why marketing controls are necessary ? Discuss process of setting marketing controls and also various types of controlling techniques.

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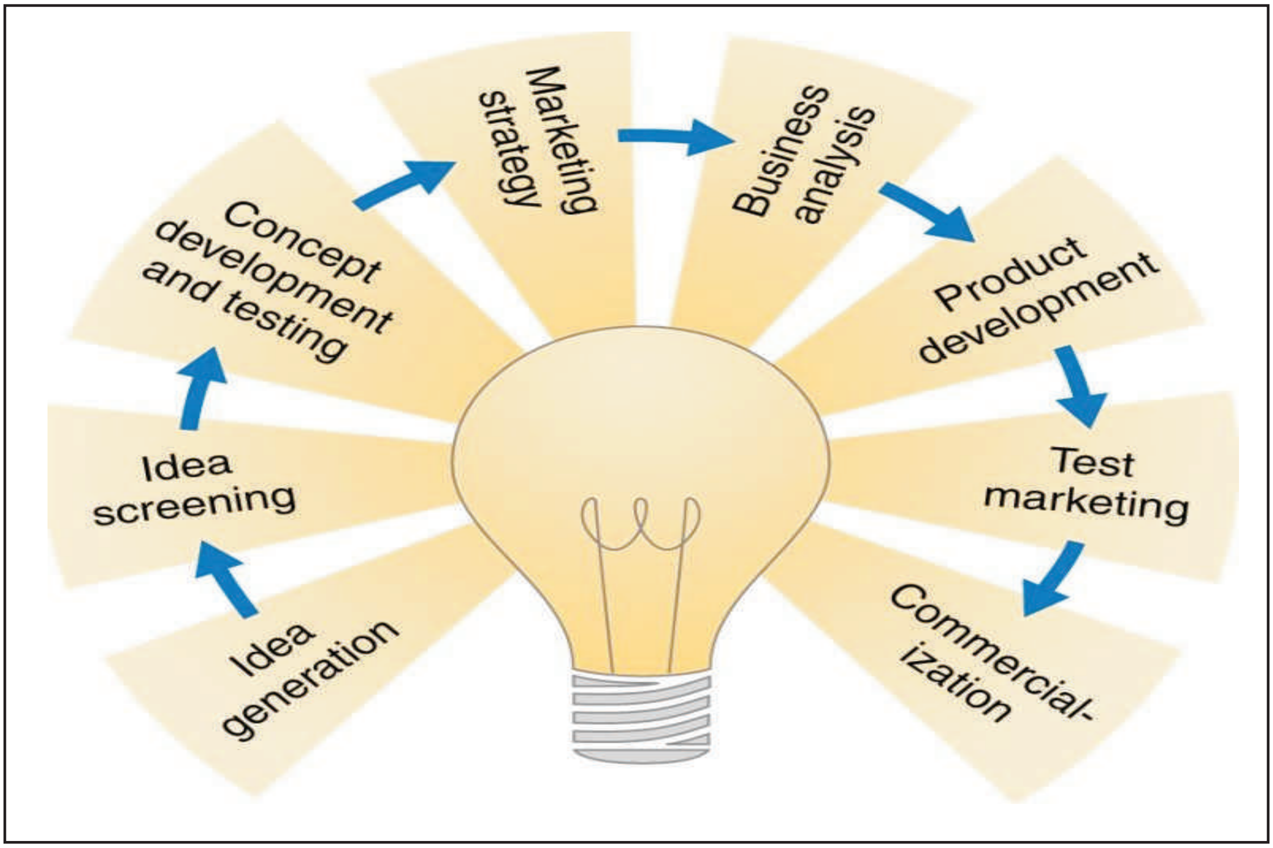
Idea generation
Idea screening
Concept development and testing
Marketing strategy
Business analysis
Product development
Test marketing
Commercial-ization


THE GROWTH SHARE MATRIX
RELATIVE MARKET SHARE
CASH GENERATION
HIGH
LOW
MARKET GROWTH RATE
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