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Semester – I

Marketing Management – I

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Marketing Management – I

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UNIT-1: INTRODUCTION TO MARKETING

STRUCTURE:

1.0 OBJECTIVES

After studying this unit, you should be able to:

- Define Marketing
- Explain the origin of Marketing
- Discuss the nature and scope of Marketing
- Explain the functions of Marketing
- Bring out the objectives of Marketing

1.1 INTRODUCTION

In today's world of marketing, everywhere you go you are being marketed to in one form or another. Marketing is with you each second of your walking life. From morning to night you are exposed to thousands of marketing messages everyday. Marketing is something that affects you even though you may not necessarily be conscious of it.

Many thinking firms deliberate, from time to time, about what marketing actually means to them. Firms have been known to be very successful without having a complex marketing organization. On the other hand, some companies have been known to possess a comprehensive marketing department, supported by a myriad of sub activities belonging to the marketing function, and yet fail to achieve excellence.

Marketing is one of the concepts in management studies that is often difficult to define. Marketing is the management process responsible for identifying, anticipating and satisfying customer requirement profitably. Marketing deals with customer. Creating customer value and satisfaction are the heart of modern marketing thinking and practice. Sound marketing is critical to the success of any organization- large or small, profit or non profit, domestic or global. Today marketing must be understood not in the old sense of making a sale- "telling and selling" but in the new sense of satisfying customer needs. If the marketer does a good job of understanding consumer needs, develops products that provide superior value, and price, distributes and promotes them effectively, these products will sell very easily. Marketing occurs when people decide to satisfy needs and wants through exchange. 'The concept of exchange and relationship lead to the concept of a market. The concept of markets finally brings us to the concepts of marketing.

1.2 MEANING AND DEFINITION OF MARKETING

Marketing means managing market to bring about exchanges and relationships for the purpose of creating value and satisfying needs and wants. In other words marketing is a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others.

Marketing is the process of communicating the value of a product or service to customers, for the purpose of selling that product or service.

Marketing can be looked at as an organizational function and a set of processes for creating, delivering and communicating value to customers, and customer relationship management that also benefits the organization. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer behavior and providing superior customer value. From a societal point of view, marketing is the link between a society's material requirements and its economic patterns of response. Marketing satisfies these needs and wants through exchange processes and building long term relationships.

According to **American Marketing Association (2004) -** "Marketing is an organizational function and set of processes for creating, communicating and delivering value to customers and for managing relationships in a way that benefits both the organization and the stakeholder."

AMA (1960) - "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user."

Cundiff and still

"Marketing is the business process by which products are matched with market and through which transfers of ownership are affected."

According to **Eldridge (1970) -** "Marketing is the combination of activities designed to produce profit through ascertaining, creating, stimulating, and satisfying the needs and/or wants of a selected segment of the market."

According to **Kotler (2000) -** "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."

H.L Hansen

"Marketing is the process of discovering and translating consumer wants into products and services and then in turn making it possible for more and more people to enjoy more and more of these products and services."

William J Stanton

"Marketing is a total system of interacting business activities designed to plan, price, promotes and distribute want satisfying products to target market to achieve organizational objectives."

- Business activities should be market oriented or customer oriented
- Customer wants to be recognized and satisfied effectively.
- Marketing is a dynamic business process.
- Marketing activities start with the generation of a product idea and end only after the customer's wants are completely satisfied.
- Marketing must maximize profitable sales over the long run in order to be successful business

1.3 ORIGIN OF MARKETING

Hundred years ago, most firm were production-oriented, i.e... The manufactures focused on production of quality products and then looked for people to purchase them. With technology transformation, the emphasis shifted to an effective sales force to find customer for their growing output. After 1950, the shift to marketing was so emphatic that the manufacturers first took into consideration the customer's wants and then manufactured their goods accordingly.

Marketing has come a long way being recognized as a function of an organization in India. Marketing is such a type of function which is used by all types of organizations. Marketing is used for customer satisfaction and customer service plays a vital role in the economy.

The origins of the concept of marketing have their roots with the Italian economist Giancarlo Pallavicini in 1959. These roots are accompanied by the initial in-depth market research, constituting the first instruments of what became the modern marketing, resumed and developed at a later time by Philip Kotler. Giancarlo Pallavicini introduces the following definitions: Marketing is defined as a social and managerial process designed to meet the needs and requirements of consumers through the processes of creating and exchanging products and values. It is the art and science of identifying, creating and delivering value to meet the needs of a target market, making a profit: delivery of satisfaction at a price.

1.4 NATURE AND SCOPE OF MARKETING

Nature of Marketing:

1. Marketing is an Economic Function

Marketing embraces all the business activities involved in getting goods and services, from the hands of producers into the hands of final consumers. The business steps through which goods progress on their way to final consumers is the concern of marketing.

2. Marketing is a Legal Process by which Ownership Transfers

In the process of marketing the ownership of goods transfers from seller to the purchaser or from roducer to the end user.

3. Marketing is a System of Interacting Business Activities

Marketing is that process through which a business enterprise, institution, or organization interacts with the customers and stakeholders with the objective to earn profit, satisfy customers, and manage relationship. It is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

4. Marketing is a Managerial function

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

According to this approach the emphasis is on how the individual organization processes marketing and develops the strategic dimensions of marketing activities.

5. Marketing is a social process

Marketing is the delivery of a standard of living to society. According to Cunningham and Cunningham (1981) societal marketing performs three essential functions:-

- Knowing and understanding the consumer's changing needs and wants;
- Efficiently and effectively managing the supply and demand of products and services; and
- Efficient provision of distribution and payment processing systems.

6. Marketing is a philosophy based on consumer orientation and satisfaction
7. Marketing had dual objectives - profit making and consumer satisfaction

Nature of Marketing evolves from its multidisciplinary coverage of activities which is as follow:

1. Dynamic Process: Marketing is an ongoing activity which does not stop at any step. After finding customer's needs and wants it needs to develop such products or services which can satisfy these needs and after this there is need to advertising, promotion, distribution, etc the process goes on.

2. Customer Oriented: Marketing is customer oriented. Marketing is the process of finding needs and wants of customers and satisfying those needs profitably.

3. All Encompassing: Marketing is all encompassing, it is not a single process it includes production planning, research, advertising, financial management, budgeting, selling, etc.

4. Integrating: It integrates all the departments of an enterprise be it production, finance, IT, HR, etc.

5. Creative: Marketing is creative in nature; it looks out for new ideas, views and activities and solves problems or en cash opportunities in a creative way.

Scope of Marketing:

1. Study of Consumer Wants and Needs

Goods are produced to satisfy consumer wants. Therefore study is done to identify consumer needs and wants. These needs and wants motivates consumer to purchase.

2. Study of Consumer behavior

Marketers perform study of consumer behavior. Analysis of buyer behavior helps marketer in market segmentation and targeting.

3. Production planning and development

Product planning and development starts with the generation of product idea and ends with the product development and commercialization. Product planning includes everything from branding and packaging to product line expansion and contraction.

4. Pricing Policies

Marketer has to determine pricing policies for their products. Pricing policies differs form product to product. It depends on the level of competition, product life cycle, marketing goals and objectives, etc.

5. Distribution

Study of distribution channel is important in marketing. For maximum sales and profit goods are required to be distributed to the maximum consumers at minimum cost.

6. Promotion

Promotion includes personal selling, sales promotion, and advertising. Right promotion mix is crucial in accomplishment of marketing goals.

7. Consumer Satisfaction

The product or service offered must satisfy consumer. Consumer satisfaction is the major objective of marketing.

8. Marketing Control

Marketing audit is done to control the marketing activities.

9. **Branding**

Branding of products is adopted by many reputed enterprises to make their products popular among their customer and for many other benefits. Marketing manager has to take decision regarding the branding policy, procedures and implementation programs.

10. Packaging

Packaging is to provide a container or wrapper to the product for safety, attraction and ease of use and transportation of the product.

1.5 FUNCTIONS OF MARKETING

To achieve success in your marketing effort you need to have glimpse of the big pictures and the activities you need to perform in achieving your set marketing objectives, these activities is referred to as marketing function.

It refers to those specialize activities that you as a marketer must perform in order to achieve your set marketing objectives.

They are:

1. Researching
2. Buying
3. Product development and management
4. Production

5. Promotion
6. Standardization and grading
7. Pricing
8. Distribution
9. Risk bearing
10. Financing
11. After sales-service

(1)Research Function: The research function of marketing is that function of marketing that enables you to generate adequate information regarding your particular market of target. You must carry out adequate research to identify the size, behavior, culture, believe, genders etc. of your target market segment, their needs and want, and then develop effective product that can meet and satisfy these market needs and want.

(2)Buying Function: The function of buying is performed in order to acquire quality materials for production. When you design a good product concept, you should also ensure you're buying the essential materials for the product. This function is carried out by the purchase and supply department, but your specifications of materials goes a long way in assisting the purchasing department to acquire the necessary materials needed for production.

(3)Product Development and Management: Product development is an essential function of marketing since it was the duties of the marketing department to identify what the market need or want and then design effective product based on the identified need and want of the market. Product development passes through some basic stages carried out by the marketers to develop a targeted market specified product. And you can also manage your product by evaluating it performance and changing them to fit the current market trend.

(4)Production Function: Production is the function performs by the production department. Though, this is interrelated to the department of marketing, because your product must possess the essential characteristics that can meet the target market needs and want as identified during your market research, such characteristics as in your product Test, Form, Packaging etc.

(5)Promotion Function: Promotion is one of the core functions of marketing since your finish product must not remain in the place of production, hence, you as a marketer must design effective communication strategies to informing the availability of your product to your target market.

You must be able to design effective strategies to communicate your product availability and features to your target market, such strategies as in; advertisement, personal selling, public relation etc.

(6)Standardization and Grading: The function of standardization is to establish specified characteristics that your product must conform to, such standard as in having a specify test, ingredient etc. That makes your product brand so unique.

Grading comes in when you sort and classify your product into deferent sizes or quantities for different market segment while maintaining your product standard.

(7) Pricing Function: The function of pricing on your product offerings by designing effective pricing systems base on your product stage and performance in the product life cycle. Price is the actual value consumers perceive on your product, so you as a marketer should ensure that your value of your product is not too high or too low to that of your costumers.

(8) Distribution Function: The function of distribution is to ensure that your product is easily and effectively moved from the point of production to the target market, the kind of transportation system to employ e.g. Road, rail, water or air, and ensures that the product can be easily accessed by customers. You as a Marketer should also design the kind of middlemen to engage in the channel of distribution, their incentives and motivations etc.

(9) Risk Bearing Function: The process of moving a finished product from the point of production to the point of consumptions is characterized with lots of risks, such risks as in product damaging, pilferage and defaults etc. So you must provide effective packaging system to protect your product, good warehouse for the storage of your product until they are needed, effective transportation system to speedily deliver your product on time.

(10) Financing Function: Financing deals with the part of marketing to providing incomes for your business. It refers to how you can raise capital to start operation and remain in business. It refers to your modes of payment for the goods and services transferred to your costumers.

(11) After sales-service: In a more complex and technical product, you as a marketer should make provision in order to assist your customers after they have purchased your product. In terms of machines or heavy equipment product that requires installation or maintenance, most marketing organization renders such services like installing the machine or maintaining it for stipulated periods on time for free or by a little service charge.

After sales services is an effective marketing strategy to building a long lasting customer relationship, staying ahead of your competitors while making profit for your organization.

Adequate understanding of these functions enables you as a marketer to know what is required to be done to having an effective transfer of ownership between you and your costumers, creating a big picture of your business, while also making profit for your organization.

1.6 OBJECTIVES OF MARKETING

The major objectives of marketing are as follows:

1. To satisfy the customers: The marketing manager must scientifically study the demands of customers before offering them any goods or services. Selling the goods or services is not that important, as the satisfaction of the customer's needs. Modern marketing thus always begins and ends with the needs of customers.

2. To increase profits for the growth of the business: The marketing department is the only department which generates revenue for the business. Sufficient profits must be earned as a result of sale of want-satisfying products. If the firm is not earning profits, it will not be able to survive in the market. Moreover, profits are also needed for the growth and diversification of the firm.

3. To generate customer base for the business: The Marketing manager must attract more and more customers to buy the firm's products and services. This will also result into increased sales.

4. To determine marketing-mix that will satisfy the needs of the customers. Product, pricing, promotion and physical distribution should be so planned as to meet the requirements of different kinds of customers.

5. To increase the quality of life of people: Marketing Management attempts to increase the quality of life of the people by providing them better products at reasonable prices. It facilitates production and distribution of a wide variety of goods and services for use by the customer.

6. To create good image: To build up the public image of firm over a period is another objective of marketing. The marketing department provides quality products to customers at reasonable prices and thus creates its impact on the customers. The marketing manager attempts to increase the goodwill of its business by initiating image building activities. If a firm enjoys goodwill in a market, it will increase the morale of its sales-force. They will show greater loyalty and will develop a sense of service to the customers. This will further enhance the reputation of the business.

When setting marketing objectives for your micro-business, you should follow the **SMART** approach. This will ensure your objectives are:

- S**pecific** – Determine exactly what needs to be achieved.
- M**easurable** – Express objectives in measurable terms such as key performance indicators, outcomes, numbers, percentage, dollars, etc.
- A**ction-oriented** – State which actions need to be taken and who will take them.
- R**ealistic** – Objectives should be achievable with the resources available.
- T**ime Specific** – Specify time frames and schedules for achievement or completion.

1.7 SUMMARY

Marketing is regarded as an activity involving the buying and selling of products and services. The entire effort in managing the function is aimed at attaining the marketing objectives of satisfying the needs of customer, business and society. The consumer must get value satisfaction out of the products and services delivered to him by company and who in the process must earn profits sufficient to ensure its survival, growth and stability.

The scope of the area called marketing has been shown to be exceptionally broad. Marketing has micro/macro dimensions. Profit sector/nonprofit sector dimensions and positive/normative dimensions. Reasonable people may disagree as to which combination of these dimensions represents the appropriate total scope of marketing.

1.8 SELF ASSESSMENT QUESTIONS

1. What is marketing?
2. Briefly discuss the evolution of marketing.
3. Explain the nature and scope of marketing.
4. Discuss the various functions of marketing
5. Explain the objectives of marketing

6. Differentiate between customer and consumer
7. Bring out the difference between goods and services

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UNIT - 2 : MARKETING MANAGEMENT

STRUCTURE:

2.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Marketing Management
- Explain the importance of Marketing Management
- Differentiate between marketing and selling
- Explain the role of marketing management

2.1 INTRODUCTION

Marketing Management represents an important functional area of business management efforts for the flow of goods and services from the producer to the consumers. It looks after the marketing system of the enterprise. It has to plan and develop the product on the basis of known consumer demand. It has to build up appropriate marketing plan or marketing mix to filfil the set goals of the business. It has to formulate sound marketing policies and programmes.

Marketing management has to implement marketing strategies, programmes and campaigns. Finally it must evaluate the effectiveness of each part of marketing mix and introduce necessary modification to remove discrepancies in the actual execution of plans, policies, strategies, procedures and programmes.

Marketing management is a business discipline which focuses on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Globalization has led firms to market beyond the borders of their home countries, making international marketing highly significant and an integral part of a firm's marketing strategy. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on a business's size, corporate culture, and industry context. For example, in a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product. To create an effective, cost-efficient marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.

Marketing management usually represents all managerial efforts and function to operate the marketing concepts not only in letter but also in spirit. The survival and growth of any business depends upon profitability and when marketing management becomes a good practitioner of marketing concepts, profitability and growth are duly assured.

2.2 MEANING/DEFINITION OF MARKETING MANAGEMENT

The application, tracking and review of a company's marketing resources and activities. The scope of a business' marketing management depends on the size of the business and the industry in which the business operates. Effective marketing management will use a company's resources to increase its customer base, improve customer opinions of the company's products and services, and increase the company's perceived value.

"Management is the processes of planning, organizing directing motivating and coordinating and controlling of various activities of a firm. Marketing is the process of satisfying the needs and wants of the consumers."

Management Guru Philip Kotler defines as "Marketing Management is the analysis, planning, implementation and control of programmes designed to bring about the desired exchanges with target audiences for the purpose of personal and mutual gain. It relies heavily on adoption and coordination of the product, price, promotion and place for achieving response".

In other words, a business discipline, which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities, is Marketing Management.

2.3 IMPORATNCE OF MARKETING MANAGEMENT

Marketing Management is an integral part of any business venture. It is therefore very vital for all managers to master all essential skills in this field in order to realize the goal of their businesses. The sole role of studying this discipline is to enable the market managers to know the ideal customers, the appropriate time to market a product, the ideal price, the right place and the most appropriate product to market.

Ways of Boosting Marketing Management Skills

♦ **Selecting the right market** – It is essential to learn how to choose the best market so as to get new consumers and even retain the old ones. A good marketing manager should therefore understand the forces of demand and supply in the market. This helps in meeting the consumers demand at different times. This is also very essential in boosting the volume of sales for a given period of time. When choosing the right market they are various factors that must be considered such as the location and size of the business.

♦ **Gains and losses assessment** – Understanding the market dynamics is also essential in analyzing possibilities of making a gain or incurring a loss in any business.

♦ **Investing a lot of money** in promoting a product that is not in high demand can at times result to huge losses. Marketing a product that is in high demand is very easy and cost effective. This therefore maximizes the chances of making huge gains.

♦ **Effective means of communication** – Good communication between the marketer and customers is also very important in business. This helps in attracting more potential customers and therefore increasing the volume of sales. It is important to ensure that the business has an effective customer service support team. This ensures that the consumers review on the product is considered.

♦ If they are not satisfied with the product it is the duty of the marketing manager to come up with ideal strategies to improve the brand. Other potential consumers mostly refer to the consumers review about a certain product before buying it. This is common particularly in online marketing.

♦ **Proper management of all marketing departments** – Succeeding in marketing management involves proper running of marketing departments namely: sales, pricing, operations and finance.

♦ **Research on business and the market** – Studying in depth details about the business assists in strategizing on the most appropriate ways to market a product. Strategic planning and marketing management should therefore go hand in hand. The most important approaches used in strategic planning include: competitor analysis, company analysis and customer analysis. Competitor analysis involves analyzing the prices of the competitor products and their nature. This helps the company to prospect the profit. The company is also able to note the weaknesses and strength in order to come up with ideal ways of making more sales. The most popular approaches used when doing market research include: general observation skills, experimental skills, quantitative marketing research and qualitative marketing research.

♦ **Making strategic decisions** – After in depth study and research on business and other market dynamics, it is easy to design viable marketing strategies.

Major Benefits of Good Marketing Management

- Helps in cutting production cost.

- Helps in cutting promotion cost.
- Assists in budgeting within a short time frame.
- Equips market managers with ideal skills to meet the customer's tastes and de mand.
- Helps in identification of marketing trends with demographic and psycho-graphi cal information on business prospects.
- Equips marketers with work flow management skills.
- Assists marketers to make vital marketing decisions based on reliable data.
- Assists marketers to prepare marketing budget based on empirical data.
- Helps marketers in assessment of marketing progress, cost and effectiveness of various marketing strategies.
- Helps marketing managers to quantify new customers from various sources of marketing.
- Equips marketers with ideal techniques to track and measure the business pros pects.
- This the most convenient and cost effective way to strategize on how to beat other competitors in the market.
- This helps the marketer to come up with viable product promotion techniques.
- Equips marketers with reliable strategic planning techniques to boost volume of sales so as to realize the specified business goal.

2.4 NATURE AND SCOPE OF MARKETING MANAGEMENT

It Combines the Fields of Marketing and Management:

As the name implies, marketing management combines the fields of marketing and management. Marketing consists of discovering consumer needs and wants, creating the goods and services that meet those needs and wants; and pricing, promoting, and delivering those goods and services. Doing so requires attention to six major areas - markets, products, prices, places, promotion, and people.

Management is getting things done through other people. Managers engage in five key activities - planning, organizing, staffing, directing, and controlling. Marketing management implies the integration of these concepts.

Marketing Management is a Business Process:

Marketing management is a business process, to manage marketing activities in profit seeking and non profit organizations at different levels of management, i.e. supervisory, middle-management, and executive levels. Marketing management decisions are based on strong knowledge of marketing functions and clear understanding and application of supervisory and managerial techniques. Marketing managers and product managers are there to execute the processes of marketing management. We, as customers, see the results of such process in the form of products, prices, advertisements, promotions, etc.

Marketing Management is Both Science and Art:

"Marketing management is art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value." (Kotler, 2006). Marketing management is a science because it follows a general principle that guides the marketing managers in decision making. The Art of Marketing management consists in tackling every situation in a creative and effective manner. Marketing Management is thus a science as well as an art.

2.5 DIFFERENCE BETWEEN MARKETING AND SELLING

Marketing:

- Identifies appropriate prospects
- Effectively communicates image and capabilities of the firm
- Creates awareness of, and emphasizes an appeal—a differentiation factor—about the firm
- Perfects customer service
- Requests feedback from clients on a regular basis
- Anticipates and meets needs Marketing often necessitates cultural changes at every level in the firm
- Emphasis on consumer needs wants
- Company first determines customers needs and wants and then decides out how to deliver a product to satisfy these wants
- Management is profit oriented

- Planning is long-run-oriented in today's products and terms of new products, tomorrow's markets and future growth
- Stresses needs and wants of buyers
- Views business as consumer producing process satisfying process
- Emphasis on innovation on every existing technology and reducing every sphere, on providing better costs value to the customer by adopting a superior technology
- All departments of the business integrated manner, the sole purpose being generation of consumer satisfaction
- Consumer determine price, price determines cost
- Marketing views the customer last link in business as the very purpose of the business

Selling :

- Proactive seeking of prospects
- Interacting to qualify prospects
- Effective acknowledgment of the prospect's concerns
- Closing the sale—getting hired
- Following up and staying in contact when not hired
- Emphasis is on the product
- Company Manufactures the product first
- Management is sales volume oriented
- Planning is short-run-oriented in terms of today's products and markets
- Stresses needs of seller
- Views business as a good producing process
- Emphasis on staying with existing technology and reducing costs
- Different departments work as in a highly separate water tight compartments
- Cost determines Price
- Selling views customer as a last link in business

2.6 MARKETING MANAGEMENT RESPONSIBILITY

Marketing management has to assure the marketing effectiveness of a company and its product line. Marketing effectiveness depends on a combination of five activities.

1. **Customer Philosophy:** Management accepts the importance of the market place and unsatisfied and potential customer needs and wants in formulating company plans and shaping company operation around customers.
2. **Integrated Marketing Organization:** An organization has the staff to carry out marketing analysis, planning, implementation and control effectively. Proper coordination and integration can give us harmony and teamwork in marketing.
3. **Adequate Marketing Information:** the marketing management has efficient marketing information system to receive the relevant information necessary to conduct effective marketing planning and control.
4. **Strategic Orientation:** the marketing management is able to generate innovative strategies and plan for long term growth and profitability.
5. **Operational Efficiency:** Marketing plans are implemented in cost effective manner, and result are monitored for rapid corrective action.

Marketing management has to fulfill the following responsibilities in particular.

- Sales and market analysis
- Determination of marketing goals
- Sales forecasting
- Marketing budgeting
- Formulation of marketing strategies, policies and procedures.
- Appropriate marketing mix
- Management of distribution channel and physical distribution
- Effective communication system
- Post sales service

2.6.1 ROLE AND RESPONSIBILITIES OF MARKETING MANAGER

For most businesses, there are several different organizational approaches to marketing. The duty may lie with a single member of the team, or it could be a group responsibility. The great thing about a small team is the ability to quickly instill a marketing led ethos which can become the operational soul of your business. Larger companies may require more work!

Depending on budget availability and the skills of the team, you may choose to outsource certain elements of the marketing process (such as market research) or decide to do these jobs in-house. Key responsibilities of the marketing manager / director vary according to the business but can include:

- Instilling a marketing led ethos throughout the business
- Researching and reporting on external opportunities
- Understanding current and potential customers
- Managing the customer journey (customer relationship management)
- Developing the marketing strategy and plan
- Management of the marketing mix
- Managing agencies
- Measuring success
- Managing budgets
- Ensuring timely delivery
- Writing copy
- Approving images
- Developing guidelines
- Making customer focused decisions

The marketing role can be diverse or focused but now we'll elaborate further on some key aspects which should be at the heart of the job.

2.7 SUMMARY

Marketing Management is the function of planning, organizing, implementing and coordinating of marketing programme. Marketing Management plays an important role in building long term relationship between customers and consumers. Marketing Management helps you to manage your business in a way that allows you to understand what is going on a daily basis, the direction it is taking, how well it is following the path you set for it and finally how well the risks and complexities of conducting business are being managed. The marketing Management concepts help to highlight areas you can focus on to ensure you understand how to minimize avoidable errors. By understanding the various concepts highlighted you can ensure you know which management aspects are your strengths and which are your weaknesses. This helps you focus on the problems areas and over time ensures your business is growing in a balanced way. By understanding which management areas to focus on helps to ensure when your company hits critical mass it does not fail because you did not factor in a business management area.

When top management adopts the societal marketing concepts and recognizes marketing management as an open adaptive system with ever changing environment, the entire enterprise becomes a marketing company and the marketing management becomes synonymous with business management.

2.8 SELF ASSESSMENT QUESTIONS

1. What is marketing management?
2. Discuss the nature and scope of marketing management
3. Explain the functions of marketing manger
4. Explain the market information system.
5. Differentiate between marketing and selling

2.9 REFERENCES

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UNIT-3 : MARKETING CONCEPTS

STRUCTURE:

3.0 Objectives

3.1 Introduction

3.2 Marketing Concepts

3.2.1 Production Concept

3.2.2 Product Concept

3.2.3 Selling Concept

3.2.4 Marketing Concept

3.2.5Societal Concept

3.2.6 Service Concept

3.2.7 Experience Concept

3.3 Components of Marketing Concept

3.3.1 Customer Satisfaction

3.3.2 Custamer Relationship Management (CRM)

3.3.3 Integrated Marketing

3.3.4 Profitability Sales Volume

3.3.5 Customer Delight

3.4 Benefits of Marketing Concepts

3.5 Summary

3.6 Self Assesnment Questions

3.7 References

3.0 OBJECTIVES

After studying this unit, you should able to;

- Define the term Marketing
- Explain the various Concepts of Marketing
- Explain the Concept of CRM
- Discuss the Components of Marketing Concepts

3.1 INTRODUCTION

Many thinking firms deliberate, from time to time, about what marketing actually means to them. Firms have been known to be very successful without having a complex marketing organization. On the other hand, some companies have been known to possess a comprehensive marketing department, supported by a myriad of sub activities belonging to the marketing function, and yet fail to achieve excellence. Marketing is one of the concepts in management studies that is often difficult to define. Marketing is the management process responsible for identifying, anticipating and satisfying customer requirement profitably. Marketing deals with customer. Creating customer value and satisfaction are the heart of modern marketing thinking and practice. Marketing management is a business process, to manage marketing activities in profit seeking and non profit organizations at different levels of management. Marketing management decisions are based on strong knowledge of marketing functions and clear understanding and application of supervisory and managerial techniques.

3.2 MARKETING CONCEPTS

Modern concepts of marketing are broad concepts. It means finding out the consumer and make the goods as per their needs rather than to provide them what the seller has made. Thus it is very essential for the seller to get the answer of the question what are the things which the consumer want? And how these things can be made available to them? Only then he can survive in the market and earn profit. There are 6 modern concepts of marketing which are very important from the point of view of marketer.

3.2.1 Production Concept:

The companies which use the production concept generally focus too narrowly on their own activities because according to this concept the companies think that consumer will buy the product which comes in the market. The focus of the business is not the needs of the customer, but of reducing costs by mass production. By reaching economies of scale the business will maximize profits by reducing costs. Under this concept, more importance given to production manager in order to produce more product.

3.2.2 Product concept:

As per this concept companies give importance to the features or the quality of the product because in long run the product exists only with the quality it is giving to the consumer. In this concepts, it assumes that if the product is good and reasonably priced, it does not require promotional strategies.

3.2.3 Selling Concept:

It is not sufficient for the manufacturer to make the goods and wait for the customers. Thus, according to this concept it is very important to inform the consumer about the product which can be done through different ways of promotion. The focus here is to make the product, and then try to sell it to the target market. It is basically a push concept of marketing concerned with selling the produced products and making profits, without caring what the customer needs. Under the concept, the more importance given to sales manager in order to wipe out the stock lying in warehouse. In this method, more training and development programme are conducted to increase the efficiency of sales manager.

3.2.4 Marketing Concept:

Consumer now a day is treated as "GOD". So it is very important for the manufacturer to produce the product which the consumer wants, so that consumer get satisfaction and manufacturer earns profit. Puts the customer first and at the heart of the business. The organization tries to understand the needs of the customers by using appropriate research methods, processes and developing products to satisfy their needs. In essence all activities in the organization are based around the customer. The customer is the truly king. In today's competitive world putting the customer at the heart of the operation is strategically important. Whilst some organizations in certain industries may follow anything other then the market orientation concept, those that follow the market orientation concept have a greater chance of being successful.

3.2.5 Societal Concept:

This concept means that company should not only work for the consumer but also for the society. So the company should make balance between company's profits, consumer wants and society welfare. The societal marketing concept holds that tile organization should determine the needs, wants and interest of target markets. It should there deliver superior value to customers in a way that maintains or improves the consumers and the society's well being. It questions whether tile pure marketing concept is adequate in an age of environmental problems resource shortage, rapid population growth, worldwide economic problems and neglected social services. The societal marketing concept calls on marketers to balance three considerations in setting, their marketing policies and company profits.

3.2.6 Service Concept:

Customer buy services, not product. So the company should adopt a service model of marketing instead of selling the title to the products. Customers buy products fro the service of transportation. When another customer buys an and conditioner. He is essentially buying cool atmosphere. So the customer may buy a car or an air conditioner for the prestige that the ownership of these products provide, but for most products the main reason for the customer buying them is the service that these products provide.

3.2.7 Experience Concept:

The market: the marketer should create an experience around the product to make it immovable, and movable it Cues at every customer interaction point. An experience occurs when a company intentionally uses services as tile stair, aid goods as props to engage individual customers in a way that creates an immovable event. While product and services are external to the customer. Experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual or even spiritual level. No two people can have same experience, because each experience derives from the interaction between the staged event and the individual's state of mind.

3.3 COMPONENTS OF MARKETING CONCEPT

3.3.1 Customer Satisfaction

3.3.2 Customer Reletionship Management (CRM)

3.3.3 Integrated Marketing

3.3.4 Profitability Sales Volume

3.3.5 Customer Delight

3.3.1 Customer Satisfaction:

‘**Customer satisfaction** is a term frequently used in marketing. It is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as “the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals.” In a survey of nearly 200 senior marketing managers, 71 percent responded that they found a customer satisfaction metric very useful in managing and monitoring their businesses.

It is seen as a key performance indicator within business and is often part of a Balanced Scorecard. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.

“Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty.” “Customer satisfaction data are among the most frequently collected indicators of market perceptions. Their principal use is twofold:”

1. “Within organizations, the collection, analysis and dissemination of these data send a message about the importance of tending to customers and ensuring that they have a positive experience with the company’s goods and services.”
2. “Although sales or market share can indicate how well a firm is performing currently, satisfaction is perhaps the best indicator of how likely it is that the firm’s customers will make further purchases in the future. Much research has focused on the relationship between customer satisfaction and retention. Studies indicate that the ramifications of satisfaction are most strongly realized at the extremes.” On a five-point scale, “individuals who rate their satisfaction level as ‘5’ are likely to become return customers and might even evangelize for the firm. (A second important metric related to satisfaction is willingness to recommend. This metric is defined as “The percentage of surveyed customers who indicate that they would recommend a brand to friends.” When a customer is satisfied with a product, he or she might recommend it to friends, relatives and colleagues. This can be a powerful marketing advantage.) “Individuals who rate their satisfaction level as ‘1,’ by contrast, are unlikely to return. Further, they can hurt the firm by making negative comments about it to prospective customers.

3.3.2 CRM:

Customer Relationship Management (**CRM**) is a system for managing a company's interactions with current and future customers. It involves using technology to organize, automate and synchronize sales, marketing, customer service, and technical support.

Customer relationship management systems track and measure marketing campaigns over multiple networks. These systems can track customer analysis by customer clicks and sales. Places where CRM is used include call centers, social media, direct mail, data storage files, banks, and customer data queries. It helps you to find customer's profile as well.

3.3.3 Integrated Marketing:

Integrated Marketing Communication (IMC) is the application of consistent brand messaging across both traditional and non-traditional marketing channels and using different promotional methods to reinforce each other.

Components of Integrated Marketing Communications

IMC weaves diverse aspects of business and marketing together. These include:

- **Organizational culture**

The organization's vision and mission

Attitudes and behaviors of employees & partners

Communication within the company

- **Four P's**

Price, pricing plans, bundled offerings

Product (product design, accessibility, usability)

Promotion

Place (point of purchase, in-store/shopper experience)

- **Advertising**

Broadcasting/mass advertising: broadcasts, print, internet advertising, radio, television commercials

Outdoor advertising: billboards, street furniture, stadiums, rest areas, subway advertising, taxis, transit

Online advertising: mobile advertising, email ads, banner ads, search engine result pages, blogs, newsletters, online classified ads, media ads

- **Direct marketing:** direct mail, telemarketing, catalogs, shopping channels, internet sales, emails, text messaging, websites, online display ads, fliers, catalog distribution, promotional letters, outdoor advertising, telemarketing, coupons, direct mail, direct selling, grassroots/community marketing, mobile

- **Online/internet marketing**

E-commerce

Search engine optimization (SEO)

Search engine marketing (SEM)

Mobile Marketing

Email marketing

Content marketing

Social Media (Facebook, Twitter, LinkedIn, Google +, Foursquare, Pinterest, YouTube, Wikipedia, Instagram)

- **Sales & customer service**

Sales materials (sell sheets, brochures, presentations)

Installation, customer help, returns & repairs, billing

- **Public Relations**

Special events, interviews, conference speeches, industry awards, press conferences, testimonials, news releases, publicity stunts, community involvement, charity involvement & events

- **Promotions**

Contests, coupons, product samples (freebies), premiums, prizes, rebates, special events

- **Trade shows**

Booths, product demonstrations

- **Corporate philanthropy**

Donations, volunteering, charitable actions

When these diverse aspects of business and marketing are weaved together properly an effective campaign can be achieved. Effective campaigns are demonstrated on the Integrated Brands showcase which recognizes brands that are innovative, strategic and successfully growing their sales. By effectively leveraging each communication channel greater impact can be achieved together than achieved individually.

3.3.4 Profitability Sales Volume:

Marketing starts with generation of product idea and continues until the customer's wants are completely satisfied. Marketing is successful only when it is capable of maximizing profitable sales and achieves the long run customer satisfaction.

Thus the modern marketing concept is a course of business thinking, while marketing is a process or course of business action.

3.3.5 Customer Delight:

Customer delight is surprising a customer by exceeding his/her expectations and thus creating a positive emotional reaction. This emotional reaction leads to Word of Mouth. Customer Delight directly affects sales and profitability of a company as it helps to distinguish the company and its products and services from the competition. In the past customer satisfaction has been seen as a key performance indicator. Customer satisfaction measures the extent to which the expectations of a customer are met (compared to expectations being exceeded). However, it has been discovered that mere customer satisfaction does not create brand loyalty nor does it encourage positive word of mouth. Customer Delight can be created by the product itself, by accompanied standard services and by interaction with people at the front line. The interaction is the greatest source of opportunities to create delight as it can be personalized and tailored to the specific needs and wishes of the customer. During contacts with touch points in the company, more than just customer service can be delivered. The person at the front line can surprise by showing a sincere personal interest in the customer, offer small attentions that might please or find a solution specific to particular needs. Those front line employees are able to develop a relationship between the customer and the brand. Elements in creating motivated staff are: recruiting the right people, motivating them continuously and leading them in a clear way

3.4 BENEFITS OF MARKETING CONCEPTS

1. Marketing concept has philosophical and strategic implications as it allows the business firm to direct its activities towards the broader and long range objectives like sustained interaction with the customer, and stability and growth of the business.

2. Marketing concepts leads to fallow an integrated and coordinated approach to marketing. By concentrating on consumer's wants, marketing management can evaluate contribution made by different departments of the firm in a better way.

3. Concern about market or customer needs rather than product reduces the changes of a business firm becoming a sick unit.

4. A customer orientated company would track its customer satisfaction level and set improvements goals. Customer satisfaction is the best indicator of the company's future profits.

5. A satisfied customer pays less attention to competing brands and gives repeat orders.

3.5 SUMMARY

Marketing is regarded as an activity involving the buying and selling of products and services. The entire effort in managing the function is aimed at attaining the marketing objectives of satisfying the needs of customer, business and society. Broadly there are four types of managerial orientations namely, production, sales, promotion and consumer. The consumer orientation of management is best reflected in the adoption of the marketing concept, which focuses on the consumer needs and wants. There are organizational problems, but problems can be overcome by a planned and systematic, implementation of the marketing concept.

3.6 SELF ASSESSMENT QUESTIONS

1. Define marketing concept.
2. What do you mean by customer satisfaction?
3. Define customer delight.
4. Explain the various concepts of marketing management
5. Discuss the components of marketing concepts
6. Write a short note on Experience concept

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UNIT - 4 : TRENDS IN MARKETING

STRUCTURE:

4.0 Objectives

4.1 Introduction

4.2 Marketing Myopia

4.3 Digitalization of Marketing

4.4 Emerging trends in Marketing

4.5 Summary

4.6 Self Assessment Questions

4.7 References

4.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Marketing Myopia
- Explain the concept of Digitalization
- Discuss the emerging trends in Marketing

4.1 INTRODUCTION

Everyone knows that the Internet age has changed the way we all experience, store, and share information. For marketing professionals, this opens up many new options for putting together communications strategies. It also means that keeping a constant ear to both domestic and global change can only be good for business. Just as buyers can access more facts and figures, they also have more control over their relationship to producers. Emerging trends, such as big data, social media, social CRM, augmented reality and context-aware computing, create new opportunities to acquire and retain customers, fueling growth and taking market share. Emerging trends in marketing strategy there will the inevitable mention of Mobile Computing, Social Media Presence and perhaps the increased power of analytics through such things as Big Data.

4.2 MARKETING MYOPIA

The term marketing myopia coined by Theodore Levitt. It refers to the short sightedness. The marketer wants to sell the product and services, without much focusing on the customer demands and needs. Marketing Myopia suggests that businesses will do better in the end if they concentrate on meeting customers' needs rather than on selling products.

The customer's lifetime value can rise above myopia to a certain extent. This can entail the use of long-term profit objectives (sometimes at the risk of sacrificing short term objectives).

4.3 DIGITALIZATION OF MARKETING

Digital marketing is marketing that makes use of electronic devices (computers) such as personal computers, smart phones, cell phones, tablets and game consoles to engage with stakeholders. Digital marketing applies technologies or platforms such as websites, e-mail, apps (classic and mobile) and social networks. Social Media Marketing is a component of digital marketing. Many organizations use a combination of traditional and digital marketing channels.

In **pull** digital marketing, the consumer actively seeks the marketing content, often via web searches or opening an email, text message or web feed Websites, blogs and streaming media (audio and video) are examples of pull digital marketing. In each of these, users have to navigate to the website to view the content. Only current web browser technology is required to maintain static content. Search engine optimization is one tactic used to increase activity.

In **push** digital marketing the marketer sends a message without the recipient actively seeking the content, such as display advertising on websites and news blogs. Email, text messaging and web feeds can also be classed as push digital marketing when the recipient has not actively sought the marketing message.

Some of the latest developments include: 1. **Segmentation:** More focus has been placed on segmentation within digital marketing, in order to target specific markets in both business to business and business to consumer sectors. 2. **Influencer Marketing**: Important nodes are identified within related communities, known as influencers. This is becoming an important concept in digital targeting. It is possible to reach influencers via paid advertising, such as Face book or Google Ad sense campaigns, or through sophisticated SCRM (social customer relationship management) software, such as Microsoft Dynamics and Sales force CRM. Many universities now focus, at Masters Level, on engagement strategies for influencers.

A **digital marketing system (DMS)** is a method of centralized channel distribution used primarily by SaaS products. It combines a content management system (CMS) with syndication across web, mobile, scan able surface, and social channels.

4.4 EMERGING TRENDS IN MARKETING

The existence it seems that each is chatting about gathering media. Networking platforms like Twitter and Face book have exploded in the gone two time, but the billions of users they have aren't just restricted to brood high instruct kids that want to assign photos with one another. More and more subject professionals and even complete brands are creating profiles and collecting followers through these emerging media outlets. The invention of this phenomenon has been termed communal marketing or more specifically community media marketing and the implications it has for how business will soak and profit in the next decade are massive. Strictly defined, known marketing is the ritual of with shared influential media outlets, like networking sites and other online communities, for the intent of marketing an artifact or conducting consumer relations and public outreach. In recent existence, the addict bases of these types of sites have adult exponentially, creating these load markets of demographically diverse people all able to be reached through the same forum, the networking location itself. Now the businesses have wedged onto the verity that, when handled suitably, they too can craft personalities that survive to communicate Emerging Trends in Marketing with their audience solely via the group media groove, marketing through these media has grown as well. Commerce can gain from party marketing in a surfeit of different behavior, but one of the most important is the truth that it is a great place to disclose relatives to your website and, hence prize up a huge quantity of expected transfer. Bloggers and informational website owners have been using networking sites to share their significance for years, why shouldn't the same awareness raising techniques work for businesses with something to plug? While common marketing activity can indeed help you make sales, memorize to use a more delicate approach than you would in a natural marketing atmosphere. Users of shared media are very precision to infiltration by salesclerks that want to dishonest the very organic life of the connections you can make there. Focus instead on shop credibility and relationships with your stream and ability Emerging Trends in marketing buyer origin. When the time comes they will be great assets for diffusion the word about a new product or partnership. Another thing to recollect is that it is almost forever a good idea to develop break private and industry accounts. Even if your personal account lists you as the CEO of the company, it is better to have different outlets for your classify and your personality to nonstop themselves.

Green marketing: Marketing products and services based on environmental factors or awareness.

Social media: Websites and applications that enable users to create and share content or to participate in social networking.

Online marketing: Advertising and **marketing** efforts that use the **Web** and email to drive direct sales via electronic commerce

Direct marketing: The business of selling products or services directly to the public.

4.5 SUMMARY

Today market has become more competitive and competitive due to adoption of technology and innovation techniques. Most of the companies facing tuff competition. Those who are able to strategic advantage such companies are able to withstand in the market. Marketing has made tremendous changes in field because of marketing trends like online marketing, direct marketing, digitalization, social media etc; this has made marketing towards upper trend.

4.6 SELF ASSESSMENT QUESTIONS

1. Define marketing Myopia
2. Explain the concept of digitalization of marketing
3. Discuss the issue and challenges in online marketing
4. Discuss the emerging trends in marketing

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UNIT - 5 : MARKETING PLANNING

Structure:

5.0 OBJECTIVES

After studying this unit, you should be able to;

- Define the meaning of marketing planning
- Explain the concept of strategic marketing
- Describe the process of marketing planning
- Highlight the factors of environment

5.1 INTRODUCTION

Marketing planning is a part of total business planning of the company. Marketing planning has a vital role in formulating overall objectives and goals. With the help of marketing planning a company can design suitable policies, programmers and strategies for the effective achievement of pre-determined objectives and goals. Use of planning in marketing can be of immense help to management. Marketing planning is a managerial task of determining the future course of marketing operations and activities by analyzing the past and projecting the future goals and objectives. Marketing plans broadly may be divided into two main categories: time horizon-based marketing plans and organization structure-based marketing plans. Marketing plan is a comprehensive blueprint which outlines an organization's overall marketing efforts. A marketing process can be realized by the marketing mix, which is outlined in step 4. The last step in the process is the marketing controlling.

The marketing plan can function from two points: strategy and tactics (P. Kotler, K.L. Keller). In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead. Marketing Planning involves setting objectives and targets, and communicating these targets to people responsible to achieve them. It also involves careful examination of all strategic issues, including the business environment, the market itself, the corporate mission statement, competitors, and organisational capabilities.

5.2 MEANING AND DEFINITIONS OF STRATEGIC MARKETING PLANNING

Marketing Planning is the process of developing marketing plan incorporating overall marketing objectives, strategies, and programs of actions designed to achieve these objectives."

According to Newman, “Planning is deciding in advance what is to be done; that is a plan is a projected course of action.

Haiman has described it as “Planning is deciding in advance what lobe is done.”

In the words of Terry, “Planning is the selection and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results.

The American Marketing Association has described marketing planning as, “The work of setting up objectives for marketing activities and of determining and scheduling the steps necessary to achieve such objectives.

5.3 CHARACTERISTICS OF MARKETING PLANNING

The main following characteristics of marketing planning are:

- Marketing planning is a managerial function.
- Planning is in essence the exercise of foresight.
- It involves an analysis of past events and projection of future events.
- Marketing planning is determination of the future course of marketing operations and activities.
- Marketing planning is a goal-directed activity.
- Marketing planning has a specific dimension of time.
- Marketing planning is a continuous process.
- Marketing planning is optimum use of company Resources to achieve better results.
- Marketing planning is to facilitate executive actions.
- A marketing plan contains various elements. These elements are objectives, goals and targets; policies; programmes; strategies; methods; rules; procedure and budget.

5.4 IMPORTANCE OF MARKETING PLANNING

A marketing company can obtain enormous benefits by planning its marketing operations. In view of the increasing competition and decreasing profit margins the role of marketing planning is becoming indispensable. The importance of marketing planning may be discussed under the following headings:

1. Customer-Oriented Marketing

In the situation of buyers' markets a marketing company has to keep 'customers' in the focal point of entire marketing operations. Whether it is product, price of product, physical distribution of promotional activities, are designed with the help of planning to provide maximum customer satisfaction. Thus, marketing planning is an effective tool to implement customer-oriented marketing.

2. Identification of Opportunities and Problems

In the process of planning efforts are made to identify the existing market opportunities and problems. This exercise may help to formulate and evolve best possible solutions for taking full advantage of opportunities and an effective way to deal with problems.

3. Way to Goal-directed Activities

The purpose of marketing planning is to formulate goals, objectives and targets with regard to sales, market share, profit margin etc. With the setting of goals and objectives, entire activities and operations of a marketing company become goal-oriented. It minimises the wastage of efforts and duplication of efforts.

4. Full Exposure to Management and Employees

Goals and targets fixed in the planning process provide full exposure to management and employees. Though the targets are set keeping in view the average performance level, they are made challenging. Thus, everybody has to make some exfra efforts to fulfil the goals and targets. This exposure is also helpful in the further development of management and employees.

5. Increases Productivity and Profitability

Marketing planning integrates the resources of a firm and its marketing opportunities. The purpose of planning is to make maximum use of each resource of the company, in order to capture maximum market coverage. Optimum use of various resources leads to higher profitability through marketing operations.

6. Boosts Internal Communication

Preparation of a marketing plan is a joint activity. Every department of the company communicates desired and relevant information for the purpose of the preparation of plans. In the inter-departmental meetings the different departments marketing company,

7. Facilitates Co-ordination

Marketing planning facilitates co-ordination in a company both horizontally and vertically. Persons located at different organisational levels in the marketing company know very well through the market plan as to what the others will be doing during the coming plan period, and what is desired of him. This facilitates greater coordination in the company's activities.

8. Designing of Suitable Policies and Strategies

In the process of marketing planning, basic guidelines are provided in the form of policies for the performance of marketing activities. Marketing plan also designs suitable strategies in ihe form of action plans to achieve goals and targets in an effective manner.

9. Cost Reduction

Due to integrated functioning, optimum use of the resources of the company is made possible by marketing planning and the cost of marketing operations can be considerably reduced. Concentrating on achieving the best at minimum cost, the marketing planning tends to bring economy in operation.

10. Provides Long-term Vision to the Company

In the marketing planning master plans are prepared keeping in view the longtime marketing objectives and goals. In this exercise a company takes into consideration the prospective marketing scenario in the coming ten to twenty years. It evaluates marketing prospects and challenges with the help of long vision. A company can design suitable policies and strategies in advance to deal with new situations.

11. Essential Prerequisite of Control

A marketing plan sets standards of performance against which the management measures and evaluates organizational performance. Thus, marketing planning is an essential prerequisite of control.

5.5 MARKETING PLANNING PROCESS

Marketing planning process is a series of stages that are usually followed in a sequence. Organisations can adapt their marketing plan to suit the circumstances and their requirements. Marketing planning process involves both the development of objectives and specifications for how to achieve the objectives. Following are the steps involved in a marketing plan.

1. Mission

Mission is the reason for which an organisation exists. Mission statement is a straightforward statement that shows why an organisation is in business, provides basic guidelines for further planning, and establishes broad parameters for the future. Many of the useful mission statements motivate staff and customers.

2. Corporate Objectives

Objectives are the set of goals to be achieved within a specified period of time. Corporate objectives are most important goals the organisation as a whole wishes to achieve within a specified period of time, say oneorfiveyears.

All the departments of an organisation including marketing department works in harmony to achieve the corporate objectives of the organisation. Marketing department must appreciate the corporate objectives and ensure its actions and decisions support the overall objectives of the organisation.

Mission statement and corporate objectives are determined by the top level management (including Board of Directors) of the organisation. The rest of the steps of marketing planning process are performed by marketing department. All the actions and decisions of the marketing department must be directed to achieve organisation mission and its corporate objectives.

3. Marketing Audit

Marketing audit helps in analysing and evaluating the marketing strategies, activities, problems, goals, and results. Marketing audit is done to check all the aspects of business directly related to marketing department. It is done not only at the beginning of the marketing planning process but, also at a series of points during the implementation of plan. The marketing audit clarifies opportunities and threats, so that required alterations can be done to the plan if necessary.

4. SWOT Analysis

The information gathered through the marketing audit process is used in development of SWOT Analysis. It is a look at organisation's marketing efforts, and its strengths, weaknesses, opportunities, and threats related to marketing functions.

- **Strengths and Weaknesses** are factors inside the organisation that can be controlled by the organisation. USP of a product can be the example of strength, whereas lack of innovation can be the example of weakness.

- **Opportunities and Threats** are factors outside the organisation which are beyond the direct control of an organisation. Festive season can be an example of opportunity to make maximum sales, whereas increasing FDI in a nation can be the example of threat to domestic players of that nation.

5. Marketing Assumptions

A good marketing plan is based on deep customer understanding and knowledge, but it is not possible to know everything about the customer, so lot of different things are assumed about customer.

For **example** :

Target Buyer Assumptions - assumptions about who the target buyers are.

Messaging/Offering Assumptions - assumptions about what customers think are the most important features of product to be offered.

6. Marketing Objectives and Strategies

After identification of opportunities and challenges, the next step is to develop marketing objectives that indicate the end state to achieve. Marketing objective reflects what an organisation can accomplish through marketing in the coming years.

Objective identifies the end point to achieve. Marketing strategies are formed to achieve the marketing objectives. Marketing strategies are formed to determine how to achieve those end points. Strategies are broad statements of activities to be performed to achieve those end points.

7. Forecast the Expected Results

Marketing managers have to forecast the expected results. They have to project the future numbers, characteristics, and trends in the target market. Without proper forecasting, the marketing plan could have unrealistic goals or fall short on what is promised to deliver.

- **Forecasting Customer Response** - Marketing managers have to forecast the response that the average customers will have to marketing efforts. Without some idea how the marketing will be received, managers can't accurately plan the promotions.
- **Forecasting Marketing cost** - To make the marketing plan stronger, accurate forecast of marketing cost is required to be done.

- **Forecasting the Market** - To accurately forecast the market, marketing managers have to gain an intimate understanding of customers, their buying behaviour, and tendencies.
- **Forecasting the Competition** - Forecast of competition like - what they market, how they market, what incentives they use in their marketing can help to counter what they are doing.

8. Create Alternative Plan

A alternate marketing plan is created and kept ready to be implement at the place of primary marketing plan if the whole or some part of the primary marketing plan is dropped.

9. Marketing Budget

The marketing budget is the process of documenting the expected costs of the proposed marketing plan. One common method to allocate marketing budgeting is based on a percentage of revenue. Other methods are - comparative, all you can afford, and task method.

10. Implementation and Evaluation

At this stage the marketing team is ready to actually start putting their plans into action. This may involve spending money on advertising, launching new products, interacting with potential new customers, opening new retail outlets etc.

The marketing planning process is required to be evaluated and updated regular. Regular evaluation of marketing efforts helps in achieving marketing goals.

5.6 CONCEPT OF MARKETING ENVIRONMENT

Marketing environment refers to those factors and forces which influence a company. Marketing companies operate in number of countries and every country has its own marketing environment. Therefore, marketing companies have to understand and manage these differences through country specific strategies for the success. Many companies fail to see change as opportunity. They ignore or resist changes until it is too late. Their strategies, structures, systems and organizational culture grow increasingly obsolete and dysfunctional Corporations as mighty as General Motors, IBM and Sears have passed through difficult times because they ignored macro environmental changes.

Above statement is an eye-opener for the top management of the marketing Companies. It is in the interest of marketing companies themselves to scan the changes taking place in macro environmental scenario and adjust their operations and strategies accordingly. Otherwise, they should be prepared to pay heavy cost. Paramount objective of each marketing firm is to provide maximum customer satisfaction in the present era of globalization. Marketing company may provide maximum customer satisfaction when it is fully aware about the changing marketing environment. In this direction, marketing environment scanning may be a useful tool.

Marketing environment scanning is a continuing process of gathering information regarding company's internal and external environment, analyzing it, forecasting its trend and impact on the operations arid performance of the company. On the basis of environment scanning, company may design appropriate strategies to cope itself effectively with changes taking place in the marketing scenario. With the help of effective environment scanning marketing company may take full advantages of prevailing opportunities and minimize negative impact of prospective threats. Therefore, in the fast changing marketing scenario environment scanning assumes vital significance.

5.7 ENVIRONMENTAL FACTORS AFFECTING MARKETING FIRM

Broadly marketing environment may be divided into two categories—internal and external. Internal marketing environment is manageable by the management of the company, whereas, every company has to adjust itself with external environment. Marketing environment may be explained through the following factors:

I. External Marketing Environment

Factors included into external environment may be described as universal factors, These factors are generally uncontrollable by a specific marketing company, but they are not totally uncontrollable. Each and every factor of external environment does not affect every marketing company equally. Some factors may be having greater impact and some may be having marginal impact. In the international marketing, company has to take into stock of country specific marketing environment in particular and global environment in general, to design effective policies and strategies. Marketing company must try hard to influence its external environment where it is possible. For example, a marketing company may improve its competitive position by appropriate strategic alliances and joint ventures. Detail description of various factors of external environment is as under.

(A) External Macro Environment

External Macro environment affects each and every firm equally. External Macro environment consists following factors:

1. Demography

Demography can be defined as the long term statistical study of different distributional characteristics of human population regarding specific country or geographical zone. Demography has a special interest for marketing companies because people constitute markets. Study of demography includes obtaining data regarding urban-rural distribution, growth rate of population, age group-wise distribution, rate of mortality in different age groups and sex-wise distribution of population. Marketing opportunities are closely related with the size of market. World Development Report, 1996 indicates that there were 58 countries having population less than one million. Poor countries with small population cannot be attractive destination for marketing companies. China and India are destination for international companies due to vast size of their population. Even Indian rural market is three times greater than total United States' population.

Countries having negative birth rate cannot be attractive for Johnson & Johnson, which is the global leader in the area of baby care. Due to declining marketing prospects, on the other hand, it may be boon to specific industries such as travel agencies, Hotel industry, restaurants etc.

Major marketing companies in the area of insurance such as L.I.C., A.I.G., Aviva, I.N.G., Prudential etc. may be deeply concerned with the study of age group-wise distribution of population and mortality rate for the purpose of calculation of premium.

High growth rate of population was major cause of worry for number of developing countries. But it may be strong foundation for win-win game. Zero birth rate or negative birth rate is causing serious problems for developed nations in the area of labor supply in different industries. Therefore, Indian software engineers, management graduates and doctors are in great demand in developed countries. High English speaking population is also great asset for India.

Heterogeneous and short supply of population in relation to caste, ethnicity, language and religion is creating enormous challenges for personnel mangers for smooth management of work force.

About one-third population of Japan is above sixty. In this case marketing opportunities for good automobile, high priced cloths may be reducing. On the other hand it has been a boon to investment companies; companies providing personal safetyand electronic safety system; Hospitals and Nursing homes; Yoga and mediation companies. Therefore, it is clear that the study and interpretation of different distributional characteristics of population marketing companies can draw useful conclusion to redesign their marketing strategies

2. Economic Factors

Economic factors play vital role in marketing. People alone do not constitute the market. They must have money to spend and willingness to spend it. India's "middle income group" which is estimated around 35 crores is attracting attention of all major global companies to sell their diversified products and services to cater their varied needs. The size of this segment is greater than total united state's population. This segment has money to spend and willingness to spend on variety of products and services. This is boon to marketing companies.

Stage of business cycle is crucial for important decisions in marketing. Business cycle may be divided into four stages: prosperity, recession, depression and recovery. Prosperity is a period of growth. During this stage companies tend to expand their marketing operations by entering into new markets or induction of new products in the product fines. Recession is a period of poor demand. Companies defer their investment decisions in the recession stage. Recovery is the period when the economy is moving from recession to prosperity.

Inflation is also important factor in economic conditions. Inflation is a rise in the prices of goods and services. When prices rise at a faster rate in comparison of personal income, consumer buying power declines. Inflation presents some real challenges to marketing companies in the area of cost control and pricing decisions. Due to inflation consumer spends less as their buying power declines. On the other hand inflation may increase speed of buying due to fear in the mind of customers that prices will be higher tomorrow.

Marketing companies design their marketing strategies keeping in view nature of the economy, gross national product and its distribution, growth rate of G.D.P., per capita income, burden of foreign debt, credit rating, balance of payment position, money supply and rate of interest.

Economic growth rate of United States is around 2.5 per cent per annum, whereas, economic growth rate of China and India is in between 7 to 10 per cent per annum. It is making them attractive investment destination for marketing companies.

Interest rates are another macro external economic factor that influences marketing programmes of the companies. High interest rates motivate consumers to defer their buying decisions in long term purchase such as automobile and housing. In this situation marketing companies offer their products below market rate of interest as a promotional device to increase sale of their products. Global interest rates are coming down.

Declining (fend of interest rates is forcing insurance companies operating into life segment to close down their high yield products. In India, Life Insurance Corporation of India, which is the major player in the field, has closed down its number of high yield products recently with very limited notice.

Declining trend of rates of interest is also casting its negative shadow on rate of savings. Consumers tend to spend the money to enhance their living of standard when rate of interest is around the rate of inflation or less than that. This situation, which is transformation of saving prone to culture of spending money suits to marketing companies.

3. Political Factors

Decisions of marketing companies are also affected by political factors. Role of government in the economy is an important factor in this regard. In some countries specific industries or sectors are fully state controlled; in those sectors no marketing opportunities prevails. Role of government may be as participator. Government participation may be in the form of joint ventures, where a foreign company is allowed to set-up units on the agreed terms. In India, "Maruti-Suziiki" was the best example in this regard. The government may function as a regulator. In this situation the government imposes regulations and under imposed regulations private companies' arc allowed to perform their activities. Only in the case of violation the government comes into the picture to take necessary action. The role of government will be minimum m the case of laissez faire economy.

Political ideologies also affect marketing companies in business. Major political ideologies are capitalism, socialism and democracy. China is getting much more direct foreign investment due to its political system. U.S. companies feel comfortable with dealing the government of China in comparison to the government of India,

Political closeness also plays its role in the business. For near about four decades India has been important trade partner of U.S.S.R., due to political closeness. Due (o changed global scenario and India's growing closeness to U.S.A., is casting its shadow on our relations with "Rusia", both politically and economically. In contrast trade between India and Pakistan has been very limited, in spite of geographical closeness, due to political bitterness between the two countries.

Marketing companies are deeply concerned with a country's political stability. Political instability may be major cause of political risk. The agreements between a country's government and a marketing company can be turned down in the case of change of power. Italy, is the only exception in this regard. In the last seventy years the people of Italy have seen a new government in power almost after the expiry of one or one and half year. Political instability can be evaluated on the basis of certain indicators. These indicators are frequency of changes in regime, discontinuities in government policies, incidences of violence, demonstrations, disruptions, various cultural divisions and religious disharmony. For example, Sri Lanka has had a great deal of violence between Sinhalese majority and Tamil minority.

It seems now our political leadership has taken lesson from developed countries. Now the government is taking full care of business interests of our marketing companies during the visits of top political leaders in foreign countries. Unfortunately, we could not convert our political relations with number of African countries into economic relations. China is far ahead from us in this regard. Now with the governmental support, Indian companies are focusing their operations in African and Lathi American countries. Trade and industry is now in high agenda in political visits. This is very good beginning and its pace should be increased.

Therefore, the political environment is an important factor, not only in the initial decision to invest in a specific country but also in the continuing marketing operations there.

4. Legal Factors

The governments in the world promulgate various legislations to safeguard the interest of their nation, trade, industry and people. Marketing companies must be having sound knowledge of main provisions of important trade laws where they are operating or having intention to operate in the future. This knowledge will enable executives of marketing companies to evaluate positive and negative impact on their marketing operations in concerned countries.

China is getting maximum direct foreign investment due to two types of labour laws promulgated by the government. For the specific geographical zones where multinational companies are allowed, have special labor laws based on "hire and fire". For the rest of the China, it is having traditional labor laws. China can do it due to their political system but Indian government cannot afford this luxury, due to democracy.

In the international business, marketing companies should know the legal environment in each of its market, means country because these laws constitute the "rules of the game".

However, the legal environment of international marketing is more complicated than domestic marketing due to three dimensions. International marketing companies have to strike a judicious balance among the rules set by World Trade Organization, the legislations of their own country and the legislations in the countries, where they are operating. For example, in number of gulf countries the governments have passed strict legislations regarding exposure of women in advertising. Marketing companies have to take these provisions carefully while preparing advertising copy to promote their products and services.

Norway bans several forms of sales promotion schemes, such as trading stamps, contests, premiums etc., are unfair instruments for promoting products. In India, food companies need special approval of the government to launch their brands. Therefore, marketing companies must be having sound working knowledge of legislations regarding their markets.

5. Technology

Technology has tremendous impact on marketing companies. Technology significantly influences consumption patterns, life styles, company's product-mix and well being of human civilization. Technological development such as computers, aero planes, television, antibiotics, nylon, automobiles, telephones etc. have made vital impact on our lives.

Every new technology is a force for "creative destruction". Therefore, technological development can affect market in several ways. Firstly, it can start entirely new industries, as computers, robots, video games and lasers have done. Secondly, it may radically alter or virtually destroy existing industries, such as television crippled movie industry and cable T. V. to V.C.R. thirdly, it may stimulate markets and industries related to the new technology.

Marketing companies should keep close eye on technological developments taking place in their industries. "Dual-use" and **"Nano** Technology" is the new areas where global companies are keeping their eyes. These two technologies will transform the marketing operations lot ally. Consumers will be immensely benefited by these two technologies in tile near future. Technologically superior products and services increases operational efficiency of products and services reduces cost and enhance customer satisfaction. After careful evaluation a firm should quickly adopt new technology, otherwise it may be out of the fray.

Technology is having mixed blessing on our lives. A new technology may improve our living standard and may provide greater comforts, but on the other hand it may create number cf social, health and environmental problems. For example, frozen foods may provide enormous convenience to customers, but more use of frozen foods may create number of health problems. The automobiles make our life very comfortable, but it also creates problems of traffic jams and air pollution.

Marketing companies should be proactive in developing new technologies for the future to maintain its superiority over its competitors.

6. Competition

Competition has become fierce in marketing. Firm has to face three-tier competition. Firstly, from the other companies of home country. Secondly, from the companies where the firm is exporting. Finally, from the companies of different countries dealing in the same product or service.

Marketing companies have to constantly monitor entire garnet of competitors' marketing operations, such as their products', pricing, distribution system and promotional methods, for the formulation of effective competitive strategies.

Marketing firms have to face another two types of competition. Firstly, brand competition from the other marketing companies dealing in the same product category. Secondly, competition from substitute products. Substitute products are those products which can be effectively used in place of original product. For example, tea is effective substitute of coffee.

Competitive environment has major influence on the marketing operations of a firm. In the present era of globalization, the destiny of marketing companies is greatly affected by global competition. Fierce competition may be faced effectively by making alliances with suitable partners, even with past competitive enemy. Mergers and takeovers may be another way for gaining strength for effective competition

7. Social forces

Marketing companies have to take close look of happenings in the social life of their market to hammer out effective marketing strategies. Social norms and values are dynamic. After the expiry of ten or twenty years there will be some shift in social values and every society has their own norms

8. Cultural Factors

Cultural factors have their wider implications in marketing, due to varied culture from one country to another country, even within the country itself. For example with the formation of "1PL", the cricket has been commercialized. But it seems that they have ignored cultural difference between "wests" arid our country. The growing controversy about use of "Cheer Leaders", during the game is best example in this regard. Culture may be termed as the integrated sum of total behavioral traits that are manifest and shared by members of the society. Cultural heritage is handed over from one generation to another generation,

Culture includes number of areas. Important areas are language, religion, education, aesthetics, material culture, social organizations and political life. Marketers have to study above areas of culture in their target markets to design effective marketing-mix.

(i) Language has its important role in marketing. For example, the English Language has a rich vocabulary for commercial and industrial activities. Therefore, English language has become important in marketing. Numbers of Indian companies are becoming global and availability of vast segment of English speaking people has helped them, up to great extent. Now the China is working very hard in this direction to garner good international markets. Learning a language well means learning the culture, because the words of language are merely concepts reflecting the culture from it was formed. Marketers must be having sound knowledge of language of their target markets for effective communication with them.

(ii) Material culture also has strong linkage with marketing opportunities. Philosophies of different cultures with regard to material aspect become very important in marketing. Material culture is directly related to the way a society organizes its economic activities. Western and eastern cultures are poles apart in this regard. Western culture is materialistic where standard of living is related with consumption of things. Whereas Hindu and Buddhist philosophies believe in "Nirvana" or "Witlessness". Mahatma Gandhi considered industrialization a negation of human values. Nations affected by materialistic culture sooner became industrialized countries, then in atomic age and space age. Therefore, those nations affected by materialistic culture arc beside suited for marketing companies. It is different thing that due to maturity and saturation in number of products and service industries, now multinational companies are targeting developing countries which are having vast population and good resources.

Entire marketing-mix in marketing is influenced by the material culture, be it product or pricing or distribution or promotion.

(iii) Education is also an important part of culture. Important function of education is the transmission of the existing culture and traditions to the new generation. Marketing companies have a role in cultural change; this role demands them to become educators. The innovative products and techniques the marketing companies bring are generally new to the market. For good marketing prospects, the firm must educate society and consumers regarding their benefits and uses. The firm's ability to communicate will be having positive co-relation with education level in target markets.

(iv) Religion is the core element in the culture. Companies are primarily interested in knowing how people behave as consumers. It is the religion, beliefs and attitudes of a culture that provide the best insight into the Behaviour of customers.

There are number of religions and religious groups in the world. The important religions in the world are Christianity, Islam, Hinduism, Animism, Shinto and Buddhism. *Animism* is the term used to describe the religion and philosophy of primitive people. The idea of magic is the key element of animism. Islam originated in seventh century. The number of Islamic countries has touched to about 56 in the world. The "Koran" is accepted as the ultimate guide in Islam religion. The foundation of Islam is based on five pillars—prayer, fasting, the recital of the creed, the pilgrimage to Mecca and alms giving. Muslims are not allowed to consume pork or alcohol. The role of women is very restricted.

Hinduism is closely related with India, because about 85 percent of its population is Hindu. The origin of Hinduism is about 1500 B.C. It is a common dictum that

"Hinduism is not a religion, but it is a way of life". Hinduism is an ethnic, no creedal religion. Capacity to absorb good ideas from outside has been the great strength of Hinduism over the centuries. Hinduism tends to assimilate rather than to exclude. Joint families system is strength of Hinduism. One important Hindu practice is the caste system. In traditional Hindu society each caste was having a specific occupational and social role, connected with heredity. In Hinduism, there is great regard and respect for cow. Nirvana is another important concept of Hinduism.

Christianity is another important religion of the world. It has completed about 2000 years. Christian religion comprises different religious groups such as Roman Catholic and Protestant. Roman Catholic Christian traditionally has emphasized the church and the sacraments as the principal elements of religion. They believe that there is no salvation apart from the church. Protestant reformation paved the way for Catholicism. Catholic Christian believes that salvation is individual matter. Christian believes in hard work, achievements, accumulation of wealth, capital formation and desire for greater production.

Shinto is the principal religion of Japan. Important elements of Shinto religion are reverence for the special or divine origin of the Japanese people and reverence for the Japanese nation and the imperial family as the head of their nation. The impact of Shinto on Japanese life is reflected in an aggressive patriotism.

Buddhism springs from Hinduism about 600 B.C. This religion is reformation of Hinduism. Buddhism religion believes in four truths—the noble truth of the cause of suffering cites, the cause of desire, the noble truth of suffering states that suffering is omnipresent and part of the very nature of life, the noble truth of cessation of suffering sates that suffering ceases when desires ceases and middle path is the best way for life.

(B) External Micro Environment

Different factors ot External macro environment is generally uncontrollable by the individual firm, but situation is different with regard to external micro environment. The elements of external micro environment are a part of firm's marketing system.

Therefore, marketing companies can manage them. Various elements of external micro environment are as under:

1. The Market

A market may be defined as a place where buyers and sellers meet, goods and services are offered for sale and transfer of ownership occur. Through, the market is part of external environment, but it is also certain that the market of every company is different. By effective use of market segmentation, the company may select correct target market, by careful comparison of its products with the profile of target market. For example, "Mercedes", which is super luxury car, is having only 2.5 percent global market share, but the company is happy with it. The market of "Maruti-800" is altogether different. Therefore, it is clear that every company is having its own market and which can be influenced up to great extent.

2. Suppliers

Those institutions supplying raw materials or fabricated parts to the marketing company are termed as suppliers. For providing consistent quality products and services to the customers, strict specifications and guidelines regarding raw materials and fabricated parts assumes vital significance. By formulating sound policies, the marketing companies can keep smooth supply of raw materials to keep the production system uninterrupted. In the case of shortages of company's products, the customer may shift to rival company's brand.

3. Intermediaries

Intermediaries are important part of supply-chain of the company. Marketing intermediaries are independent business organizations that directly aid the flow of goods and services from marketing company to customers. By framing country specific policies and strategies the marketing company may secure maximum co-operation from intermediaries.

II. Internal Marketing Environment

The elements of internal marketing environment are generally manageable by the management of the company. Marketing companies can get enormous benefits by effective management of various elements of internal environment. Different elements of internal environment are as under:

1. Leadership

Leadership may be defined as the ability to influence a group toward the achievement of goals. Effective leaders have a vision and ability to articulate the vision into action. Effective leaders can be created by proper training, by providing conducive environment and assigning them challenging tasks with required autonomy. In this context the task of chief executive officer becomes very crucial. The visions of chief executive officer of marketing companies have far reaching consequences on the sound functioning of the company. For example, see the vision of Bill Gates, C.E.O. of "Microsoft"- "Personal computer on every table" This vision immensely motivate the employees of the company all round the world to increase the penetration of personal computers, particularly in those countries where penetration is only 10 to 30 persons per thousand.

2. Research and Development

Research and development is key factor for success in marketing to induct innovative products in the market and to make significant modifications in the existing products. Marketing companies of developed countries divert generally 3 percent of their turnover to research and development activities for getting break through innovations and significant modifications in she existing product-mix. This requires state-of-the-art infrastructure and services of highly talented scientists and researchers.

Marketing companies can earn huge profits only by launching innovative products. This task is time consuming and requires long time. For example, in the year 1966 an agreement was signed between "SONY" and "PHILIPS" to jointly develop C.D. system. It took a very long period to develop new product. In the year 1986 both the companies jointly positioned C.D. system in the global markets and it was a great success. Unmatchable products can be developed by effective research and development. For example, it has been estimated that combined research and development cost of "Window-2000" was about 660 million U.S. dollars. Therefore, there is no alternate of Microsoft's "Window-2000". A different version of "Window-2000" was introduced as—"Window-XP". The company has continuously upgraded its software to effectively cater new demands and requirements of customers. Company's latest software which was named as, "Window-vista" is working very well.

3. Human Resources

Management of human resources becomes very challenging for marketing companies due to human resources from diversified cultures. Management of the marketing companies can design suitable personnel policies and by providing good work culture, may create dedicated and motivated human resources, which is the great asset for them. *"Marriot"* hotel chain of U.S.A. keeps the employees at the top in its organization chart. The management of the company believes that our employees must be satisfied first, because satisfied employees will create satisfied customers and satisfied customers will provide profitable sales volume to the company.

4. Financial Resources

Marketing companies have diversified investment and marketing operations in lumber of areas. This requires effective management of financial resources. Portfolio - management becomes crucial in this regard. Management of financial resources is

important for different aspects of marketing activities, such as providing funds to research and development, induction of new products, capacity expansion of present product-mix, implementation of sales promotion schemes and for advertising campaign.

5. Image of the Company

Image of the company is also manageable variable of marketing operations. It takes years for marketing company to earn favorable public image regarding its products and services. Image building requires providing quality products and services at competitive prices, continuous quality improvement, prompt after sales services and giving proper attention 10 customer relationship marketing.

Example of "INTEL", which is major microprocessor chip producing company of the U.S.A. is ideal in this regard. The chip of this company has earned enormous reputation and image in the world. Therefore, we see the headline "INTEL INSIDE" in every advertising copy and the brand name of computer becomes in shadow.

6. Marketing-Mix

Marketing company is free (o design its marketing-mix. Marketing-mix comprises four Ps-product, price, place and promotion. Marketing companies have to design specific marketing-mix, because requirement of products, affordability of prices, availability of channel of distribution, requirement of advertising, availability of sales-fore and suitable sales promotion schemes vary in the different segments of customers.

5.8 SUMMARY

In order to survive in increasingly competitive markets, businesses need to monitor and respond to changes in their external environment. The company's response has been to ride the wave of new technological development. The emphasis has been on developing technological solutions to the meet the needs of today's customers. It is based on the recognition that sophisticated consumers require a range of digital solutions to access and display their images.

One factor can be part of a firm's micro environment and macro environment. The media can be used to illustrate this:

- A one off media story about the firm may affect daily operations and will therefore be part of the firm's micro environment;
- Whilst a general desire to avoid a negative media story may influence a firm's long term business operations and therefore make up the firm's macro environment.

Firms should not concern themselves too much about which of the three categories a factor fits into. Instead firms should ensure that they have correctly identified all of the factors which make up their marketing environment and plan how to manage them for the firm's benefit.

5.9 SELF ASSESSMENT QUESTIONS

1. Define marketing environment
2. State different factors of external marketing environment. Discuss the impact of external environment on firm's marketing decisions.

3. What do you mean by internal environment? Discuss its impact on firm's marketing decisions.

4. Write an essay on marketing environment.

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UNIT -6 : CONSUMER BEHAVIOUR

Structure:

6.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Consumer Behaviour
- Explain the characteristics of Consumer Behaviour
- Describe the process of Consumer Behaviour
- Bring out the factors affecting Consumer Behaviour

6.1 INTRODUCTION

The consumer market is estimated to be the 5lh largest in the world. The consumer market has changed radically during the last ten years. There has been complete transformation of the consumer markets in India. There is a definite shift from sellers' market to buyers' market. A real boom in consumer products market clearly points out is growth in size range and sophistication. Consumer markets are the markets for products and services bought by individuals for their own or family use. The market is a basic issue if we consider any aspect of management and thus we are dealing with a vital concern for all business firms. A market is someone who seeks a response from another party called the prospect. If two parties are seeking to sell something to each other, both of them are referred to as markets. Consumer Behaviour has become highly volatile in the present era of globalization. Changes in consumer's exposure, income, education, experience, easy availability of foreign products and hallow effect have casted their shadow on their Behaviour. Changes in perceptions play significant role in consumer Behaviour, few years ago, "car", which was deemed as luxury for the middle class of society has become necessity now a days.

In the present marketing scenario it has become inevitable for business firm to understand consumer Behaviour in order to provide want satisfying goods and services to present and potential consumer.

6.2 MEANING AND DEFINITIONS OF CONSUMER BEHAVIOUR

Consumer Behaviour is the study of individuals, groups, or organizations and the processes they use to select, secure, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society

It blends elements from psychology, sociology, social anthropology, marketing and economics. It attempts to understand the decision-making processes of buyers, both individually and in groups such as how emotions affect buying Behaviour. It studies characteristics of individual consumers such demographics and behavioral variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general.

Customer Behaviour study is based on consumer buying Behaviour, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer Behaviour is difficult to predict, even for experts in the field.

Definitions

According to **Walter and Paul,** consumer Behaviour may be defined as " the process whereby individual decide whether, what , when, where, how, and from where to purchase goods and services.

Webster says that "consumer behavior is all psychology, social and physical behaviour of potential customer as they become aware of evaluate, purchase, consumes and tell other people about product and services."

6.3 CHARACTERISTICS OF CONSUMER BEHAVIOUR

Characteristics of consumer behaviour are:

- Consumer behaviour is the part of human behaviour. This cannot be separated. Human behaviour decides what to buy, when to buy etc. This is unpredictable in nature. We cannot say that what an individual is going to do in the next moment. Based on the past behavioural pattern one can at least estimate like the past he might behave.
- Learning the consumer is difficult and complex as it involves the study of human beings. Each individual behaves differently when he is placed at different situations. Every day is a lesson from each and every individual while we learn the consumer behaviour. Today one may purchase a product because of its smell, tomorrow it may vary and he will purchase another due to some another reason.
- Consumer behaviour is dynamic. A consumer's behaviour is always changing in nature. The taste and preference of the people vary. According to that consumers behave differently. As the modern world changes the consumer's behaving pattern also changes.

- Consumer behaviour is influenced by psychological, social and physical factors. A consumer may be loyal with a product due to its status values. Another may stick with a product due to its economy in price. Understanding these factors by a marketer is crucial before placing the product to the consumers.
- Study of consumer behaviour is crucial for marketers. Before producing a product or launching a product, he has to go through a clear analysis of the consumer behaviour. If the people or prospects reject the product, he has to modify it.
- Consumer behaviour is a continuous process as it involves the process starts before the buying and continuing after purchasing. Before buying there will be high confusions and expectations about the product. After buying it, if the buyer is satisfied with the product he shows a positive behaviour, otherwise negative.

6.4 BUYER BEHAVIOUR

In addition to understanding the needs of your customers, you also need to understand what motivates them to purchase, and how you can influence the buying process to ensure that your products or services are on the shopping list.

Understanding your customers will help you to develop and distribute your product, as well as getting the right price point and developing successful promotional activities.

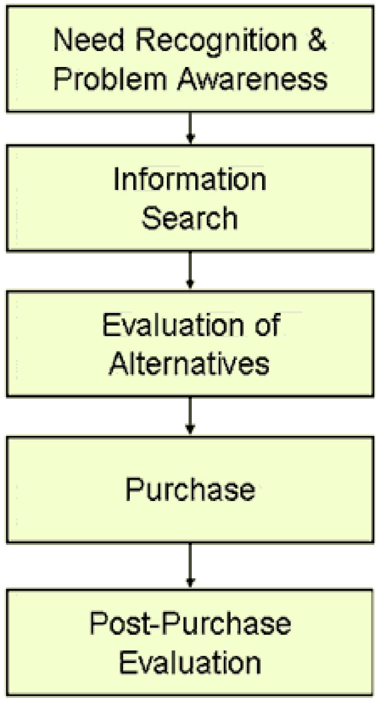
The psychology of the buying process has been widely studied, and no matter what size your business, knowledge of this process can help you become more successful.

Both businesses and consumers exhibit patterns of buying behaviour. The business model is less open to debate as your business customers will almost certainly have some formalised process of buying in place. Your task is to understand the process and match your marketing activities to the different stages of the process. This means that the customer will receive the right kind of contact at the right time.

Buyer behaviour is a process. Potential customers are subjected to various stimuli. The customer is regarded as a black box as we cannot see what is going on in his mind. He responds to the stimuli or input and may purchase some product or service of interest to him. Buyer behaviour involves both individual processes and group processes. It includes both consumer and industrial buyer behaviour. In buyer behaviour we consider not only why, how, and what people buy other factors such as where, how often and under what conditions the purchases is made.

Buyer behaviour is the decision processes and acts of people involved in buying and using products.

6.5 CONSUMER DECISION MAKING PROCESS



1. Problem/Need Recognition:

This is in general the first stage in which the consumer recognizes that what essentially is the problem or need and hence accordingly a consumer can identify the product or kind of product which would be required by the consumer. The buying process strats when an unsatisfied need creates tension. Once the need is recognized, the consumer became aware of conflicting motives or competitive uses for their scare resource of time or money. The need may be biogenic or dormant until it is aroused by an external stimulus such as an advertisement or the sight of the product. Need recognition may also occur due to dissatisfaction with the existing product.

2. Information Search:

In information search, the consumer searches about the product which would satisfy the need which has been recognized by the consumer in the stage previous stage.

Information search can be done in two waves: Internal and External

- Internal search, memory.
- External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc.

A successful information search leaves a buyer with possible alternatives, the *evoked set*.

3. Evaluation of Alternatives:

In this stage, the consumer evaluates the different alternatives which the consumer comes across, when the consumer was searching for information. Generally in the information search the consumer comes across quite a few products and thus now the consumer has to evaluate and understand which product would be properly suited for the consumer. Once all the reasonable alternatives are identified, the consumer then evaluates each one preparatory to purchase decision. The criteria consumers use for their evaluation include their past experiences and attitudes towards various brands. Consumer also uses the opinions of member of their families and other reference group as guidelines in the selection of a particular brand. Thus, the evaluation stages represent a mental trail of the product. After evaluation the consumers make a decision either to purchase or reject the product.

4. Purchase decision:

After the consumer has evaluated all the options and would be having the intention to buy any product, there could be now only two things which might just change the decision of the consumer of buying the product that is what the other peers of the consumer think of the product and any unforeseen circumstances. Unforeseen circumstances for example in this case could be financial losses which led to not buying of the product.

5. Post Purchase Behavior:

After the purchase the consumer might just go through post purchase dissonance in which the consumer feels that buying the other product would be better. But a company should really take care of it, taking care of post purchase dissonance doesn't only spread good words for the product but also increases the chance of frequent repurchase.

6.6 FACTORS AFFECTING CONSUMER BEHAVIOUR/ DETERMINANTS OF CONSUMER BEHAVIOUR

1. Cultural Factors

Consumer behaviour is deeply influenced by cultural factors such as: buyer culture, subculture, and social class.

- **Culture**

Basically, culture is the part of every society and is the important cause of person wants and behaviour. The influence of culture on buying behaviour varies from country to country therefore marketers have to be very careful in analyzing the culture of different groups, regions or even countries.

- **Subculture**

Each culture contains different subcultures such as religions, nationalities, geographic regions, racial groups etc. Marketers can use these groups by segmenting the market into various small portions. For example marketers can design products according to the needs of a particular geographic group.

- **Social Class**

Every society possesses some form of social class which is important to the marketers because the buying behaviour of people in a given social class is similar. In this way marketing activities could be tailored according to different social classes. Here we should note that social class is not only determined by income but there are various other factors as well such as: wealth, education, occupation etc.

2. Social Factors

Social factors also impact the buying behaviour of consumers. The important social factors are: reference groups, family, role and status.

- **Reference Groups**

Reference groups have potential in forming a person attitude or behaviour. The impact of reference groups varies across products and brands. For example if the product is visible such as dress, shoes, car etc then the influence of reference groups will be high. Reference groups also include opinion leader (a person who influences other because of his special skill, knowledge or other characteristics).

- **Family**

Buyer behaviour is strongly influenced by the member of a family. Therefore marketers are trying to find the roles and influence of the husband, wife and children. If the buying decision of a particular product is influenced by wife then the marketers will try to target the women in their advertisement. Here we should note that buying roles change with change in consumer lifestyles.

- **Roles and Status**

Each person possesses different roles and status in the society depending upon the groups, clubs, family, organization etc. to which he belongs. For example a woman is working in an organization as finance manager. Now she is playing two roles, one of finance manager and other of mother. Therefore her buying decisions will be influenced by her role and status.

3. Personal Factors

Personal factors can also affect the consumer behaviour. Some of the important personal factors that influence the buying behaviour are: lifestyle, economic situation, occupation, age, personality and self concept.

- **Age**

Age and life-cycle have potential impact on the consumer buying behaviour. It is obvious that the consumers change the purchase of goods and services with the passage of time. Family life-cycle consists of different stages such young singles, married couples, unmarried couples etc which help marketers to develop appropriate products for each stage.

- **Occupation**

The occupation of a person has significant impact on his buying behaviour. For example a marketing manager of an organization will try to purchase business suits, whereas a low level worker in the same organization will purchase rugged work clothes.

- **Economic Situation**

Consumer economic situation has great influence on his buying behaviour. If the income and savings of a customer is high then he will purchase more expensive products. On the other hand, a person with low income and savings will purchase inexpensive products.

- **Lifestyle**

Lifestyle of customers is another import factor affecting the consumer buying behaviour. Lifestyle refers to the way a person lives in a society and is expressed by the things in his/her surroundings. It is determined by customer interests, opinions, activities etc and shapes his whole pattern of acting and interacting in the world.

♦ **Personality**

Personality changes from person to person, time to time and place to place. Therefore it can greatly influence the buying behaviour of customers. Actually, Personality is not what one wears; rather it is the totality of behaviour of a man in different circumstances. It has different characteristics such as: dominance, aggressiveness, self-confidence etc which can be useful to determine the consumer behaviour for particular product or service.

4. Psychological Factors:

There are four important psychological factors affecting the consumer buying behaviour. These are: perception, motivation, learning, beliefs and attitudes.

♦ **Motivation**

The level of motivation also affects the buying behaviour of customers. Every person has different needs such as physiological needs, biological needs, social needs etc. The nature of the needs is that, some of them are most pressing while others are least pressing. Therefore a need becomes a motive when it is more pressing to direct the person to seek satisfaction.

♦ **Perception**

Selecting, organizing and interpreting information in a way to produce a meaningful experience of the world is called perception. There are three different perceptual processes which are selective attention, selective distortion and selective retention. In case of selective attention, marketers try to attract the customer attention. Whereas, in case of selective distortion, customers try to interpret the information in a way that will support what the customers already believe. Similarly, in case of selective retention, marketers try to retain information that supports their beliefs.

♦ **Beliefs and Attitudes**

Customer possesses specific belief and attitude towards various products. Since such beliefs and attitudes make up brand image and affect consumer buying behaviour therefore marketers are interested in them. Marketers can change the beliefs and attitudes of customers by launching special campaigns in this regard.

6.7 PARTIES INVOLVED IN BUYING BEHAVIOUR

1. Initiator
2. Influencer
3. Decider
4. Buyer
5. User

6.8 SUMMARY

Consumer behaviour is an attempt to understand and predict human actions in the buying role. It has assumed growing importance under market oriented or customer oriented marketing planning and management. Consumer behaviour if reflected from awareness right through post purchase evaluation indicating satisfaction or non satisfaction, from purchase. Consumer behaviour involves both individual and group processes. It includes communication, purchasing and consumption behaviour and it is basically social in nature. Hence, social environment plays an important role in shaping buyer behaviour. Consumer behaviour includes both consumer and business buyer behaviour. Thus consumer/buyer behaviour includes the acts of individual directly involved in obtaining and using economic goods and services including sequence of decision processes that precede and determine these acts. Actual purchase is only a part of the decision process. An understanding of consumer/buyer behaviour is essential in marketing planning and programmes. Consumer/buyer behaviour is one of the most important key to successful marketing.

6.9 SELF ASSESSMENT QUESTIONS

1. What do you mean by consumer behaviour?
2. Explain the characteristics of consumer behaviour
3. Discuss the process of consumer behaviour
4. Explain the concept of buyer behaviour
5. Explain the factors affecting consumer behaviour.

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UNIT - 7 : MARKETING RESEARCH

Structure:

7.0 OBJECTIVES

After studying this unit, you should able to;

- Define marketing research
- Discuss the importance of marketing research
- Explain the process of marketing research

7.1 INTRODUCTION

Marketing is a dynamic and restless field. Since 1930, many new dimensions and dramatic changes have taken place in marketing in which global marketing, customer satisfaction, e-marketing, cut-throat competition, changes in fashion, style and habits of customers are main. The old techniques of management by intuition and rule of thumb are no longer valid in present marketing decision-making. In carrying out marketing strategic planning and control, managers need information at almost every turn. They need information about target markets, customer's products, competition, buying Behaviour, dealers and other forces in the marketing place. In response to these requirements, a formal means of acquiring information to assist in the decision making of marketing has emerged. Than managers have no choice other than marketing research to obtain the information they need for decision-making.

7.2 MEANING AND DEFINITIONS OF MARKETING RESEARCH

Marketing research is a systematic effort for the solution of marketing problems. It covers the field of problems, techniques and other aspects of marketing and related decision-making and other implementation. In fact, the subject of marketing research is the result of consumer-oriented marketing. Marketing research links the organization with its market environment. It involves specifying, gathering, analyzing and interpreting information to help the management to understand the environment, identify problems and opportunities, and develop and evaluate courses of marketing action. It is a composite term which relates to all research activities and functions of marketing.

Definitions

Clark and Clark, says "**Marketing research** is the careful and objective study of product, design, markets and such transfer activities as physical distribution and warehousing, advertising and Sales Marketing."

The American Marketing Association has defined marketing research as "The systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services."' This committee has defined it in a new sense that marketing research is the function which links the consumer, customer, and public to the marketer through information— information used to identify and define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.

Philip Kotler defines it as "Marketing research is the systematic problem analysis, model building and tact finding for the purpose of improved decision-making and control in the marketing of goods and services." He further states that 'marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant [o a specific marketing situation facing the company.

According to **Ronald and Ted,** ''Marketing research may be defined as the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services under essentially non-recurring conditions.

David and Wales say that 'Marketing research is the branch of marketing intelligence that conducts specific enquiries into problems in order to guide decisions.'

7.3 CHARACTERISTICS OF MARKETING RESEARCH

The above discussion explains the following characteristics of marketing research;

1. The nature of marketing research is curative one. The need for marketing research is felt when a company is facing any specific marketing problems.
2. Marketing research is used to eliminate possible risk of specific problems.
3. Marketing research is scientific in nature. It is carried out in a systematic manner in place of haphazard or hit and miss manner.
4. Marketing research contains objectivity rather than subjectivity. It means that the investigations in marketing research are not carried out lo prove a prior finding nor is it intentionally slanted to arrive at predetermined conclusions.
5. Marketing research is based on data, facts and information. Thus, marketing research is a search for data which are associated or relevant to a marketing problem.
6. Marketing research may relate to any problem or difficulty in marketing operations.
7. A specific procedure or process is followed to conduct marketing research. This process may involve identification of objectives, situation analysis, gathering and

collection of information, analysis and interpretation of information and drawing conclusions.

8. Marketing research has managerial purposes. It provides vital help 10 marketing executives for arriving at sound decisions.

9. Marketing research is solution oriented. After identification of real problems, efforts are made in marketing research to suggest suitable workable measures to overcome present problems.

7.4 IMPORTANCE OF MARKETING RESEARCH

- Consumer-oriented Marketing
- Reduces Risks
- Effective Managerial Decisions
- Identification of Opportunities
- Stimulates Sales
- Integration between Company and Consumer Interests
- Assessment of Real Image of the Company
- Reduction in Marketing Cost
- More Profitability
- Confidence and Progressive Spirit in Marketing Personnel

7.5 MARKETING RESEARCH PROCESS

Problem Formulation

Situational Analysis

Determination of Research Objectives

Planning and conduct formal investigation

Collection of Primary Data or Techniques of Marketing Research

Data Processing

Report Writing

1. Problem Formulation

The first step in the process of marketing research is problem formulation. Identification of real marketing problem is necessary to keep the research activities directed towards a specific goal. This stage involves developing an understanding of the problem which requires further study and investigation. This task should be done very carefully because sometimes the apparent problem may not be the real problem.

For example, a marketing firm which was dealing in commercial air-conditioning equipments had been enjoying steady increase in sales over a good span of time. Firm decided to conduct sales research. Elementary findings by the marketing research firm shown though the firm's sales volume had been increasing, but market share was declining; because the industry was growing even at faster pace. Correct problem formulation is very important for the determination of research objectives.

2. Situational Analysis

In the second step the researcher should carry out a situation analysis. Situation analysis involves getting acquainted with the company and its business environment with the help of internal records of the company and extensive interviewing of company's executives and personnel. The researcher tries to get a feeling for the situation surrounding the problem within the company. This provides desired assistance to the researcher to define the problem more clearly. After completing internal analysis, the researcher tries to assess the company's total business environment, particularly the industry's conditions in detail, to examine its effects on the company. The researcher may consult customers, members of the channels of distribution, advertising agencies in order to obtain their opinions and reactions about the marketing problem.

3. Determination of Research Objectives

When the real marketing problem has been identified with the help of situation analysis the next step is determination of research objectives and development of appropriate hypotheses (if necessary). Research objectives are a frame of ends to be achieved through the research. Objectives are the 'why' aspect of the proposed study. Why do we want to study the problem? What do we expect from the proposed study? the answers to these questions may provide a clear direction to formulate specific objectives of the research. Objectives set the path of research work. The researcher may define the proposed problem more clearly by developing hypotheses for further testing. Development of hypothesis is a valuable step in problem solving. Hypotheses are tentative supposition or possible solutions to a problem based on the marketing experience, judgment or some documentary evidence. The hypotheses so developed by researcher are tested and the findings may either prove or disprove them.

4. Planning and Conduct Formal Investigation

After the identification of real problem and determination of research objectives and hypotheses the next important step is ihe preparation of a research plan and to conduct formal investigation. The major steps in this stage may be discussed under the following headings;

(a) Determination of Required Information or Data: Under this step the researcher determines the information or data required to find out the solution of the proposed marketing problem, keeping in view the objectives of the study. Some data may be available within the company and remaining may be collected by the researcher from **outside** sources. Procuring under information as **well as** over information, both are undesirable, so the list of desired information or data should be prepared carefully.

(b) Selection of the Sources of Information: In terms of sources, the information or data may be **primary** and secondary. **Primary data** are original data gathered specifically for the project at hand. **Secondary data are** those which are already gathered, having been collected originally for some other purposes. These data remain available in published or unpublished forms. One of the biggest **mistakes** made by many researchers is rushing out to get primary data before exhausting the information already available in secondary sources. Secondary data may be collected much faster and at[1] far less expenses than primary data. Therefore, the researcher should get the desired information giving priority to secondary sources. However, at the same time, secondary sources which are to be used by the researcher should meet certain standards of accuracy and must be reliable, relevant to the research problem and latest.

(c)Sources of Secondary Data: The researcher may gather secondary data from various sources. Desired secondary data may be collected from the following sources:

(i) Internal records of the company may provide useful information with regard to sales record of the company, cost structure of products, expenses, complaints of consumers, etc.

(ii) Different departments of the Central Government and State Governments provide very useful information in their publications. For example the

Department of Home Affairs publishes **Census Reports** which are very useful to study demographic trends.

(iii) Marketing Research Companies, such as **A.C. Nielsen India, ORG-MARG and The Indian Market Research Bureau** (IMRB).

(iv) Advertising Agencies,

(v) Universities—large universities operate research bureaus and publish thefindings of the researches carried out by the teachers and students,

(vi) Non-profit Research Foundations,

(vii) Trade, Professional and Business Associations,

(viii) Publications of Reserve Bank of India,

(ix) Centre for Monitoring the Indian Economy (CMIE).

(x) Publications of Planning Commission,

(xi) Newspapers, Magazines and Journals.

(xii) Internet.

(xiii) **Yellow Pages** of telephone directories.

(xiv) The **Source Directory** published by Mumbai based Source Publications,

(xv) **R.K. Swami** Marketing Guide,

(xvi) "Get it" **Yellow** Pages,

(xvii) **Indian** Institute of Foreign Trade (IIFT)

(xviii) Export Promotion Councils,

(xix) Commodity Boards,

(xx) The Thomas Register.

(d). Sources of Primary Data: After exhausting all reasonable secondary sources of information the researcher may still lack desired information for the study of the proposed marketing problem. Then the researcher will turn to primary sources to gather the remaining required information. These primary data or information may be gathered from the executives of the company, company's sales force and members of the channels of distribution. Sales people can often supply quite current information from their sales territories. Middlemen may provide useful information and suggestions for the marketing problem. Primary data may also be gathered from the consumers of the company's product to obtain their opinion, reactions, altitudes, motivates and buying habits.

5. Collection of Primary Data or Techniques of Marketing Research

There are three widely used techniques for gathering primary data: survey technique, observational technique and experimental technique. Normally, not all the three techniques are used for one marketing research project. The choice of technique will depend upon requirement of research project, the availability of lime, financial resources, personnel and facilities. A brief description of these techniques is given below;

1. Survey technique
2. Sampling technique
    a. Simple random sampling
    b. Systematic random sampling
    c. Quota sampling
    d. Cluster sampling
3. Survey method
4. Observational technique
5. Experimental technique

6. Data Processing: Analysis and Interpretation

In this stage the market researcher analyses the data and interprets the findings of the research. The data processing job involves editing, tabulation, analysis and interpretation. In editing the researcher ascertains that the instructions have been followed by investigators, answers are logical and consistent. In tabulation, data are arranged in classes and are assigned weights, if any. In analysing tabulated data, the researcher examines the data, compares them and makes desired statistical calculations. In interpretation, the researcher draws necessary conclusions. If hypotheses were drawn the researcher has to prove or disprove them on the basis of his findings. In the present era, the availability of sophisticated electronic data processing equipments enables a researcher to tabulate and analyse mass data quickly and relatively inexpensively.

7. Report Writing

The end product of the investigation is the researcher's findings, conclusions and recommendations presented in the form of Research Report. The researcher may prepare two types of reports—first the **General Report** and second the **Technical Report. The General Report** is prepared for the use of top management of the company. **This** report is prepared in short and contains only identified problem, research objectives, main findings, conclusions and recommendations. The **Technical Report** is a detailed report containing introduction, identified problem(s), brief outcome of situational analysis, objectives of the research; hypotheses, if any; research methodology; findings and conclusions; recommendations; appendixes and bibliography.

8. Follow-up

The task of research does not end with the presentation of report to the company. After detailed study of report the Company should implement the relevant suggestions. After the expiry of reasonable time the company should conduct follow-up studies to assess the utility of the research carried out. It is in the interest of the researcher to follow-up his study to determine whether his recommendations are being followed, and if not what the reasons are. The researcher's future relations with the marketing company may be influenced by this step. The researcher may earn goodwill by the follow-up. It may provide him lessons and guidelines" for further researches. In the absence of follow-up by the researcher the company may not pay desired attention and action on the report. The report may be filed and forgotten!).

7.6 SUMMARY

Marketing research by itself does not arrive marketing decision nor does it guarantee that the organization will successful in marketing its products. However, when conducted in a systematic, analytic, objective manner, marketing decision will reduce uncertainty in decision making process and increase the probability and magnitude of success.

7.7 SELF ASSESSMENT QUESTIONS

1. What is marketing research?
2. Explain the significance of marketing research
3. Discuss the characteristics of marketing research
4. Explain the process of marketing research

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UNIT - 8 : MARKET SEGMENTATION

Structure:

8.0 OBJECTIVES

After studying this unit, you should be able to;

- Define market segmentation
- Explain the bases of market segmentation
- Highlight the factors affecting market segmentation
- Bring out the element of marketing mix
- Discuss the concept of positioning
- Explain target market

8.1 INTRODUCTION

Modern marketing has gained importance in the business world after advancement of Industrialization. The early success of mass production brought about a remarkable increase in the consumer products at affordable prices. Faced with the growing inventories, enterprises turned their attention to the science of marketing in order to identify and target willing customer. The variety and affordability of goods made possible by mass production made this challenge relatively easy. But as soon as consumer pent up demand was satisfied, consumer became less willing to purchase products that were not a good match for their particular needs and wants.

8.2 MEANING OF MARKET SEGMENTATION

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumer who have common needs and priorities, and then designing and implementing strategies to target them. Market segmentation strategies may be used to identify the target customers, and provide supporting data for positioning to achieve a marketing plan objective. Businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product line depending on the specific demand and attributes of the target segment.

A division of market into different homogenous group of consumer is known as market segmentation

8.3 BASES OF MARKET SEGMENTATION

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and combination, to find the best way to view the market structure. Three broad groups of variables are used to segment consumer markets. They are Customer based segmentation, Product related segmentation and Competition related segmentation.

The major bases for segmentation are Geographic, Demographic, Psychographics and Behavioral variables.

a. Geographic segmentation

Over the years the marketers have learned to their sorrow that the same products and sales pitches that work beautifully in one place often bomb in others. The reason is consumers needs vary according to where they live. Geographic basis is generally the starting point of all segmentation strategy.

The geographic location of customer does help the firm in planning its marketing offer. The rural and

Urban divide is quite common in consumer market. Another very common base is metro or non-metro market. The assumption in using the geographical basis for segmentation is that a people in a particular geographical area have identical preferences and consumption habits.

The geographical basis of segmentation helps marketer in designing products, pricing, promotions and distribution strategies based on regional differences. One aspect of geographical market segmentation that appeals to marketers is the case with which they can acquire this information and use it to compare sub segments.

b. Demographic segmentation

Segmentation of consumers based on demographic factors like age, sex, marital status, family size, rays, religion, community, language, occupation, income/purchasing capacity, educational level, social status, and purchasing capacity constitutes demographic segmentation.

Age is a very commonly used base for market segmentation. It is based on the assumption that equal in the same age group will behave in an identical manner. The age based market segmentation consist of

Infants market, child market, teens market, adolescent market, youth market, middle aged market, elders or seniors market etc., The age profile of a population also can tell us whether the market is predominantly young or old. Youth market is one of the important age based market segmentation. The contemporary Indian youth constitute big chunk market can be sub divided to make different segments. The trouble with the youth market is that taste change faster with fads changing overnight. Hence for a firm targeting a youth market remaining relevant and contemporarily is the biggest challenge.

Income is another commonly used demographic variable in market segmentation. It is based on the assumption that as the consumer's income increases, his/her consumption behavior changes. Research findings indicate that expenditure on food and other basic amenities as a percentage of total expenditure declines as consumer income increases.

The market can be segmented as being: low income, low middle income, middle income, upper middle income, higher income.

Gender *The* male market is different from the female market. Hence, gender is used for segmenting the market for different products. While some products, like textiles, are exclusively made for each segment there are others which are-not exclusively made or marketed for one gender. A cosmetic firm will have to take a decision whether it wants to manufacture and market cosmetics for men only or women or for both. Lately, particularly in marketing jeans, the marketer is directing the product at both segments, as the product is unisexual.

Occupation The occupation of the consumer is also an important variable in segmenting the market whether a person is self-employed, works full or part time; his/her position in an enterprise affects the consumption behavior. On the basis of consumption, one may find segments like professionals (like a doctor, chartered accountant and a consultant), traders or shopkeepers, businessmen or Industrialist, sales personnel, teachers, university professors, self employed people, students, housewives and the like.

Education The education profile of the customer will also affect his or her preferences and the level of awareness. It is a known fact that as literacy increases and people get educated, they become more aware about the environment and different products. They also become more aware about their rights. Based on education, the Indian market can be segmented as illiterates, literates, high school educated and secondary or university educated persons. Again, within university-educated persons, the market can be segmented among the graduates, postgraduates and post doctorates.

Marital status Another demographic basis used for segmentation is the marital status of the customer. The assumption is that the behavior and assumption patterns of single and married people differ.

Family size and structure *is* another important demographic variable is the family size or structure. With the spread of the family planning programme and with its acceptance among more and more urban families, one finds that the average family size has been declining from a high of 5-6 persons per family in 1970s to 4 in the late 1970s and early 1980s to just 3 in the 1990s, One finds that the family norm now is birth control. So today, the marketer can segment his market into families with three or less members, families with four members and families with more than five members.

c. Psycho graphic variables

Psychographics is a method of studying people's lifestyle, based largely on analyzing the general pattern of activities, interest, and opinions that they evidence, 'two consumers can share the same demographic characteristics and yet be very different. For e.g. You may decide to take a side seeing vacation in Goa, while your best friend whose demographic make up and income match your own, may prefer to get away from it all in a small cabin in another city.

Most contemporary psychographics research looks at activities (work, hobbies, social events, entertainments, shopping, sports), interest (family, job, community, recreation, reading, watching TV), and opinions (about one self, social issues, politics, business, economics, the future, specific products). Research that studies these three variables uses what are often called AIO questionnaires to solicit people's responses.

One of the most popular commercially available classification systems based on psychographics measurement is Consulting Business Intelligence (SRIC- BI) VALS frame work. VALS classifies adults into eight primary groups based on personality trails and key demographics. The VLS segmentation system consist of eight types of customer groups are as follows:

Innovators: Successful, sophisticated, active, take-charge people with high self esteem. Purchases often reflect cultivated taste for relatively up scale, niche oriented products and services.

Thinkers*:* Mature, satisfied and reflective people who are motivated by ideals and value order, knowledge and responsibility. Favor durability, functionality, and value in products.

Achievers: Successful goal oriented people who focus on career and family. Favor premium products that demonstrate success to their peers.

Experiences: Young, enthusiastic, impulsive people who seek variety and excitement. Spent a comparatively high proportion of income on fashion, entertainment and socializing.

Believers: Conservative, conventional, and traditional people with concrete believe. Favor familiar, and loyal to established brands.

Strivers: Trendy and fun loving people who arc resources constrain favor stylish products that emulate the purchases of those with greater material wealth.

Makers: Practical, down to earth, self-sufficient people who like to work with their hands.

Survivors: Elderly, passive people who are concerned about change. Loyal to their favorite brands.

d. Behavioral segmentation

Behavioral segmentation divides people into groups on the basis of how they behave with respect to a product. Whether or not use it, how often they use it, how much of it they use, and how loyally. Marketers employ a usage rate to group people according to their purchase and use of a product. Consumer usage is most commonly categorized as heavy, medium, light and non-usage.

Many marketers believe that behavioral variables are: Occasions, benefits, user status, usage rate, loyalty status, buyer readiness stage, and altitude.

Occasion: Occasion can be defined in terms of the time of day, week, month, year, or in terms of other well-defined temporal aspects of a consumer life. Buyers can be distinguished according to the occasion when they develop a need, purchase a product or use a product. Occasion segmentation can help firms expand product usage for e.g. News paper, milk, ice cream, garments, etc.,

Benefits: Buyers can be classified according to the benefit they seek. Customers purchasing toothpaste can seek different benefits such freshness, cleanliness, brightness of the teeth etc.

User status: Markets can be segmented into groups of non-users, ex-users, potential users, first lime user, regular users of a product. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors. Each will require a different marketing strategy. Included in the potential user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

Usage Kate*:* Markets can be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, heavy beer drinkers account for 87 percent of the beer consumer- almost seven times as much as the light beer drinkers. Marketers would rather attract one heavy user than several light users. A potential problem however is that heavy user often either is extremely loyal to one brand, or never stays loyal to a brand and is always looking for the lowest price.

Buyer- *Readiness Stage:* A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, and some are interested. Some desire the product, and some intend to buy. The relative numbers make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual pap test to detect possible cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not taking it. A special offer of a free health examination might motivate women to actually sign up for the test.

8.4 FACTORS AFFECTING MARKET SEGMENTATION

Following factors affect the feasibility of segmentation of market:

1. Easy to identify and measure:

First of all customers' needs for the product must be heterogeneous. Not only identification of potentials should be possible but measurement of the number of such people should also be easy. Thus, segments should be identifiable and divisible.

2. Accessible:

Segmentation would serve no purpose, if the target customers can't be reached. Suppose a fast food company has identified the college canteens to be a good segment, but if the colleges do not permit the fast food to supply or serve college canteens, the segmentation would serve no purpose. Similarly, Cuban rum and cigar can't reach American market due to political and traderelations.

3. Meaningful:

The basis used to distinguish market into segments must lead the company to show clear variations in preferences, needs, and consumer behaviour in response to different marketing mixes designed individually for each segment. Thus, division into segments would enable a comparison with regard to sales, cost and profits. At least one segment must have enough profit potential to justify "developing and maintaining a special marketing mix for that segment.

4. Viability:

The basis used should lead to segments that are so large to be economically and practically viable to be served. Viability depends upon size and sustainability, (enough volume), identity (unique characteristics), relevance and usefulness (relevant to important characteristics), measurability (measured), access (not too difficult and too costly to reach to them), and stability (stable in short, medium and long term).

5. Unique:

Segment so chosen has to be unique so that it can be distinguished from other market segments.

6. Appropriate:

The segment must be appropriate to the objectives and resources of the organisation.Exxon Mobil during 1993-2006 had three segmentation principles validated in the marketplace. First, simpler segmentation, which tends to be more robust, flexible, and cost effective over the long term; second, it must reveal both where customers are now and where they are going, so that the company can put the same face before the customer in Cairo or Illinois; and third, segmentation analysis and strategy must be updated regularly.

Other factors are:

- Size of the market
- Nature of the market
- Product life cycle
- Degree of competition

- Industry life cycle
- Fluctuation of market
- etc.,

8.5 TARGET MARKET

A target market is a group of customers towards which a business has decided to aim its marketing and ultimately its merchandise A well-defined target market is the first element to a marketing strategy. The marketing mix variables of product, price, place and promotional strategy that determine the success of a product in the market place.

Target markets are groups of individuals that are separated by distinguishable and noticeable aspects. Target markets can be separated by the following aspects:

- Segmentations - addresses (their location climate region)
- Demographic or socio economic segmentation - (gender, age, income, occupa tion, education, household size, and stage in the family life cycle)
- Psychographic segmentation - (similar attitudes, values, and lifestyles)
- Behavioral segmentation - (occasions, degree of loyalty)
- product-related segmentation - (relationship to a product)

In addition to these segmentations, market researchers have advocated a needs-based market segmentation approach to identify smaller and better defined target groups. Some approaches to these smaller groups are:

- Select the target audience – the customers are grouped based on similar needs and benefits sought by them on purchase of a product.
- Identify clusters of similar needs – demographics, lifestyle, usage behavior and pattern used to differentiate between segments.
- Apply a valuation approach – market growth, barriers to entry, market access, switching, etc. are used.
- Test the segments – A segment storyboard is to be created to test the attractiveness of each segment's positioning strategy.
- Modify marketing mix – expanding segment positioning strategy to include all aspects of marketing mix.

Strategies for reaching target market

Marketers have outlined four basic strategies to satisfy target markets: undifferentiated marketing or mass marketing differentiated marketing, concentrated marketing, and micro marketing niche marketing.

Mass marketing

A market coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer. It is the type of marketing (or attempting to sell through persuasion) of a product to a wide audience. The idea is to broadcast a message that will reach the largest number of people possible. Traditionally mass marketing has focused on radio, television and newspapers as the medium used to reach this broad audience.

Differentiated marketing strategy

One where the company decides to provide separate offerings to each different market segment that it targets. It is also called multi segment marketing and as is clearly seen that it tries to appeal to multiple segments in the market. Each segment is targeted uniquely as the company provides unique benefits to different segments. It increases the total sales but at the expense of increase in the cost of investing in the business.

Concentrated marketing

A strategy which targets very defined and specific segments of the consumer population. It is particularly effective for small companies with limited resources as it does not believe in the use of mass production, mass distribution and mass advertising. There is no increase in the total profits of the sales as it targets just one segment of the market.

Direct marketing

For sales teams, one way to reach out to target markets is through direct marketing. This is done by buying consumer database based on the defined segmentation profiles. This database usually comes with consumer contacts (e.g., email, mobile no., home no., etc.).

8.6 POSITIONING

Positioning is the marketing activity and process of identifying a market problem or opportunity, and developing a solution based on market research, segmentation and supporting data. Positioning may refer the position a business has chosen to carry out their marketing and business objectives. Positioning relates to strategy, in the specific or tactical development phases of carrying out an objective to achieve a business' or organization's goals, such as increasing sales volume, brand reorganization or reach in advertising.

Positioning concepts:

More generally, there are three types of positioning concepts:

1. Functional positions
   - Solve problems
   - Provide benefits to customers
   - Get favorable perception by investors (stock profile) and lenders
2. Symbolic positions
   - Self-image enhancement
   - Ego identification
   - Belongingness and social meaningfulness
   - Affective fulfillment
3. Experiential positions
   - Provide sensory stimulation
   - Provide cognitive stimulation

Product positioning process

Generally, the product positioning process involves:-

1. Defining the market in which the product or brand will compete (who the relevant buyers are)
2. Identifying the attributes (also called dimensions) that define the product 'space'
3. Collecting information from a sample of customers about their perceptions of each product on the relevant attributes

4. Determine each product's share of mind
5. Determine each product's current location in the product space
6. Determine the target market's preferred combination of attributes (referred to as an *ideal vector*)
7. Examine the fit between the product and the market.

8.7 LIFESTYLE MARKETING

In the 21st century, "Lifestyle Marketing" has become the magic buzzword and the latest merchandising strategy to enthral customers after the 80s "Niche Marketing" and the 90s "Branding" craze. Simply put, lifestyle marketing is having a promotional approach centred on the interests, values, attitudes and way of life of consumers/target group. The key words here are 'WAY OF LIFE' of prospects and customers.

In lifestyle marketing one categorizes customers based on their interests, activities and opinions. A classic example of lifestyle marketing is the HARLEY-DAVIDSON bike that has morphed in to cult marketing. Similarly Shahnaz Hussain and her array of beauty products are a way-of-life.

Lifestyle marketing attempts to group customers according to some amalgamation of three categories of variables Activities, Interests, and Opinions (AIO) and identifies the potency of a customer's chosen lifestyle for determining the sort of products to be purchased and the specific brands that are further likely to appeal to the chosen lifestyle segment. Lifestyle marketing has assumed a new paradigm in today's competitive business world.

Lifestyle Marketing necessitates and works best when companies are able to connect with the lifestyle of their existing and potential customers by developing effective marketing strategies that seamlessly fit their way of living. It provides tremendous opportunities to the companies to directly target a specific type of consumer who will most likely be an enthusiast of the company's specific products and thus, provide a competitive business advantage to the company and generate more business.

The companies have to be constantly attentive and tuned in to the simple reality that understanding consumers and reflecting their AIO through sound message is what really builds for successful Lifestyle Brands and Lifestyle Marketing.

With that in mind, the companies should dedicate a concrete portion of the marketing energies towards Lifestyle MarketingLifestyle is something that defines our very existence, a ‘way of life’ that is determined by the decisions we make on a daily basis. Brands pertaining to lifestyle are fundamentally vehicles for self expression and a way of telling the world much about who we are as human beings. Lifestyle Marketing is committed to matching the needs of individuals to products and services that enhance their ‘way of life’. Working across the lifestyle consumer categories; travel, tourism, art, music, health, food, wine, technology and spa, we also operate in the B2B space providing PR solutions for a variety of businesses that have included digital agencies & travel management companies.

Consultative consideration is given to demographic habits, attitudes, tastes and economic levels that underlie end-user behavioural patterns in an evolving and ever-changing consumer environment.

Lifestyle Marketing consultants operate in a sense as mobile Marketing Directors, providing strategy & implementation as a partner to your business. We love working with dynamic brands in our commitment to delivering effective communication solutions & results.

8.8 MARKETING MIX

The marketing mix is a business tool used in marketing and by marketers. The marketing mix is often crucial when determining a product or brand’s offer, and is often associated with the **four P’s**:**product, price, place and promation.** In service marketing, however, the four Ps are expanded to the **seven P’s** or **eight P’s** to address the different nature of services.

In the 1990s, the concept of **four C’s** was introduced as a more customer-driven replacement of four P’s.There are two theories based on four Cs: (*consumer*, *cost*, *communication*, *convenience*), and Shimizu’s four Cs (*commodity*, *cost*, *communication*, *channel*).

In 2012, a new four P’s theory was proposed with *people*, *processes*, *programs*, and *performance*

Category	Definition
Product	A product is seen as an item that satisfies what a consumer demands. It is a tangible good or intangible service. Tangible products are those that have an independent physical existence. Typical examples of mass-produced, tangible objects are the motor car and the disposable razor. A less obvious but ubiquitous mass-produced service is a computer operating system Every product is subject to a life cycle including a growth phase followed by a maturity phase and finally an eventual period of decline as sales fall. Marketers must do careful research on how long the life cycle of the product they are marketing is likely to be and focus their attention on different challenges that arise as the product moves. The marketer must also consider the product mix. Marketers can expand the current product mix by increasing a certain product line's depth or by increasing the number of product lines. Marketers should consider how to position the product, how to exploit the brand, how to exploit the company's resources and how to configure the product mix so that each product complements the other. The marketer must also consider product development strategies.
Price	The amount a customer pays for the product. The price is very important as it determines the company's profit and hence, survival. Adjusting the price has a profound impact on the marketing strategy, and depending on the price on elasticity of the product, often it will affect the demand and sales as well. The marketer should set a price that complements the other elements of the marketing mix. When setting a price, the marketer must be aware of the customer perceived value for the product. Three basic pricing strategies are: market skimming pricing, market penetrated pricing and neutral pricing. The 'reference value' (where the consumer refers to the prices of competing products) and the 'differential value' (the consumer's view of this product's attributes versus the attributes of other products) must be taken into account.

Promotion	All of the methods of communication that a marketer may use to provide information to different parties about the product. Promotion comprises elements such as: advertising, public relation sales organization and sales promotion. Advertising covers any communication that is paid for, from cinema commercials, radio and Internet advertisements through print media and billboards. Public relations is where the communication is not directly paid for and includes press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. Word-of-mouth is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically engaged to create word of mouth momentum. Sales staff often plays an important role in word of mouth and public relations (see 'product' above).
Distribution(Place)	Refers to providing the product at a place which is convenient for consumers to access. Various strategies such as intensive distribution, selective distribution, exclusive distribution and franchising can be used by the marketer to complement the other aspects of the marketing mix.

8.9 SUMMARY

There are two bases for segmenting consumer markets; consumer chrematistics and consumer responses. Marketers usually segment markets according to five broad classes of characteristics: demographic, geographic, psychographics, behavioral, and benefit. Demographic segmentation is based on such factors as age, life stage, gender, ethnicity, religion, income, education, socioeconomic status, and household size. Geographic segmentation takes into account international, national, regional, state, city, county and even neighborhood differences. The chief variables in psychographics segmentation arc social class, lifestyle, and personality; the VALS 2 model is often used in psychographics segmentation. Behavioral segmentation is generally based on usage rates, user status, or brand loyalty. Some markets are segmented on the basis of the specific benefits consumers seek or the problems they expect a product to solve.

8.10 SELF ASSESSMENT QUESTIONS

1. What are the bases for segmenting consumer market?
2. Explain the variables in demographic basis of segmentation?
3. What is Geographical and Psychographics segmentation?
4. Explain the behavioral basis for market segmentation?

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UNIT - 9 : CONCEPT OF A PRODUCT –MAJOR PRODUCT DECISIONS -PRODUCT LINE AND PRODUCT MIX

Structure:

9.0 OBJECTIVES

After studying this unit, you will be able to ;

- Know the definition of product and prodoct mix
- Explain the major classification of product classes
- Discuss the determinants of Product mix.

9.1 INTRODUCTION- CONCEPT OF PRODUCT

When a marketing firm has decided to generate revenue through the exchange process for the existence, naturally it should offer some products or services to the target market. This the exchange mode for the survival of a firm. The products or services it offers tot he target market are the central variables in its marketing efforts. In a dynamic competitive environment the products offered by the firm should meet the expectations and aspirations of the target market for enjoying continued patronage. Hence, a marketing firm that develops market offerings must consider the different aspects of product or services from the consumers viewpoint.

A product may be defined as a bundle of utilities consisting of various product features and accompanying services. The bundle of utilities or the physical and psychological satisfaction that the buyer receives is provided by the seller when he sells a particular product. The customer does not buy merely the physical and chemical attributed of a product. He is really buying want satisfaction. He will buy a product which can offer him expected satisfaction. What a buyer buys is a mixture of expected physical and psychological satisfactions. Therefore, the term 'product' does not mean only the physical product but the total product including brand, packaging, label, status of manufacturer and distributor and– Product (Toothpaste)- Product definition(Provide dental care). services offered to the customer, in addition to the physical product. Eg. Company(Colgate)

Product means need satisfying offering of affirm. , The idea of 'Product' as potential customer satisfaction or benefits is very important. Many business managers get wrapped up in the technical details involved in producing a product. Most customers think about a product in terms of the total satisfaction it provides. That satisfaction may require a "total" product offering that is really a combination of excellent service , a physical good with the right features, useful instructions, a convenient package, a trustworthy warranty, and even a familiar name that has satisfied the consumer in the past. Product quality should also be determined by how customers view the product.

From a marketing perspective, quality means a product's ability to satisfy a customer's needs or requirements ie., how the customer thinks a product will fit some. Purpose. For example , the best satellite T.V service may not be the one with the highest number of channels but the one that includes a local channel that a consumer wants to watch. Similarly, the best quality clothing for casual wear on campus may be a pair of jeans, not a pair of dress slacks made of a higher grade fabric. However, a product with better features is not a high-quality product if the features aren't what the target market wants. Quality and satisfaction depend on the total product offering.

According to **Philip Kotler**: "A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need". A product or service is essentially offered to satisfy a need or want. So, want satisfying is the basic characteristics of a product. It can also be defined as an article introduced in the market that seeks attention, desire for acquisition and image for use to get satisfaction of a want or need of a customer. A firm's marketing plan must begin with the determination of its offerings to the target market. A customer focused firm must formulate its offerings –product or services on the basis of analysing the exact needs and wants of the target market. The product is the heart of the marketing mix. Marketing mix determines the rightness of a product in the market with a view to provide consumer satisfaction to a large extent. Thus, the implication of the marketing mix lies in identifying a right product with an appropriate planning of the product-line at the right price is done with potential scope of business expansion, product diversification and qualitative improvement in products through the right promotion policies. It is essential to plan for product in the market in a way to optimise the profit of the firm and the efficiency.

A product includes both goods and services. It is known by its actual utilities and also the perception that consumers have about them . In this sense, a product can be defined as :

From the point of view of the seller: A product is a" any want- satisfying good or service which is considered together with its perceived tangible and intangible attributes." The tangible attributes constitute the physical object like car or a television set. The intangible attributes are the services that form part of the product and consist of benefits and satisfactions that are intangible and do not result in any ownership.The shape, colour, sound effect, picture effect and sales services are the intangibles attached with product. "Television"

From the point of view of the buyer: From the consumer's viewpoint, a product is defined as a series or group of satisfactions. Whatever be the tangible or intangible features of a product, unless the consumer perceives a product as need –satisfier , the product fails to achieve its intended purpose.

9.2 MAJOR PRODUCT DECISIONS

Product decisions involve product mix- total group of products offered by the company. Product lines –group of closely related product items. Brands –combination of name , symbol, tem or design that identifies specific product, Packaging, Labelling and . Positioning.

A product is closely associated with the need and level of satisfaction of the customers.The hierarchy of products is a based on their utility and intensity of customer satisfaction. In developing a useful product, a planner has to look upon its levels. A product has many other dimension besides its physical appearance. A product has five layers or dimensions according to Philip Kotler. At the time of visualizing any product, the marketer thinks of it at different levels. These are:

- Core Product/Benefit
- Basic Product
- Expected Product
- Augmented Product.
- Potential Product

Core Product/ Benefit: The fundamental aspect is the core product , which tries to answer the question of why the buyer should have it or buy it. The marketer should try to reveal the underlying motives behind buying the same product, should also determine what that product means to the consumer before designing the product. Aspirations of the consumers differ form place to place from time to time. Thus , the same product may satisfy different generic requirements. The marketer should design the product after considering the impact of different possible generic requirements. Core product meets the basic needs . It may be defined as the product that provides a core benefit to a customer irrespective of its taste, colour, attraction, beauty etc.. Eg., Cloth, Food Item. It is the fundamental dimension of a product as it represents a bundle of benefits to its prospective buyer. The core product answers the question: ‘ What is the buyer really buying’? For example a woman buying washing machine is buying comfort and not a mere collection of drum, heater and nuts and bolts for their own sake. The basis job of a marketer is to sell the core benefits.

Basic Product : The basic product is what the target market recognises as the offer. Tangible product broadly possess five characteristics comprising quality, features, style, brand and packaging. These factors have a direct bearing on the product marketing.

Expected Product: The customer expects the basic product to be enveloped by certain features, style, quality and brand, package. The most visible part of the product is its features. Thus , an expected product is that product which in normally taken for granted by the customer. The product levels also determine the selling process to a large extent. The core product play an important role in product planning while the tangible product initiate the sales management process. The augmented product drive the concept of extended sales mechanism for marketing expansion and product diversification.

Augmented Product: Product augmentation is a set of approaches followed by a company in promoting its product through effective delivery and service, incentives to customers and dealers, warranty to seek customers' confidence on product and maintain a product-oriented relationship of customers' with the company. It represents the totality of the benefits that a person may receive or experience in getting the formal product. The augmented product of a T.V seller is not only the T.V, but also delivery, free installation, guarantee, and service and maintenance. This dimension of the product is very important for a firm operating in a competitive market. The firm that develops the right augmented product will be able to attract more customers and survive the competitive market. The company must consider the relative cost of the augmentation and the price accepted for the product by the customers. The resulting trade-off sets the limits for product differentiation strategy to be adopted by the company. Marketer usually tries to identify many tangible aspects in the form of features, style, packaging, quality , etc. Marketer should offer particular features depending on the generic need of the buyer.

Consumers are attracted by diverse augmented services, for examples ,marketers may use the corporate image or brand name, delivery warranty, credit terms, after sales programmes etc. If a company could customize the various types of augmented service ina product , it stands the best chance to succeed in the long run.

Potential Product : The last level of the product is its potential part , ie., all the unexpected changes in technology, attributes, features styles, colour, grade, quality etc that might change the structure and character of industry.

The product levels indicate the importance of all benefits that are or could be passed on to a consumer. Further, they help indicate the importance of creating differentiation by changes in the product levels which might be required to counter competition.

9.3 CONSUMER PRODUCT CLASSES

Consumer product classes are divided into four groups. They are:

1. Convenience
2. Shopping
3. Speciality and
4. Unsought.

Each class is based on the way people buy products.

9.3.1 Convenience Products are products a consumer needs but isn't willing to spend much time or effort on shopping. These products are bought often, require little service or selling, does not cost much, and may even be bought by habit. A convenient product may be a staple , impulse product or emergency product.

♦ **Staples** are products that are bought often, routinely , and without much thought, like breakfast cereals and most other packaged foods used almost every day in almost every household. Goods that consumers purchase on a regular basis. For example , toilet soap, detergent, toothpaste.

♦ **Impulse products** are products that are bought quickly- an unplanned purchase because of a strongly felt need. Impulse products are items that the customer hadn't planned to buy, decides to buy on sight, may have bought the same way many times before, and wants right now. If the buyer doesn't see an impulse product at the right time, the sale may be lost. These goods are usually procured due to external stimulus.

♦ **Emergency products** are products that are purchased immediately when the need is great. The customer doesn't have time to shop when a traffic accident occurs, or a thunderstorm begins. The price of the ambulance service, raincoat won't be important.

9.3.2 Shopping Products are products that a customer feels are worth the time and effort to compare with competing products. Shopping products can be divided into two types, depending on what customer are comparing: Homogeneous or Heterogeneous shopping products.

♦ Homogeneous shopping products are shopping products the customer sees as basically the same and wants at the lowest price. Some consumers feel that certain sizes and types of computers, television sets, washing machines and even cars are very similar. So they shop for the best price. In some product, the Internet has become a way to do shopping quickly.

♦ Heterogeneous shopping products are shopping products the customer sees as different and wants to inspect for quality and suitability. Furniture, clothing are some examples. Often the consumer expects help from a knowledgeable salesperson. Quality and style matte more than price. In fact, one the customer finds the right product , price may not matter at all, as long as it is reasonable. Branding may be less important for heterogeneous shopping products.

9.3.3 Speciality products are consumer product that the customer really wants and makes a special effort to find. Shopping for speciality product doesn't mean comparing . The buyer wants that special product and is willing to search for it. It's the customer's willingness to search that makes it a speciality product. Any branded product that consumer insist on by name is a speciality product. Marketing managers want customers to see their products as speciality products and ask for them over and over again. Building that kind of relationship isn't easy. It means satisfying the customer every time.

9.3.4 Unsought products are products that potential customers don't yet want or know they can buy. So they don't search for them at all. Consumers won't buy these products if they see them unless promotion can show their value. There are two types of unsought products. New unsought products are products offering really new ideas that potential customers don't know about yet. Informative promotion can help convince customers to accept the product. Ending its unsought status. Regularly unsought products are products like life insurance and encyclopaedias', that stay unsought but not unbought forever .There may be a need, but potential customers aren't motivated to satisfy. For this kind of products, personal selling is very important.

9.4 PRODUCT HIERARCHY

The product hierarchy stretches from basic needs to particular items that satisfy those needs. The hierarchy consists of six levels:

1. **Need family:** The core need that underlines the existence of a product family. Example thirst
2. **Product family:** All the product classes that can satisfy a core need with reasonable effectiveness . Example Mineral water, Fresh juice, Bottled Juice, Soft drinks, Tea, Coffee

3. **Product class:** A group of products within the product family recognized as having a certain functional coherence . Also known as product category. Example Soft drink.

4. **Product line:** A group of products within a product class that are closely related because they perform a similar function , are sold to the same customer groups , are marketed through the same outlets or channels, or fall within given price ranges. A product line may be composed of different brands or a single –family brand or individual brand that has been line extended. Example Aerated soft drinks.

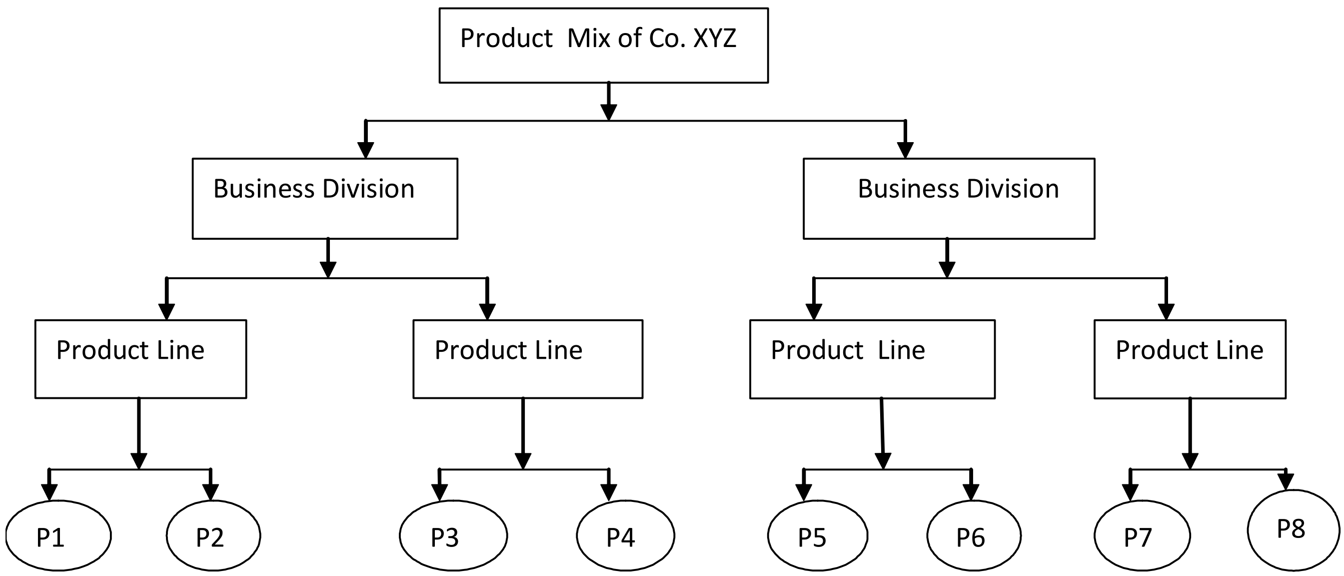
5. **Product Type:** A group of items within a product line that share one of several possible forms of the product.

6. **Item or product variant:** A distinct unit within a brand or product line distinguishable by size, price, appearance or some other attribute.

9.5 PRODUCT MIX

It is the set of all product lines and items that a particular company offers to buyers. The width, depth and consistency of product mix enables a company to define its product portfolio, appeal to different consumer needs/ segments and encourage one-stop buying. The **width** of a product mix refers to how many different product lines a company carriers. The **depth** of a product mix refers how many variants of each product are offered in the line, for eg., Colgate-Palmolive 's Halo shampoo comes in three formulations and three sizes and hence has a product mix depth of nine This kind of assortment is popularly referred as stock keeping units. The **consistency** of a product mix refers to how closely related the various product lines are in end use. Hence, Nestle's product lines are consistent in the sense that they are all food products, P& G has unrelated product mix. A broad width or deep mix goes to satisfy the needs of several consumer groups and maximise shelf-space and sustain dealer support. Most producers deal with more than one product and no producer depends on a single product for along time. The market conditions may compel the producer to add new product or services in order to survive in the environment. The number of products produced and offered by a firm is called its **product mix**. Tee product mix of Tata's ranges from table salt to heavy machines and equipment, products of Hindustan Machine Tools ranges from Wrist watches to Computer Numerical Control machines. Thus the product mix of a company may consists of several business divisions, each business division may have one or more product lines and each product line may have one or more products targeting different market segments.

Product Mix of Company XYZ



The product mix of the company XYZ consists of two major business divisions and each business division has two product lines. Further , each product line has two product/brand. Therefore, the number of business is two, the number of product lines is four and the number of products is eight. The product mix of the company –business division , product line and product/brands is under the direct control and responsibility of the top management which also reviews the performance of the product mix of the company. It may take decisions toad new product to the already existing business divisions or drop products and even wind up a business division after evaluating its contributions to the overall earnings of the company.

Product mix greatly affects the positioning of the product and expansion plans. For example. Videocon , an electronic manufacturing company introduced itself into kitchen equipments by starting a new company with brand 'Kenstar'. The line expansion was considered to be inconsistent with the Videocon's image in consumer electronics and therefore a separate product line with different brand was offered to the Indian consumer.

9.6 DETERMINANTS OF PRODUCT MIX

The conditions, which appear to exert a major influence on the product mix decision, are technology, competition, operating capacity, and market factors.

Technology: The rate of technological change is accelerating, and technical research is unquestionably the most basic force affecting the product mix of the individual company.

Competition: A second important determinant of a firm's product mix is change in the competitor's product offerings. Changes in competitive products represent a direct challenge to a company, and if the change is a truly significant improvement, it may prove disastrous unless it can be matched or surpassed within a reasonable length of time. In addition to changes in their product design, competitors may make changes in overall product mix and put a rival at a competitive disadvantage.

Operating capacity: Another important factor influencing a marketer's product mix is under-utilised capacity. Since production facilities are usually composed of complexes of inter-related machines, changes in production capacity can rarely be made in small increments.

Market factors: Although declines in demand are disturbing to management and may result in an expansion of the product mix in an effort to replace lost business, upward changes are also significant. These market factors comprise:

- Shifts in customer's product mix
- Changes in availability or cost
- Changes in manufacturing processes
- Shifts in location of customers
- Changes in levels of business activity

9.7 FACTORS INFLUENCING PRODUCT MIX

It is very difficult for a marketer to take a decision about the number of products it should produce at a given time because the number of products of product-mix is affected by several factors. Changes in the product –mix , ie., adding or eliminating products may be due to the following factors:

- Change in demand for the product.
- Change in purchasing power or behaviour of the customers.
- Change in company targets.
- Development of by-products by using residual, at low cost.
- The competitor's actions and reactions.

- Financial influences of the firm.
- Advertising and distribution factors.
- Goodwill of the firm .
- Possibility of adding new product to its product line at less cost.

Most of the firms sell more than one product in the consumer goods market and each of these products has a limited life span(Product-life –cycle) . In order to make best sale during life time of the product, marketing managers adopt strategies called as product strategies. This is a process where a course of action to monitor, compare and evaluate the performance of different products and make decisions about future of the products.

9.8 PRODUCT STRATEGIES

Product strategies are determined by the product mix. Different ways in which product mix can affect its product strategies are as follows:

- **Strategy to widen the product mix**: Firms can build up their reputation in the market by wideningtheir product mix, that is, adding another product line to the existing product line. Firms dealing in selling garments may, for example, also start selling footwear.

- **Strategy to lengthen the product mix or full –line strategy**: Firms can add more products in the given product line. For example, a firm which is selling only ball pens may add fountain pens, gel pens, pencils and other items of stationery to its existing product line. The firm dealing in garments which is currently selling only trousers may lengthen its product line by selling shirts, ties, socks, belts etc. Full line strategy helps firms to offer a wide range of products in the existing product line and penetrate into a larger market share.

- **Strategy to deepen the product mix**: Firms can deepen their product mix by adding more varieties to the existing product. A firm dealing in cotton shirts for men only can deepen its product mix by selling cotton , silk an synthetic shirts for men and children. This strategy also helps firms to widen market share.

- **Strategy to develop product line consistency**: Depending on whether firms wish to add more products in the existing or delete some of them form the existing line in order to maintain consistency in the existing market or in several markets, firms can frame strategies to develop product line consistency. Firms, can delete some products from the existing line say for example trousers from men's range of attire and become marketing specialist aiming at exclusive market segment, or delete some product lines say footwear and become specialist in a single line product or delete all but one product to become specialists in production and marketing of that product.

The product mix, thus helps firms in framing strategies what will help them in making long-term decisions and achieve specific objectives of the marketing department and overall objectives of the firm.

9.9 FACTORS INFLUENCING CHANGES IN PRODUCT MIX

- **Change in market demand:** the change in the demand of a product (due to change in habits, fashion, purchasing power, income, attitudes and preferences of consumers) affects the decision of product mix.
- **Cost of production:** if the company can develop a new product with the help of the same labour force, plant and machinery and techniques, it can decide to start the production of that product at lower cost.
- **Quantity of production:** if the production of new product is considered to be at a large scale and the company can add one more item to its product line just to get the economics of large scale production. Keeping in view its production capacity and other factors.
- **Advertising and distribution factors:** Advertising and distribution factors may be the one of the reason for the changes in production mix. If the advertising and distribution factors organization are the same, the company may take the decision to add one more item to its product line.
- **Use of residuals:** if residual can be used gainfully, the company can develop it's by products into the main products. For example, a sugar mill can profitably develop the production of paper card board or wine from biogases.
- **Change in company desire:** keeping in mind the objectives of the firm, maintaining or increasing the profitability of the concern, the firm may eliminate some of its unprofitable processes or may start a new more profitable product. In this way, the firm tries to make its product mix an ideal one.
- **Competitions actions and reactions:** the decision of adding or eliminating the product may be the reaction of competitor's actions. If company thinks that it can meet the competition well by making necessary changes in the size, colour, packing or price, it can make such changes.

- **Change in purchasing power or behaviour of the customers:** if the numbers of customers are increased with the increase in their purchasing power or with the change in their buying habits, fashion, etc. the company may think of adding one or more product keeping mass production or increase in profitability in the mind.
- **Full utilization of marketing capacity:** if the company is not getting desired results from the market, it can decide to stop the production of such a product and divert its resources to produce a new product or improve the existing product, according to the needs of the consumers.
- **Financial resources:** finance is the life blood of the firm. Availability of the finance may necessarily some changes in the product of the company. If the company is short of finance or if the product is continuously going into loss the company may decide to drop such production similarly, if the company has sufficient funds, it may improve its products.

9.10 PRODUCT LINE

It is a group that is closely related because they perform a similar function, targeted at the same customer group, and marketed through the same channel. Product mix may consist of product lines which come under different business divisions. An individual product in a line is termed as a product item. Thus , there are many product items in a product line and a number of product lines in the product –mix of a big firm. Product line analysis is an essential dimension in evolving a product plan. Product line is a component of product –mix which a company offers to the customers exhibiting the length and width of the range of products. The analysis of product line depends on two important information's. They are volume of sales and profit on each item and the competitors' product line in the same market or segment. The analysis of the product –line requires an awareness on the market profile to plan the positioning of the product in a competitive environment.

9.11 PRODUCT LINE STRATEGIES

9.11.1 Line Stretching:

Decisions pertaining to line stretching are taken whenever the marketer feels he can increase his profits by either adding or dropping items from the line. It can be upwards, downwards or both ways. **Upward stretching** occurs when a company enters the upper end through a line extension. The reason for this may be a higher growth rate, better margins or simply a wish to b a full line marketer. An example of a successful upward stretch would be that of Lifebuoy, which started from a hygienic bath soap for the masses to a premium quality liquid hand wash for the higher strata of society. Throughout the stretch the brand had used hygiene as its core benefit. **Downward stretching** takes place when the company finds that its offerings are at the high price end of the market and then stretch their line downwards For example, P& G's Ariel detergent began at premium end and the downmarket Ariel bar was introduced to tap the lower segment.

9.11.2 Line Filling

A product line can also be lengthened by adding more items within the present product range. There are several reasons for line filling.

- Reaching for incremental profits.
- Trying to satisfy dealers who complain about lost sales because of missing items on the line.
- Trying to utilise excess capacity
- Trying to offer a full line of the product.
- Trying to plug hole in the positioning map.

The launch of Cinthol, in different variants is an example of line filling. Today Cinthol is a lime soap with yellow packaging and cologne variation with blue wrapping apart from the initial Cinthol fresh. The company needs to differentiate each item in the consumer's mind.

9.11.3 Line Modernization :

In the rapidly changing market, product modernisation is carried out continuously. Because competitors are constantly upgrading their options, each company must redesign their own offering. A company would like to upgrade customers to higher-valued , higher –priced items. A major issue is the timing of the product line improvements so that they do not happen too early and damage the sales of their current product line, or come out too late so that the competition can establish a strong foothold.

9.11.4 Line Feathering:

In case of durable products, marketers at times select one or a few items to "feature". The idea is to attract consumers into the showrooms and then try to get them exposed to other models. At times, the marketer will feature a high end item to lend prestige to the product line. These products act as "flagships" to enhance the whole line.

Sometimes a company finds one end of its line selling well and the other poorly. The company may try to boost the demand for the slow-moving items, especially if they are produced in a factory that is lying idle due to lack of demand.

Some of the growth strategies followed by FMCG companies are as follows:

- Multi -brand strategy
- Product flanking
- Brand extension
- Building product lines
- New product development
- Innovations in core products
- Long term outlook
- Extending the PLC
- Expanding markets by usage
- Wide distribution network
- Monitoring the pulse of the consumers
- Advertising and media coverage
- Sales promotion.

9.12 SUMMARY

A product thus may be defined as a bundle of utilities consisting of various product features and accompanying services. A product has several layers and each of the layers contributes to the total product image. Thus product –mix involves planning, developing and producing the right types of products and services to be marketed by the firm. Product decisions are very important to ensure the sale of products. The product-mix of a company is one of the most important aspects of its operations. A firm may offer many product items in a product line and a number of product lines in the product mix.

9.13 SELF ASSESSMENT QUESTIONS

1. What do you understand by the term product?
2. Explain the different layers of a product.
3. Define product mix.
4. What is Product line?
5. Explain the factors influencing product mix.
6. Briefly explain the product line strategies.

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UNIT -10 : BRANDING, PACKAGING AND LABELLING

STRUCTURE:

10.0 OBJECTIVES

After studying this unit, you will be able to;

- Define branding.
- Discuss the importance of Packaging
- Explain the concept of labelling

10.1 INTRODUCTION TO BRANDING

The physical product is only a part of the product image. It cannot stand alone before the potential buyer. There are other elements that surround the product to give a complete product concept. The word “brand” derives from the Old Norse ”brandr” meaning “to burn” - recalling the practice of producers burning their mark (or brand) onto their products. The Italians used brands in the form of watermarks on paper in the 13th century. Blind Stamps, hallmarks and silver-makers’ marks are all types of brand.

Factories established during the Industrial Revolution introduced mass-produced goods and needed to sell their products to a wider market - to customers previously familiar only with locally-produced goods. It quickly became apparent that a generic package of soap had difficulty competing with familiar, local products. The packaged-goods manufacturers needed to convince the market that the public could place just as much trust in the non-local product. Pears Soap, Campbell soup, Coco-Cola, Juicy Fruit gum, and Quaker Oats were among the first products to be “branded” in an effort to increase the consumer’s familiarity with their merits. Many brands of that era, such as Uncle Ben’s rice and Kellogg’s breakfast cereal furnish illustrations of the problem. A product is something that is made in a factory; a brand is something that is bought by a customer. A product can be copied by a competitor; a brand is unique. With the opening up of the economy in the early 1990s, dramatic changes in consumer lifestyles and widening consumer choices consequent to a variety of products being available in the market; business houses in India have started realizing the value of brands. Even non-branded commodities lie rice, salt, refined cooking oil and industrial products like cement, aluminium are being converted into prestigious brands that have come to stay. Basically , a brand name is an integral part of a product and plays a key role in its promotion. It helps to create, maintain , stimulate and strengthen the demand for a product. T o the consumer , brand is a promise of quality. To a company, well managed brands are creators of wealth.

10.2 DEFINITION OF BRANDING

According to American Marketing Association, 'A brand is a name, term, design, symbol or any other feature that indentifies one seller's product or service as distinct from those of other sellers. The legal term for brand is trade mark. A brand may identify one item, a family of items or all items of the seller. A brand is a complex concept that covers practically all means of identifying a product and embraces a set of values and attributes. It is both tangible as well as intangible and is developed over time.

Brand is a name , trade mark , logo, term , symbol or design or a combination of them which is intended to identify the goods or services or one seller or group of sellers and to differentiate them from those of competitors**.** A brand identifies the product for a buyer and gives seller a chance to earn good-will and repeated patronage **.** Brand is not a mere trademark or name or logo. **It is a set of 'intangible values'** which create deep psychological impressions in the minds of consumers. It represents the trust and reputation which a company has built for a product for a product over the years. A successful brand helps to create a strong emotional bond with customers. Brand helps to create added value in the product or service. The importance of the brand is that it always attempts to create an impression of added value for the product or service in the minds of consumers. Branding is the practice of giving a specified name to a product or group of products from one seller. Branding strategy indicates how the firm chooses to use branding as an integral part of its overall marketing strategy. Branding is another dimension of marketing strategy. A brand is essentially a seller's promise to deliver a specific set of features , benefits, and services consistently to the buyers. The best brand convey a warranty of quality. It conveys the **Attributes**, **Benefits, Values, Culture**, **Personality**, and **User**. Example Mercedes Car, Godrej, . Brand vary in the amount of power and value they have in the market place. At one extreme are brands not known to most buyers. Then there are brands for which buyers have a high degree of brand awareness. Similarly there can be high degree of brand acceptability and high degree of brand loyalty also. The brand name is the centre around which the entire marketing mix is built up. The brand name can incorporate all marketing efforts together either in the consumer mind or in the marketing program. Brands are most powerful instruments of sales promotion as they contribute to ever-increasing competition, importance of packaging as a distinct function as branding and packaging go hand in hand, need for advertising and publicity, development of consumer brand consciousness . Not only branding gives separate identity and easy recognition to the product but it also creates special consumer preference . Branding constitutes the basis for successful activity of demand creation. Example Vim, Lifebuoy , Lux, Colgate, Promise etc.

10.3 ESSENTIAL OF GOOD BRAND

1. A brand should suggest about a product's benefits- its use, quality, product's nature, purpose, performance.
2. The name should be short, simple, easy to pronounce to spell and remember, easy to identify and easy to advertise .
3. It should be capable of being registered and protected legally under the legislation.
4. It should have a stable life and be unaffected by time.
5. It should be unique, attractive and distinctive eg., Wheel, Rin, Fair & Lovely

Brands typically are made up of various elements, such as:

- Name: The word or words used to identify a company, product, service, or concept.
- Logo: The visual trademark that identifies the brand.
- Tagline or Catchphrase: "The Quicker Picker Upper" is associated with Bounty paper towels.
- Graphics: The dynamic ribbon is a trademarked part of Coca-Cola's brand.
- Shapes: The distinctive shapes of the Coca-Cola bottle and of the Volkswagen Beetle are trademarked elements of those brands.
- Colors: Owens-Corning is the only brand of fibreglass insulation that can be pink.
- Sounds: A unique tune or set of notes can denote a brand. NBC's chimes are a famous example.
- Scents: The rose-jasmine-musk scent of Chanel No. 5 is trademarked.
- Tastes: Kentucky Fried Chicken has trademarked its special recipe of eleven herbs and spices for fried chicken.
- Movements: Lamborghini has trademarked the upward motion of its car doors.
- Customer relationship management.

10.4 CRITERIA FOR CHOOSING A BRAND NAME

- Easy for customers to say, spell and recall (inc. foreigners)
- Indicate products major benefits
- Should be distinctive

- Compatible with all products in product line
- Used and recognized in all types of media
- Single and multiple words Bic, Dodge Grand Caravan, IBM PC (letters), or a combination Mazda RX7
- Use words of no meaning to avoid negative connotation, Kodak, Exxon
- Can be created internally by the organization, or by a consultancy
- Legal restrictions, i.e. Food products must adhere to the Nutrition Labeling and Education Act, 1990...May 8 1994

10.5 BENEFITS OF BRANDING

1.5.1 To Buyers

- Help buyers identify the product that they like/dislike.
- Identify marketer
- Helps reduce the time needed for purchase.
- Helps buyers evaluate quality of products especially if unable to judge a products characteristics.
- Helps reduce buyers perceived risk of purchase.
- Buyer may derive a psychological reward from owning the brand, IE Rolex or Mercedes.

1.5.2 To Sellers

- Differentiate product offering from competitors
- Helps segment market by creating tailored images, IE Contact lenses
- Brand identifies the company's products making repeat purchases easier for customers.
- Reduce price comparisons
- Brand helps firm introduce a new product that carries the name of one or more of its existing products...half as much as using a new brand, lower co. designs, advertising and promotionalcosts.

EXAMPLE, Gummy Savers

- Easier cooperation with intermediaries with well known brands
- Facilitates promotional efforts.
- Helps foster brand loyalty helping to stabilize market share.
- Firms *may* be able to charge a premium for the brand.

10.6 STRATEGIC RELEVANCE OF BRANDING

Brand is much more than the name or the creation of an external indication that the product or service has received an organisation's imprint or its mark. The following are the strategic relevance and logic of branding. A brand :

- ♦ Aims to segment the market.
- ♦ Starts with a big idea.
- ♦ Has an enduring value.
- ♦ Tries to protect the innovation.
- ♦ Is a living memory.
- ♦ Shall sustain though the product may die.

A brand aims to segment the market: Brand building is part of a strategy aimed at differentiating the offering companies try to better fulfil the expectations of specific groups of customers. They do so by consistently and repeatedly providing combination of attributes-both tangible , practical and symbolic , visible and invisible value-under conditions that are economically viable for the company. The company wants to leave its mark on a given field and sets its imprint on the particular offering.

A brand starts with a Big Idea: The first task in brand building is defining what the brand infuses into the product or service. Branding , however, is not based on what goes on, but what goes in. The result is an augmented product or service which must be indicated in one way or the other if it is to be noticed by potential buyers, and it the company is to reap the fruits of its efforts before it is copied by others.

A brand has an Enduring Value: If a brand is merely a label, then such a product would lose its value as soon as it loses its sign of brand identification. This explains the value of Lux soap when it carries the HLL label for the past 75 years.

A brand tries to protect the Innovation : Brand s become known through the products they create and bring on to the market. Whenever a brand innovates, it generates 'me-too-ism' . Any progress made quickly becomes the standard to which buyers become accustomed to. Competing brands most often follow through and at times bring out improved versions as they do not want to fall beneath the market expectations. For a short time, an innovative brand enjoys monopoly, but it will be a fragile one unless the innovation is patented.

A Product may Die but the Brand will sustain: A brand protects the innovator , granting momentary exclusiveness and rewarding the willingness to take risks. Brand cannot be reduced to a symbol or a product or a merely graphic and cosmetic exercise. A brand is the signature on a constantly renewed , creative process. Products are introduced, they live and disappear, but the inner or core value of the original brand endures.

Brand is a living Memory: The spirit of the brand can only be inferred through its products and its advertising . The content of the brand grows out of the cumulative memory of various acts, provided they are governed by a set of unifying ideas or guidelines. The importance of memory in encompassing a brand explains why its image can vary structurally from generation to generation.

Advantages of Branding: Over the years , successful companies have come to realise that brand names are indispensable for promoting and developing their products. A brand is strategic instrument which, if handled properly, can prove to be very rewarding to its owners. Successful brands liked Lux, Coco- Cola, Pepsi, Titan, Colgate etc., command enormous value as they enhance the competitive position of the company concerned, contribute to its financial well-being and benefit not only manufacturers and consumers but also distributors.

- Brand build relationship with Consumers
- Gives assurance to uniform quality
- Develops brand loyal consumers
- Assures continuity of sales volume and revenue.
- Facilitates Product Promotion
- Enables strong control over Middlemen
- Assures against Threat from competitors
- Gives Maximum mileage for Expenditure incurred

- Enhancement in the value of the Company
- Reduction in Threat from Price Competition
- Introduction of New Products

Thus branding is the process of stamping a product with a specific name and mark to give it an individuality. Brand names are printed or inscribed not only on the products but also on their packages to make them easily distinguishable.

10.7 INTRDUCTION TO PACKAGING

Packaging means wrapping , compressing, filling or creating of goods for the purpose of protection of goods and their convenient handling**.** Packaging is called the fifth 'P' of marketing. Packaging is concerned with designing and producing of appropriate packages for a product. The significance of packaging has increased because of severe competition n the market and rise in the standard of living of the people. Good packaging protects a product on its route from the seller to the buyer. Packaged goods are more convenient to handle. Packaging facilitates the sale of a product. It acts as a silent salesman of the manufacturer, particularly at a place where there is widespread use of self-service. Packages are sealed to ensure products of right quality to the customers. Package means a case, container, wrapper or other receptacle for packing goods. The Packaging is the designing and producing of the container or wrapper for a product in order to prepare the goods for transport, sale and usage.

Packaging is an integral marketing strategy to glamorize a product in order to attract the consumer's attention. Many consumers will judge a product by its packaging before buying it, so creating a compelling and alluring design will build first time buyers intrigue. Packaging is literally the products identity. Another all time classic case of is the Coca Cola bottle**.** On it, Coke displays an instantly recognizable logo and distinctive shape which propelled the product to global fame. In many cases, as with coke, the packaging is so important that it costs more than the product itself. As a result, packaging should be included amongst the four P's of marketing: product, place, promotion and price**.** The role of packaging in marketing has become quite significant as it is one of the ways companies can get consumers to notice products.

Packaging plays a vital role in terms of protection, storage and hygienic handling of a product and it plays a key role in the marketing mix. Timothy Beattie, GM of Pyrotec PackMedia, a leading provider in product identification solutions, says, "Packaging is often regarded as the most important form of advertising at the most critical point of all in the purchasing journey: the point of purchase."

Once the decision is taken on the brand then the design and make-up of the package and the labelling of the package becomes important. Packaging includes the activities of designing and producing the container for a product. The container is called the package , and it might include three levels of material. Primary , secondary and shipping package. Packaging has become the potent marketing tool. Well-designed packages can create convenience and promotional value. Various factors have contributed to packaging's growing use as a marketing tool ,such as Self-service, Consumer affluence, Company and Brand image, and Innovation opportunity. Developing an effective package for a new product requires several decisions. Companies must give sufficient attention to growing environmental and safety concerns about packaging . Shortages of paper, aluminium , and other materials suggest that marketers should try to reduce packaging. Many packages end up as broken bottles and crumpled cans . Modern methods of packaging are available to the manufacturers to establish their branded products as distinct from those of his rivals. The more effectively a product is packaged , the more effective is its identity and individuality. Packaging is much more than mere packing. Packaging is a marketing necessity. In the present day consumer oriented marketing approach, packaging has gained unique importance. From the marketer's point of view it is a sales tool, it identifies the maker as well as the product and carries the brand name, the package label informs the buyer about the inner contents and how to use them, it is the biggest advertising medium , it moves the product at the point of purchase, it encourages impulse buying , it establishes product image and it identifies the product with advertising. Thus modern package acts as a multi-purpose arrangement.

10.8 FUNCTIONS OF PACKAGING

Packaging should serve the basic functions:

1 .**Protection of the product** : The basic function of the package is to protect the product from:

- Breakage or damage due to mishandling. For example cardboard package for the washing machines.
- Extremes of temperature. For example , package for the Amul butter includes information for keeping the product in refrigerator.
- Contamination with external elements such as dirt or chemical elements. For example, Sunflower oil comes in sealed packs so that no external object may disturb the purity of the oil.

- ♦ Absorption of moisture or odour of foreign elements. For example , drugs are packed in sealed bottles, and aluminium foils to protect them from absorbing odour.
- ♦ Loss of liquid or vapour. For example, petrol is packed in plastic containers which are fully covered and placed over one another. This leads to control in pilferage of the bottles in transit.

2. Appeal to the Customer: Package is an important marketing tool particularly for consumer products such as cosmetics, chocolates, and gift articles. A package performs the self-selling tasks-attract attention, tell the product features and usage; and build confidence on the product usefulness. Packaging has special role to play for sales promotion activities.

3. Perform Functionally: The science and technology part of the package refers to a package performing functions. For example, Dalda used to come in tin packs. Now , it comes in plastic packs with handle grip so that the package not only stores the product, it is handy and therefore can be kept near the place of cooling.

4. Convenience: A good design of the package would provide many advantages: convenient to stock, display , not waste shelf-space, retains its looks during shelf display, and is easy to dispose-off. Thus standardisation of the packages provide great convenience to the manufacturers ,resellers and the consumers.

5.Cost –Effective: A package costs the manufacturer. The cost of package should not alarmingly increase the price of the product.

6. Easy handling: Packaged goods are very easy to handle. Handling instructions can also be mentioned on the package to ensure safe handling of goods, example ‘Glass Handle with Care’.

7. Preventing Adulteration: Packaging is also necessary to prevent adulteration of goods by the unscrupulous traders. For instance, Ghee, Oils etc, need sealed packaging to prevent any possibility of adulteration.

8. Publicity to Product: Packaging gives individuality to the product and this acts as a device of publicity. Manufacturers choose attractive packages so that the users are able to remember and identify their products. Packaging helps in pushing up the sales of a product. It beautifies the product so as to attract the customers. A customer may be ready to pay a higher price of a product because its package is very attractive and reusable.

10.9 IMPORTANCE OF PACKAGING

Packaging is an important device of sales promotion. It acts as a colourful and silent salesman. IT gives full information about the uses and features of the product to the users. It helps in giving individuality to the product. Branding is not possible without packaging. In the modern age of competitive marketing , packaging has assumed certain other objectives also. It is used as a medium of publicity, in preventing adulteration of goods, and ensures safety of the product. The packaging industry uses glass, aluminium paper, tin, paper and cardboards, cellophane, plastic, polythene for producing packages.

While managing the packaging function, attention needs to be given to the various regulations that the government has laid down. Government regulations are many and encompass areas such as use of specific packaging materials for certain products, consumer protection , transportation of hazardous cargo etc.

Earlier the role of packaging was merely to protect the product. With the proliferation of brands in consumer goods, packaging no longer takes a backseat in the marketing mix. Today with so many parity brands trying to vie for consumers attention and shelf space, attractive packaging has become a necessity. Also because brand loyalty is fast eroding in case of fast moving consumer goods, consumers are resorting to more of impulse buying and are eager for try new brands. In the light of this tendency, attractive packaging has gained importance. Hence, the companies today are just not catering specific benefits according to their buyer specifications, but are trying to add value by innovative packaging.

Of late, packaging has been used in the positioning of some product. In particular, the size, shape, type, colour, and design of packaging has been carefully chosen to give the product distinct identity. For example , fruit juice brands like Frooti received a good response from the market partly because of their attractive tetra packs. This form of packaging also added to the shelf-life of the product and make it easy to store as well as carry. Pond's cold cream in a handy tube enhanced sales, both through market enlargement and greater consumption. Its new package changed the entire concept of cold cream being used only once a day, to one that could be used at any time throughout the day. This positioning by elegant packaging specifically appealed to frequent travellers.

Another frequently applied packaging technique is economy size packaging. The products in very small sized packets , has also become popular means of positioning the product for some special group of customers. The Indian market is today replete with cases where success can be attributed to smaller sized packages. Today , sachets are being used for packaging many items of personal use such as shampoos, meant for a single use. Another packaging oriented positioning is found in cases of reusable and convenience packaging. This form of packaging has attracted consumers who look for economy and convenience, for eg., Nescafe in reusable glass jars or disposable sachets.

The package provides the buyer's first encounter with the product and is capable of turning him 'on' or 'off'. Many marketers have called packaging a 5th P along with Price, Product , Place and Promotion. Packaging is treated as an element of the product strategy. Well designed packages can create an image of convenience or quality for the consumer and promotional value for the product. Planter's Pride , a high quality brand of Darjeeling tea, targeted at the 'discerning' consumer of tea was priced at a premium. The brand success is believed to be because of its vacuum packaging. Uncle Chipps' potato chips commands a high premium on its range of packaged potato chips based on delivery of freshness, crispness and retention of flavour. This is possible by the use of packaging technology wherein the product is packed in air-tight metal foil packets filled with a nitrogen atmosphere to prevent air from leaking in and spoiling the product. Product packaging plays an important role in marketing mix, in promotion campaigns, as a pricing criterion, in defining the character of new products, as a setter of trends and as an instrument to create brand identity and shelf impact in all product groups.

Packaging can also differentiate one brand of product from another brand. Because the product packaging can contain company names, logos and the colour scheme of the company, it helps consumers to identify the product as it sits among the competition's products on store shelves. The shopper may identify with the company brand, which propels them to buy the product. If the product packaging changes, it may alter the brand perception of the company, which doesn't mean that the consumer would not still purchase the product, but it may delay the purchase until the person is able to identify the product according to its new packaging. Customers are drawn more than anything, to products that look good. Something that is well designed and interesting is bound to attract more potential customers than a product that is poorly designed and looks bland. This is the importance of packaging design. Customers drawn to package are bound to remember it.

Thus the purpose of product packaging is to protect the product from damage. Product packaging not only protects the product during transit from the manufacturer to the retailer, but it also prevents damage while the product sits on retail shelves. Most products have some form of packaging. For example, soups must have a container and package while apples may have packaging for transport but not to sell the product from the produce department of the local grocery store. How a product is packaged may be what attracts the consumer to take a look on the product as is sits on store shelves. For this reason, many companies conduct extensive research on colour schemes, designs and types of product packaging that is the most appealing to its intended consumer. Packaging also plays an important role for portraying information about the product. Outside packaging may contain directions on how to use the product or make the product. Packaging may also contain ingredients and nutritional information about the product. This information can help to sell the product because it allows potential customers to obtain the necessary information they need to make a purchase decision. Information contained on a package may propel the reader to buy the product without ever having to speak to a store clerk. Therefore, Packaging which appeals to more than one sense attracts greater attention, intensifies perception and stimulates interest in buying. Packaging that can be felt, smelled and heard as well as looked at wins the customer's favour, which often means that he will be prepared to pay a higher cost for that product. Innovative packaging makes new products stand out over trusted, familiar ones. As a consumer, the very first form of advertising is definitely the packaging of a particular product. If it is wrapped in a very interesting storage with attractive colours and pictures (and probably a clear product description) then the percentage of me purchasing it will automatically increased. Thus, manufacturers should really come up with not o give the consumer information about the product he/she is buying and what it will do for him/her.

10.10 INTRODUCTION TO LABELLING

Sellers must **Label** products. The label might carry only the brand name or a great deal of information. Labelling has social significance. Packaging, branding and labelling go together and constitute an integral part of product planning and development. The purpose of labelling is to give the consumer information about the product he is buying and what it will and will not do for him. Warranty is a stipulated collateral to the main purpose of contract. A Warranty is an obligation of the producer and the seller to stand behind the product and assure the buyer that he will derive certain services and satisfaction from the product. The product warranty must be clear, unambiguous and meaningful . It has become an important selling point and means of product differentiation in a competitive market. Warranties are also considered as promotional devices.

Sellers must label products. The label may be an elaborately designed graphic that is part of the package. The label might carry only the brand name or a great deal of information. Even if the seller prefers a simple label, the law may require additional information. Labels perform several functions such as:

- ♦ Identifies the product or brand
- ♦ Grade the product
- ♦ Describe the product- who made it, where it was made, when it was made, what it contains, how it is to be used and now to use it safely
- ♦ Promote the product through attractive graphics.

A good label is one which helps a potential buyer to make his decision by providing relevant and correct information. Apart from the information which must be statutorily given , the label should provide:

- Picture of the product, accurate as to size, colour, and appearance
- Description of raw materials used along with methods of processing.
- Directions for use, including cautions against misuse.
- Possible effects , if any.
- Brand name
- Dates of manufacture and expiry
- Statutory warning, if any

With product labelling , the key ethical issue is whether or not labels mislead the buying public. Proper labelling is particularly important in the food, pharmaceutical and cosmetic industries , as we literally consume these products or absorb them into our skin. Increasingly, food products are required to demonstrate their country of origin. Labels are used for various purposes in a modern world. They are used within and outside organizations. Labels are even useful for domestic purposes. These printed labels portray the identity of a company in a marketplace. They are used to label documents, products, mails and much more. The labels are also deployed for promotional purposes. Marketers deploy these labels for pure informative purposes like to give a description of a product.

Packaging and labelling are used for various products in retail and wholesale establishments. Packaging provides a convenient way for customers to lift and transport products. Labelling helps consumers identify a product. Without labels, for example, all fruit drinks on a shelf would look the same. Certain types of packaging and labelling also appeal to consumers. Customers may prefer a certain product brand because of the packaging and labelling. There are several key reasons packaging and labelling are important in marketing. Marketers must make sure they adhere to certain labelling laws for certain products. Besides food, there are labelling laws for electronics and textiles also.

10.11 SUMMARY

Labelling gives necessary information to the customers about the products. The customers can get knowledge about the quality and features of product without tasting the product. Label provides information about the price, quantity, quality etc. of the product, due to which the customers buy the product without doubt and hesitation. They compare the product with the same nature products of other firms on the basis of the information provided on the label. Label becomes helpful to sellers to sell out the product. It protects the customers from malpractices of the middlemen. Labelling is very important element affecting sales and distribution process of a product.

In marketing, the importance and necessity of labelling of a product can be mentioned as follows: ***Labelling identifies the product :*** Label helps to identify the product and brand. It popularizes the product and its brand name.***. Labelling grades the product:*** Label helps to express grade of the product. For example, wheat can be expressed with the grades such as 1, 2, 3, 4. Label becomes useful to grade any product according to its quality. ***Labelling describes the product:*** Label gives introduction of the product, describes and expresses its grade. Information and instructions about- who manufactured the product, when and where it was manufactured, how many ingredients have been used in it, how to use the product, how to keep the product safe, etc. are given on the label. This becomes helpful to the customers. ***Labelling promotes the product:*** Label helps to promote the product. Customers' attention is drawn by attractive and fascinating graphs, figures or marks. This motivates the customers to buy the product. Label plays and important role in sales and distribution as it makes the customers take buying decision. ***Labelling protects the customers:*** Label protects the customers. As maximum selling price, quantity, quality etc. are mentioned on the label, the customers are protected from the possible malpractice of middlemen.

10.12 SELF ASSESSMENT QUESTIONS

1. Why is branding important to consumers and to organisations?
2. 'Package is a silent salesman.' Why
3. What are the important brand strategy decisions? Give examples
4. Define labelling? Why labelling is done for products?

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UNIT – 11: PRODUCT LIFE CYCLE- NEW PRODUCT DEVELOPMENT- PRODUCT DIVERSIFICATION

STRUCTURE:

11.0 OBJECTIVES

After studying this unit, you will be able to ;

- Define Product Life Cycle
- Discuss the major classification of product classes
- Explain the determinants of Product mix.

11.1 INTRODUCTION

Just as people go through infancy, childhood, adulthood and old age, so too do products and brands. And just as we swing from being needy, to being overall contributors to our families or to society, and then back to being needy again over the course of our lives, so – in effect – do products. Like human being, every product has its life. And this has been described as PLC. The PLC is generally termed as Industrial goods may have a longer life than consumer goods. When a product idea is commercialized, the product enters into the market and competes with the rivals for making sales and earning profits. PLC is generally termed as product –market life cycle because it is related to a particular market. A product may be old in one market and have a new life in another market. Rural and Urban market. PLC may be short for some products and long for some other products. The period may differ form product to product. Every product passes through certain stages known as PLC.

As consumers, we buy millions of products every year. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched. Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow. Sooner or later all products die and if management wishes to sustain its revenues , it must replace the declining products with the new ones. The concept of PLC is used as a forecasting tool. It can alert management that its product will inevitably face saturation and decline. Proper marketing strategy can also be evolved through different stages of life cycle.

After the product has been developed it is launched in the market with the help of promotional tools. Product development must be followed by successful introduction of the product in the market. For this planning for introduction starts during the process of product development itself. Every firm makes sales projection during the introduction , growth and maturity stage of the PLC. To achieve the projected sales target it formulates promotional, pricing and distribution policies. The concept of PLC helps integrated marketing policies relating to product promotion, pricing, distribution. The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products. These stages are called as.

11.2 PHASES OF PLC: INTRODUCTION, GROWTH, MATURITY AND DECLINE

- **Introduction**: This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector. In this stage, competition is almost or non-existent, prices are relatively high, markets are limited and the product innovation is not known much. Growth in sales volume is at a lower rate because of lack of knowledge on the part of consumers and difficulties in making the product available to the customers. During this stage, high expenditure has to be incurred on advertising and promotional techniques. Prices are usually high because of small scale of production, technological problems and heavy promotional expenditure

- **Growth Stage**: As the product grows in popularity , it moves into the growth stage of the PLC In this stage, demand expands rapidly, prices fall, competition increases and distribution is greatly widened. The manager focuses his attention on improving the market share by deeper penetration into the existing markets and entry into new markets. Promotional expenses tend to increase. The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

- **Maturity stage** : During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage As the product enters into maturity stage as competition intensifies further and market gets stabilized. Profits decline because of stiff competition and marketing expenditure increases. Prices are decreased because of competition and innovation in technology. There is saturation in the market as there is no possibility of sales increase. This stage may last for a long period. But sooner or later, demand of the product starts declining as new products are introduced in the market. Product differentiation, identification of new segments and product improvement are emphasized.

- **Decline Stage**: Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets. This stage is characterized by either the product's gradual displacement by some new products or change in consumer buying behaviour. Sales fall sharply and the expenditure on promotion is cut. The decline may be rapid . To avoid decline, new features may be added , packaging may be improved, economy packs may be introduced, promotion of product should be selective to reduce distribution costs.

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business. However, the key to successful manufacturing is not just understanding this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle.

11.3 SIGNIFICANCE OF PLC TO THE MARKETER AND THE MEDIA

PLC analysis, if done properly, can alert a company as to the health of the product in relation to the market it serves. PLC also forces a continuous scan of the market and allows the company to take corrective action faster. But the process is rarely easy. A company or product's life cycle has a significant impact on decisions related to the use of media. Business owners have to make different marketing decisions at every stage in a product's life, beginning with the need to generate awareness for new products and ending with the ability to maintain that awareness. When a new product is introduced, or a new company opens its doors, the business owner's challenge is to generate awareness for that product or service. In these very early stages of market introduction the use of traditional print and broadcast media is a proven way to create demand. Once a product has gained market awareness, advertisers begin creating product preferences among target customers. Establishing that preference over other available offerings requires telling the product's story through various media. At this point, mass media use gives way to more targeted media, including social media, which allows more information to be shared.

Competing in a crowded market occurs during a product's mid-life stage. Marketers begin to rely on word-of-mouth generated not only through satisfied customers, but also through the public relations efforts of third-party endorsements. What advertisers say about their own products and services will always be viewed by consumers with a certain amount of scepticism. What they hear from others, including the media, has more impact at this stage in the product life cycle.

Once a product is established, the advertiser's challenge is to maintain that awareness. At this stage, mass media becomes important in maintaining a general level of awareness for the product. Mass media also raises awareness among new market entrants, and even established product marketers know that there are always opportunities to attract new customers. Products and services eventually reach a point of diminishing returns. When this happens, media use declines unless the marketer is able to introduce a brand extension or an entirely new product. Then the cycle begins again. At every stage in a product's life cycle, the marketer will be concerned about choices related to generating awareness, preference, demand and, ultimately, a purchase decision.

11.4 STRATEGIES AT DIFFERENT STAGES OF PLC

The Introduction stage is probably the most important stage in the PLC. In fact, most products that fail do so in the introduction stage. This is the stage in which the product is initially promoted. Public awareness is very important to the success of a product. If people don't know about the product they won't go out and buy it. There are two different strategies you can use to introduce your product to consumers. You can use either a penetration strategy or a skimming strategy. If a penetration strategy is used then prices are set very high initially and then gradually lowered over time. This is a good strategy to use if there are few competitors for your product. Profits are high with this strategy but there is also a great deal of risk. If people don't want to pay high prices you may lose out. The second pricing strategy is a skimming strategy. In this case you set your prices very low at the beginning and then gradually increase them. This is a good strategy to use if there are a lot of competitors who control a large portion of the market. Profits are not a concern under this strategy. The most important thing is to get you product known and worry about making money at a later time.

- **Growth**: If you are lucky enough to get your product out of the introduction stage you then enter this stage. The Growth stage is where your product starts to grow. In this stage a very large amount of money is spent on advertising. You want to concentrate of telling the consumer how much better your product is than your competitors' products. There are several ways to advertise your product. You can use TV and radio commercials, magazine and newspaper ads, or you could get lucky and customers who have bought your product will give good word-of-mouth to their friends/family. If you are successful with your advertising strategy then you will see an increase in sales. Once your sales begin to increase you share of the market will stabilize. Once you get to this point you will probably not be able to take anymore of the market from your competitors.

- **Maturity**: If the product completes the Introduction and Growth stages then it will then spend a great deal of time in the Maturity stage. The key to surviving this stage is differentiating your product from the similar products offered by your competitors. Due to the fact that sales are beginning to stabilize you must make your product stand out among the rest.

- **Decline:** This is the stage in which sales of your product begin to fall. More innovative products have been created that replace yours. Many companies decide to withdrawal their products from the market due to the downturn. The only way to increase sales during this period is to cut your costs reduce your spending. Very few products follow the same cycle. Many products don't even make it through all four stages. Some stages even bypass stages. For example, one product may go straight from the Introduction stage to the Maturity stage. This is the problem with the PLC. There is no set way for a product to go. Therefore, every product requires a great deal of research and close supervision throughout its life. Without proper research and supervision your product will probably never get out of the first stage. Many firms abandon the product in order to put the resources to better use.

11.5 ADVANTAGES OF PLC

When PLC is predictable , management. should take precaution in taking advance

- Steps before decline by adopting product modification, pricing strategies, style, quality change.
- Firm can prepare an effective product plan by knowing PLC of a product
- Management can find new uses of the product for the expansion of the market during growth stage and for extending the maturity stage.

- Management can adopt latest technology changes to improve quality of product, features and design.

11.6 NEW PRODUCT DEVELOPMENT - INTRODUCTION

Development of new products is a continuous function of marketing management in the present day environment. The products offered by a firm to the customers must be suitable to meet the changing needs of the customers. The life of the firm is closely related to the development of new products through technological innovations. The technological innovations are important to the growth of established business as well as the development of new business. Businessmen must make a detailed study of the market in relation to the products. New products mean new profits. For instance, a ready-made garment dealer has to plant the garments to be in line with the changing fashions. Product failure wastes the money, material, energy and time spent on product development apart from defeating the objectives of the firm.

Once the product is planned and brought into market, it is likely to survive for a long period of time unless disturbed by environmental forces like changes in consumers' tastes, technological factors and competitors' policies. These forces provide an impetus to firms to continuously develop new streams of products which will substitute fading or outgoing products. It is not rare to find companies where new products are failing at an alarming rate as they involve huge costs and high levels of risk. Some of the probable causes for this failure are:

- wrong conception of the product idea;
- over estimation of the market size;
- a rightly conceived idea but wrongly designed priced and
- inadequate advertisement of the product.

These failures result in high product costs and these costs, if not commensurate with the generated revenues are likely to result in failure of the product. It is, therefore, necessary that marketing executives conduct a thorough market research and develop products which are able to withstand the vagaries of environment , satisfy the needs of consumers and help firms achieve their long-term objectives of growth. Firms can develop new products by:

- acquisition of patent rights and production of products through some one else's technology, or

- development of one's own R &D efforts to develop its products. This is practically referred to as product development.

11.7 DEFINITION OF NPD

Product development as an element of overall marketing strategy is defined as "the development of original products, product improvements, product modifications and new brands through firm's own R& D efforts."

Product development includes a number of decisions, namely, what to manufacture or buy, how to have its packaging, how to fix its price and how to sell it. In the case of a manufacturing organisation, the production department will develop and produce products on the advice of the marketing department because it is the marketing department which knows better the requirements of the customers. In case of purely trading organisations, the purchase department will procure those products as are suggested by the marketing department. The work of product planning and development will be performed by the marketing department itself. New product development consists of creation of new ideas, their evaluation in terms of sales potentials and profitability, production facilities, resources available, designing and production testing and marketing of the product. The main task of the product planners is to identify specific customer needs and expectations and align company's capabilities with the changing market demands. In each of these stages, the management must decide as to whether to move on to the next stage or to abandon the product or to seek additional information.

Product planning and development is necessary for its survival and growth in the long-run. Every product has a life-cycle and it becomes obsolete after the completion of its life-cycle. Therefore , it is essential to develop new products and alter or improve the existing ones to meet the requirements of customers. One of the most common product planning problem relates to the addition of new products to the existing product line. Addition of new product involves generation of new product ideas, appraisal of various possibilities, economic analysis, product development, product testing, test marketing and developing markets. Another important problem of product planning is modification or elimination of existing products. The need for continuous modification of the product is great because society's needs are always changing , and improved products must be introduced to fulfil them. All products have certain deficiencies as they are the result of a great many compromises. Research makes possible the reduction of these deficiencies and brings about improved products.

A new product can be:

- Continuous Innovation...No new buyer behavior to learn, i.e. -products not previously marketed by the firm, but by others
- Dynamic Continuous Innovationminor education needed for consumers to adopt product
- Discontinuous Innovation...entirely new consumption patterns

For a new product to succeed it must have desirable attributes, be unique, have its features communicated to the consumer Developing new products is expensive and risky. Failure not to introduce new products is also risky.

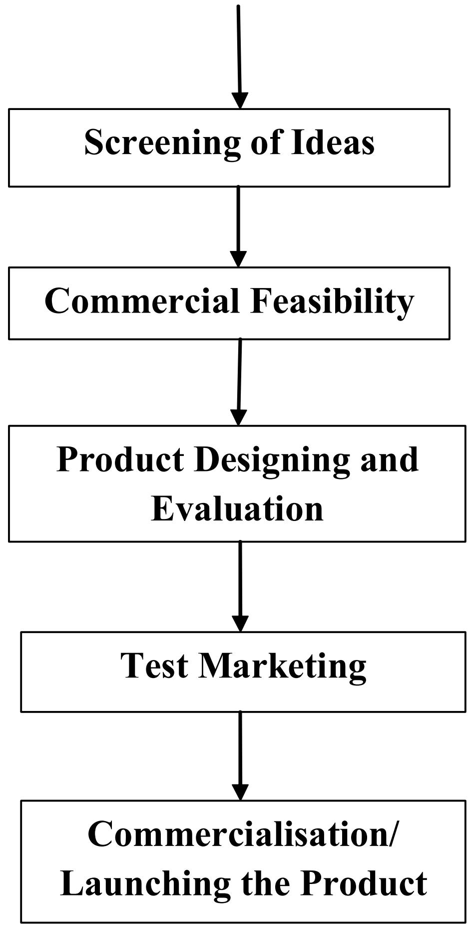
11.8 WHY NEW PRODUCTS FAIL ?

- Lack of differentiating advantage
- Poor marketing plan
- Poor timing
- Target market too small
- Poor product quality
- No access to market

11.9 STAGES OF NEW PRODUCT DEVELOPMENT

Product development does not just happen**, it** has to be planned. Dynamic firms plan their innovations for five to ten years in advance. They have a definite idea of exactly what product developments they want and what new products they will need to cater to the demands of their customers.

Stages in New Product Development



Only a few ideas are good enough to reach commercialization. Ideas can be generated by chance, or by systematic approach. Need a purposeful, focused effort to identify new ways to serve a market. New opportunities appear from the changes in the environment.

1. Generation of Product Ideas : The product planners must visualise new product ideas. Ideas may be contributed by professional designers, scientist, customers, sales force, dealers, competitors, etc. Ideas may also come from brainstorming sessions of management. It may be noted that the source of ideas is not so important as the firm's system for stimulating new ideas and then acknowledging them and reviewing them promptly. New product ideas may come form company's research and development department, managers , salespersons, consumers or industrial users, middlemen, company suppliers of raw materials, governmental agencies, company competitors and their products, trade associates, private research organisations, inventors, exhibits and trade fairs, wholesalers and retailers, advertising agencies, commercial laboratories and trade journals, etc. Consumers complaints or dissatisfaction can also be the source of new ideas. Consumers are said to be one of the best sources.

2. Screening of Ideas: The ideas generated at the first stage are examined to eliminate those which have no potential or which are capable of making any significant contribution to the marketing objectives. The ideas should be screened properly because any idea passing this stage would cost the firm both money and time. This involves evaluating the company's capabilities with respect to scientific knowledge and technical skills in terms of possible new products and product improvements. The basic idea is to find out which ideas arrant further study. The screening should be rigorous enough to eliminate poor stuff, but not so rigorous as to eliminate potential good possibilities. The list of information required in evaluating new product possibilities should be drawn up in such a way as to throw some light on the profit possibilities, the risk and cost of capital involved.

3. Commercial Feasibility: The product planners evaluate the nature and importance of market needs and appraise the extent to which present products fulfil them. The evaluate new ideas in the light of the company's capability with respect to scientific knowledge, technological skills and financial resources. Only the most feasible and profitable ideas are picked – up for further detailed investigation. Marketing research is critical during this phase since it can reveal the changing behaviour of buyers , strategies of competitors and availability of new technological ideas.

4. Product Designing/ Development: This phase relates to actual development of the new product based on the product data evaluation system. A programme is made for the proper development of the product. First a precise description of the features of the proposed product should be studies. After , this selected consumers may be called upon to offer their comments on the proposed product. Decisions regarding branding, packaging, labelling, et., are also made during this phase. When the product takes a tangible form, consumer testing can be done. Consumer testing will provide the ground for final selection of the product for mass production and distribution.

5. Test Marketing: Test marketing is necessary to find out the viability of marketing programme for large-scale distribution. Before the product is widely distributed, it is tried in a selected market. Customers' reaction may be noted and product may be improved further, if necessary. Test marketing allows greater control over the new product. If there are defects in the product, it could be withdraw from the market quickly without any loss to the reputation of the firm. Test marketing is generally done by consumer goods companies rather than by industrial goods firms who usually try out new products with selected customers or obtain general reactions by having their sales people demonstrate products when they make their rounds.

6. Commercialisation / Launching the Product: After the test marketing gives green signal for the introduction of product in the National market, the firm may proceed to finalise all features of the product. The marketing department will launch a full fledged production promotion campaign for mass distribution. Distribution channels will be chosen to make available the product wherever it is demanded. After this, the life cycle of the product will start and the marketing manger will adopt differ strategies during different stages of the product life cycle to maximise sales volume. Necessary improvement in the product may also be introduced as and when necessary in the light of changed customer requirements and innovations in technology. In launching a new product , the company must make four decisions:

When : The first decision is whether it is the right time to introduce the product.

Where: Secondly, the company must decide whether to launch the new product in a single locality, a region , several regions, national market or the international market. Normally , companies develop a market rollout over time.

To whom: Within the rollout markets the company must target its distribution and promotion to the best prospect groups, like early adopters, heavy users, opinion leaders and so on.

How: The company must develop an action plan for introducing the new product into the rollout markets. It must allocate the marketing budget among the marketing mix elements and sequence the various activities.

11.10 ADVANTAGES OF TEST MARKETING

- Lessens the risk of product failure.
- Reduces the risk of loss of credibility or undercutting a profitable product.
- Can determine the weaknesses in the MM and make adjustments.
- Can also vary parts of the MM during the test market.
- Need to select the appropriate MM and check the validity.

11.11 DISADVANTAGES OF TEST MARKETING

- Test market is expensive.
- Firm's competitors may interfere.
- Competitors may copy the product and rush it out.

11.12 BUYERS' PRODUCT ADOPTION PROCESS

This process involves the stages through which an individual consumer passes while arriving at a decision to try or not to try or to continue using a new product. It is assumed that the consumer moves through five stages in arriving at a decision to purchase or reject a new product.

- **Awareness :** The consumer is first exposed to the product innovation though print, audio-visual media or demonstration, and becomes aware of the existence of the new product.
- **Interest :** The consumers becomes interested in the product and searches for additional information and Buyers are receptive to learning about product.
- **Evaluation :** Buyers consider product benefits and determines whether to try it
- **Trial :** Buyers examine, test or try the product to determine usefulness relative to needs
- **Adoption:** Buyers purchase the product and can be expected to use it when the need for the general type of product arises.

Rate of adoption depends on consumer traits as well as the product and the firm's marketing efforts.

11.13 DIFFUSION PROCESS

The acceptance of new products and services by consumers is an important factor which determines their success or failure. The framework for exploring consumer acceptance of new product is drawn from the areas of research known as the diffusion of Innovations. The diffusion process is concerned with how innovations spread, ie., how they are assimilated within a market. It is the process by which the acceptance of an innovation is spread by communication to members of a social system over a period of time. The manner in which different members of the target market often accept and purchase a product go through the adoption process.

- **Innovators-** 2.5 % of consumers : They are very eager to try new ideas and products, accept risks.
- **Early Adopters :** Tend to be opinion leaders. Adopt new products but use discretion, 13.5% Respectable opinion leaders, or role models. Consumers check with these persons before adopting a new idea.
- **Early Majority :** 34% of consumers, first part of the mass market to buy the product. These consumers take time to adopt new ideas. They deliberate for some time before adopting.
- **Late Majority:** Less cosmopolitan and responsive to change, 34% .They are sceptical people who take a long time before adopting. They adopt due to economic necessity or a react to peer pressures.
- **Laggards:** Price conscious, suspicious of change, 16%, do not adopt until the product has reached maturity. They are diehard traditionists who are oriented to the past and suspicious of the new. They are the last people to adopt an innovation.

The adoption of some products and services may have minimal consequences whereas the adoption of the innovations may lead to major behavioural and lifestyle changes.

11.14 PRODUCT DIVERSIFICATION

Is the process of expanding business opportunities through additional market potential of an existing product. Diversification may be achieved by entering into additional markets and/or pricing strategies. Often the product may be improved, altered or changed, or new marketing activities are developed. The planning process includes market research,product adaptation analysis and legal review, or Process by which businesses attempt to expand their market reach and customer base by delivering products somewhat different than the ones for which they are known. These new products can simply be extensions of existing brands or they may be entirely new. By engaging in product diversification, a company can extend its business into new areas and markets, thereby increasing their opportunities for profit. There are some potential pitfalls to this strategy, including the possibility that a company might stretch itself too thin or that it might dilute its original brand with the existence of the new product lines.

Diversification, in any form, is essentially a way to manage risk. By removing all of the focus from one area and spreading it among many different areas, there is less reliance on any one area to produce. This strategy can be used by investors attempting to spread out their money and gain new areas of exposure. Companies that sell products to the public may also need diversification, especially if they can't sustain their businesses with just one product or approach. For that reason, product diversification is an often effective business strategy.

There are several ways in which a company may achieve product diversification. It doesn't necessarily have to be with a completely new product, although that is one way to achieve diversity. A particular brand might be naturally extended. For example, a company that sells cola might decide to bring out a line of diet colas based on their original formula but with fewer calories than the original product. That is a prime example of what product diversification can do. It can expand the audience for a particular brand, and it can improve the overall bottom line of a company if done effectively. Ideally, the new products or brand extensions can act as a complement for the original brand, so that customers familiar with the original brand might also have use for the new choices.

It is important for business leaders to realize that there are some drawbacks associated with product diversification. Too much extension can eventually dilute the original brand and confuse the customers the company is attempting to reach. In a worst-case scenario, it may even dissuade customers from the original brand. Business familiar with making one type of product can also stumble if they are unfamiliar with base. Adding new products and service lines or starting new companies within a group can significantly enhance your ability to grow rapidly. However, it's important to pursue a strategy that is right for you and your company. Businesses diversify for a number of reasons. Perhaps the most basic of these is survival.

There are many ways in which to diversify. The most straightforward of these is to provide a natural extension of the goods or services that you already offer to customers. manufacturers can boost revenues by not only acting as suppliers but also providing follow-up services such as maintenance. This approach can be particularly useful when the economic cycle turns down. In hard times, customers don't necessarily have the inclination to invest in new machinery but they will spend on maintaining the equipment they've already got. Thus, a manufacturer that provides both goods and services can maintain a consistent revenue stream.

Diversification can also take the form of brand extension across an apparently unconnected range of products or companies. Many business owners expand by forming new companies that operate under different brand and/or trading names and sell unconnected products within a group structure. There are some advantages to this approach. Brand extension carries a certain degree of risk. With the right people, business plan and structure in place, diversification **c**an serve to supercharge growth.

11.15 SUMMARY

The concept of product life cycle highlights that products die and that if management wishes to sustain its revenues, it must replace its declining products with the new ones. Development of the new product is a continuous function of marketing management. The product offered by the firm to the customers must be suitable to meet the changing needs of the customers. Product development includes a number of decisions ie., what to manufacture, or buy, how to have its packaging, how to fix its price and how to sell it. One of the most common product planning problem relates to the addition of new products to the existing product line. The need of continuous modification of the product is great because society's needs are always changing, and improved products must be introduced to fulfil them.

11.16 SELF ASSESSMENT QUESTIONS

1. Explain the stages of the product life cycle.
2. Explain the strategies adopted during different stages of PLC.
3. State the advantages and disadvantages of test marketing.
4. Explain the stages in new product development process.
5. Explain the adoption process.
6. What is product diversification?

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UNIT -12 : PRICING DECISIONS- FACTORS AFFECTING PRICE DETERMINATION, PRICING METHODS AND TECHNIQUES , PRICING POLICIES AND STRATEGIES

STRUCTURE:

12.13 Pricing of a New Product

12.14 Summary

12.15 Self Assessment Questions

12.16 References

12.0 OBJECTIVES

After studying this unit, you will be able to ;

- Define pricing
- Know the various pricing practices
- Explain pricing strategies adopted.

12.1 INTRODUCTION

Price is one of the crucial elements in the marketing mix. It is a powerful marketing tool which, in the hands of a skilful practitioner, can have an all-pervasive effect on the company's long-term success. Pricing policy has critical implications for profit. However, at the same time price often entails psychological and behavioural responses. These relate to the perceived quality and value for the product, thereby influencing how it can be positioned in the marketplace. Pricing decisions cannot be taken in isolation. They must always be taken in full harmony with firms' strategic environment and the realities of the marketplace. A price which meets the firm's strategic criteria but not the expectations of the market is an wrong as the one that satisfies the customers but fails to meet the commercial needs of the firm.

Prices that a company will charge for its products depend upon the objectives that it wants to accomplish by selling its product. Customers are widespread over wide geographical locations and buy company's products in different quantities. This causes companies to develop pricing policies that will support the overall objectives of the firm. The primary objectives of the firm are long-run profit, growth, and survival. Pricing contributes to each one of these objectives. By affecting the sales volume and profit margins, it contributes to the company's long run profits. By contributing to the company's cash reserves , it helps in meeting its investment opportunities thereby allowing room for growth. Sound pricing strategies that help firms in meeting their goals and also providing customer satisfaction help in survival of the firms. A firm, at a given point time, can deal with diversified products catering to diversified group of consumers. It will, therefore, have to choose from a number of pricing policies keeping into consideration the fact that these policies should be consistent with the firm's overall marketing strategy.

An important element of marketing mix that generates revenue for the firm is pricing. Pricing deals with determining the price of the product at which it is transferred from the seller to the buyer. Traditionally, price was considered as the most important factor that influenced the buyer's decision to buy the product. Today there are a host of non-price considerations such as brand image, advertising, packaging design, brand name, etc. Though non-price considerations largely affect the affluent market decisions, price factor continues to remain an important marketing tool that affects both , the seller and the buyer.

As a narrow concept, it is the amount of money charged by the seller for the product or service that is sold to buyers. Though sellers wish to charge a high price for products, buyers wish to pay a low price for the same. They both, thus arrive at a mutually acceptable price through negotiation and bargaining.

As a wider concept, price is not just the exchange value for the product transferred, it also reflects value for all the benefits that will accrue to the buyer on use of a given product or a service.

Marketer: A marketer takes into account both the factors, demand and costs, while pricing a product. While demand affects the upper limit of the prices, costs affect the lower limit. Pricing decisions, thus , falls within a range where marketers have the flexibility of determining different prices for the product.

12.1.1 Importance of Pricing :

The importance of pricing as stated by E. Raymond Corey: " Price is a key element in an overall business strategy, and to make strategic pricing decisions one should know what objectives are being served". Pricing decision serves to act as a catalyst for integrating the firm's product, promotion and channel decisions. It determines the quality of a product, the means of its promotion and the channel through which it will be transferred to consumers. It helps in recovering the costs of production, administration and distribution costs. Pricing decisions are flexible and can be easily changed according to market conditions, product variability, general economic conditions, government regulations etc. Pricing helps firms capture a bigger market share by gaining an edge over their competitors. Pricing policy of the firm depends on its objectives.. The objectives can be Survival of the firm, Rate of return on investment, Maximization of profits , Maximization of revenue, and Maximization of sales growth and other objectives like Public image and Social obligations..

12.1.2 Objectives of Pricing :

Prices that a company will charge for its products depends upon the objectives that it wants to accomplish by selling its product. The objectives of the pricing policy are as follows :

♦ **Survival of the firm**: To begin with, if firms are not able to earn huge profits , they will try to recover their variable costs and a part of fixed costs also to ensure their survival in the market. As a short –run objective, firms wish to survive in the market in the hope to achieve the long-run objectives of not only survival but also growth and prosperity. The objective of pricing is, thus , to keep the plant and machinery in operation so that firms continue to produce and sell products to satisfy market demands in the hope of getting a bigger share of the market in future.

♦ **Rate of Return on Investment(ROI)** – ROI is the amount of profit earned on capital invested by the firm . Profit , in turn, depends on sales volume and both profit and sales volume depend on price. Thus , ROI sets price at a level what will generate a target rate of return for the firms. Firms which invest in risky projects expects a higher ROI and , therefore , set a higher price for their products. Pricing through ROI provides consistency to the firm's pricing strategies.

♦ **Maximization of Profits**: Profits ,being the difference between sales revenue and costs and sales revenue being the product of units sold and selling price per unit , the firms can maximize their profits by reducing their costs or increasing the selling price. Firms estimate the demand and costs associated with different prices and choose a price that will generate maximum revenue for them. Pricing that aims at maximizing firm's profits suffers from the following drawbacks:

i. It ignores the concept of social responsibility and attempts to maximize firm's profits at the cost of social benefits.

ii. It assumes that the firm has complete knowledge about its products demand and cost which is not practical.

iii. It ignores the firm's long –run objective of wealth maximization and emphasizes on its short-run objectives of profit maximization.

iv. It ignores the impact of other factors such as, government regulations, competitors pricing policies , etc.

♦ **Maximization of revenue**: Depending on the demand for their products , some firms wish to set prices that will maximize the revenue from sales. This is in anticipation of long-run growth and profits

♦ **Maximization of Sales Growth:** Rather than maximizing their revenue by charging higher prices for their products, some firms wish to maximize their sales growth by selling a large volume of products at a low per unit selling unit. Larger sales volume and consequently , sales value will spread uniformly over the number of units produced and sold and result in low per unit cost of production. This will further result in an increase in the long-run profits of the firm . This policy is known as market penetration pricing.

♦ **Maximization of market share:** In consonance with the increase in the share of their revenue from sales, firms wish to set prices at a level where they are also able to capture a bigger share of the market. Firms can sacrifice short-run profits at the cost of a bigger market share in the hope to earn higher profits in later years.

♦ **Product quality leadership:** High prices can be indicative of high quality also. An advertisement which says 'Pay more-Get more' can create an impression in the minds of the consumers that a higher price is offering them higher benefits, Firms selling their products at higher prices will succeed in markets only if the quality assured is actually provided by them to consumers.

♦ **Other objectives:** Considerations such as public image and social obligations provide for setting prices where partial or full cost recovery be made but price is geared to meet consumer's wants and desires more than providing maximum profits to the firm.

12.2 PRICE DETERMINATION

The optimal pricing and output decisions depend on the goals of the firms and the nature and degree of competition faced by the firms. Price theory is the keystone of economic theory. It is one of the main branches of the modern economic analysis. Pricing has always been treated as one of the central problems in a free enterprise or a mixed economy. The determination of price is an important function on the part of management in all business concerns and industrial units. Price affects profit position .Total revenue of the firm depends on the price per nit and the total units sold. The quantity sold goes on changing with variations in the price. Total cost depends on the quantity of output produced. Pricing plays a significant role in profit planning. Traditional economic theory maintained that it is only the buyers and sellers who determine the price of a product or a service. But in practice many other agencies participate and influence the pricing process. These include competitors and the government, Competitors influence the demand for the product. The demand gets divided among competitors and thus affects the market share. The government influences prices through taxes, subsidies and price controls. There are thus many factors which influence the price of a commodity. Pricing decision involves consideration of existing competition, company's goal of maintaining quality and service and continuation of demand and profit. The problem of pricing centres round three types of decisions:

i the basic price level decisions;

ii price structure decision and

iii price discount structure.

A good pricing policy should take care of the company objective, Marketing strategy, Allocation of responsibilities , Administration of price changes and Allowance for discounts and credit.

Company objectives- Pricing should help in achieving the pricing objectives whether they be maximization of profits or sales revenue or market share.

Marketing Strategy: Pricing should allow firms to compete in the market against its competitors and also other elements of the marketing mix.

Allocation of responsibilities: Pricing policy should allocate responsibilities about who should set the prices and how.

Administration of price changes: Pricing policy should not only aim at setting prices but also at establishing a system for administering price changes in the event of changing demand and other market conditions. Also, short-run pricing policies should be in line with the long-run policies.

Allowance for discount and credit: Pricing policy aims at generating revenue from customers as per the list price of the products. But most of the buyers focus on the net price, that is, list price less discount.Goods may also have to be sold on credit to attract customers. An effective pricing policy must, therefore, allow for provisions with respect to discounts and sale on credit.

Factors affecting price determination: Numerous factors affect the pricing and decisions of a firm. Such factors could be classified under two groups:

1. Internal Factors
2. External Factors

Internal factors are the forces which can be controlled by a firm to a certain extent such as company objectives, marketing mix, costs, etc. But external factors are the forces outside the firm over which a business has no control. They create difficulties in determining the price of a product

Internal Factors:

- **Objective of the Firm**: A firm may have various objectives and pricing contribute in achieving them. Firms may pursue a variety of objectives such as maximizing sales revenue, maximizing market share, maximizing customer delight, maintaining particular image, maintaining stable price etc. Pricing policy should be established only after proper considerations of the objectives of the firm.

- **Role of Top Management** : It is the top management which generally has full authority over pricing . The marketing manager's role is to assist the top management in price determination and administer the pricing within policies laid down by top management. Pricing activities have such direct effect on sales volume and profit that the marketing manger cannot keep himself aloof from pricing policy making and strategy formulation.

- **Marketing- Mix**: Price in one of the important elements of the marketing mix and therefore, must be coordinated with the other elements ie., production , promotion and distribution. In some industries, a firm may use price reduction as a marketing technique; others may raise prices as a deliberate strategy to build a high –prestige product line. The effect will fail if the price change is not commensurate with the total marketing strategy that it supports.

- **Product Differentiation**: The price of the product depends upon the characteristics of the product. In order to attract the customers, different characteristics and benefits are added to the product , such as quality, size, colour, attractive package, alternative uses, etc. Generally customers pay more price for the product which is of the new style , design better package, etc.

- **Cost of the Product**: Cost and price of a product are closely related. The most important factor is the cost of production. In deciding to market a product, a firm should also try to decide what prices are realistic, considering current demand and competition in the market.

External Factors:

- **Demand**: The market demand for a product has a big impact on pricing . Since demand is affected by the prospective buyers, their capacity and willingness to pay, their preference etc are taken into account while fixing the price. A firm can determine the expected price in a few test-markets by trying different prices in different markets and comparing the results with a controlled market in which price is not altered. If the demand of the product is inelastic, high prices may be fixed. On the other hand, if demand is elastic , the firm should not fix high prices, rather it should fix flexible prices than that of the competitors.

♦ **Competition**: Competition in the market is a crucial factor in price determination. The prevailing information about what price the competitors are charging for similar products and what possibilities lie ahead for raising or lowering prices, also affect pricing.

♦ **Buyers**: The nature and behavior of the consumers and users, for the purchase of a particular product do affect pricing, particularly if their number is large.

♦ **Suppliers**: The suppliers of raw materials and other inputs can have a significant effect on the price of a product.

♦ **Economic Conditions**: This is a very important factor in as much as prosperity or depression influences the demand to a very large extent. The inflationary or deflationary tendency also affects pricing. T meet shortages or rising pricing and decreased demands, several pricing decisions are available such as prices can be boosted protect profit against rising costs; price protection systems can be linked with the price on delivery to current costs ; the emphasis can be shifted from sales volume to profit margin and cost reduction.

♦ **Government Regulations**: The regulatory pressures, anti-price rise and control measures effectively discourage companies from cornering too large a share of the market and controlling prices.

12.3 PRICING PRACTICES

Many pricing methods , based on different considerations are employed in practice. While fixing the price , the firm is guided by company objectives such as profit maximisation, sales maximization, growth maximization, establishing a favourable Image with the public and the government . While determining the price inter-departmental discussions within a company are necessary. For example the marketing department, has to discuss the question of capacity to produce with the production department before setting a price which creates demand. Capacity to produce depends upon the existing production capacity and availability or raw –materials at appropriate prices. While setting the price , a firm should consider both demand and cost factors. The relative importance of these factors in pricing depends upon the product in question and the market environment under which the firm operates. Some of the widely accepted methods of pricing:

12.3.1 Full-Cost Pricing :

This method of pricing is the simplest and the common method of determining the selling prices of products. It is also known as cost-plus pricing, margin pricing and mark-up pricing. A firm, under this method, computes the selling price of its product by adding certain percentage to the average total cost of the product. The objective here is to cover costs and to derive a pre-determined percentage of profit.

The percentages differ from firm to firm and from industry to industry and even from product to product in the same industry. Pricing of this type is based n full absorption costing plus a mark-up for profit. Firms use the following costs ie., variable and Fixed production costs and variable and fixed selling and administrative costs. In addition to these costs, price includes a make-up that provides for profit.

12.3.2 Rate of Return Pricing:

Rate of return pricing is merely a refinement of the full-cost pricing. In this method, the producer considers a pre-determined target rate of return on capital invested. The company estimates future sales, future costs and arrives at a mark-up that will achieve a target return on the company's investment.

$$\%\text{ age of mark-up on cost} = \frac{\text{Capital employed} \times \text{Planned rate of return}}{\text{Total Annual Cost}}$$

Suppose the capital employed is rupees six million and total annual cost is rupees twelve million with a planned rate of return of 20%. The percentage of mark-up, is

$$= \frac{6 \times 20}{12} = 10\%$$

If the total cost per unit = Rs.50.00

10% mark-up = <u>Rs. 5.00</u>

the selling price would be <u>Rs.55.00</u>

12.3.3 Marginal Cost Pricing:

Marginal cost pricing implies that the price of a product should be determined on the basis of the marginal or variable costs. Fixed costs need not be considered in pricing. In this method of pricing, fixed costs are totally ignored and only variable costs are taken into account while determining the price. This is done on the assumption that fixed costs are cause by outlays which are historical and sunk. Their relevance to pricing decision is limited as pricing decision requires planning the future. Under marginal cost pricing, the objective of the firm is to maximize its total contribution to fixed costs and profits. Marginal cost pricing is useful when demand conditions are slack. It helps in optimum allocation of resources and as such it is the most efficient can effective pricing technique. It enables the firm to face competition. That is the reason why export prices are based on marginal costs since international market is highly competitive. It is suitable for pricing over the life-cycle of a product. Each stage of the life-cycle has separate fixed cost and short-run marginal cost. Lastly, it is useful for multi-product and multi-process firms. Here absorption of fixed cost into product costs is difficult.

12.3. 4 Acceptance Pricing:

This method of pricing conforms with the system of price leadership. A firm initiates price changes and the other firms in the industry follow the pattern set by the leader. Other firms accept the leadership. The emphasis in on the market. Firms make necessary price adjustments to suit the general price structure in the industry. Hence this technique is known as acceptance pricing or going –rate pricing. Normally, industry , tries to determine the lowest price that the seller can afford to accept considering various alternatives. This technique of acceptance pricing is supported on the following grounds:

- It helps in avoiding cut-throat competition among the firms.
- It is a rational pricing method when costs are difficult to measure
- Acceptance pricing is less troublesome and less costly since exact calculation of costs and demand is not necessary.
- It is suitable to avoid price hazards in oligopoly market.

The firm should evaluate whether the new should be accepted by (i) comparing the new price with the incremental cost of production; and by (ii) comparing the total cost and revenue situation. The firm accepting the price must think in terms of its won long-run profitability. When firms in the industry accept one of the firms as leader and follow the same price policy, it is also called the Imitative Pricing. Imitation is the easy way of decision-making. In this situation the firm uses the market analysis of another firm and does not bother about demand and cost estimates. This is generally done in retail trade.

12.3.5 Customary Pricing :

Customary prices may defined as those prices which more or less remain fixed having prevailed for considerably long period of time Only if there is a significant change in costs, the customary prices change. While changing the customary price, it is necessary to have a knowledge of the pricing policies and practices adopted by the competing firms. It is also important to know the reaction of the customer to change in price by bringing about the price change in a limited market segment.

12.3.6 Intuitive Pricing:

Intuitive pricing is basically a psychological approach to pricing. Prices under this method are based on the feel of the market This method is highly subjective and its applicability differs from situation to situation. Prices under this method are determined on the basis of anticipated trends in costs and demand. Price constitute a barrier to demand when it is too low as much as when it is too high. Above a particular price, the article is regarded as too expensive and below another price, as constituting a risk of not giving adequate value. From the point of view of consumers, prices are quantitative and unambiguous, whereas product quality , product image , customer service , promotion are qualitative. If the a price is too low, consumers will tend to think that a product of inferior quality is being offered. Manufacturers run the risk of lowering prices too drastically when improvements in production or reduction in the cost would allow it. Very often under these circumstances, lower prices may be offered to the consumer by having the goods sold under a different brand name.

Charm Prices**:** are those prices which end with odd figures such as Rs.999 and have greater effect than even prices such as Rs.5 and Rs.10. In recent years charm pricing practices are in great use.

12.4 PRICING OF MULTIPLE PRODUCTS

Many firms produce more than one product. Even those firms producing specialized articles produce a commodity in multiple models, styles and sized. Such product are substantially differentiated form each other. Firms producing TV sets, Radio sets, Scooter are examples of multiple products. Pricing in a multi-product firm has two important aspects. First, each product has a separate demand curve . Second, all products have only one inseparable marginal cost curve due to common organization by interchangeable production facilities for all the products. This results in average cost and marginal cost becoming inseparable and average revenue and marginal revenue remaining separate. A multi-product firm tries to maximise its revenue in all its markets. Professor Eli W.

Clemens of the University of Maryland has explained multi-product pricing by assuming that a firm has one product and the firm's plant is being operated at 60% or 70% of capacity. Marginal revenue and marginal cost for one product are equal. With its idle capacity of personnel, plan and organisation, the firm can think of expanding its production without anticipating much increase in marginal costs. The idle capacity can be used to produce second, third and fourth product.

A multi-product firm is shown to have four products L,M,N, and O in its line or production. The AR and MR curves are given in their segments. 'C' is the point of intersection between MC and MR. The equal marginal revenue line EMR is drawn parallel to X- axis through point 'C'. It equates Mrs with MC . The output –level and price for each product is determined by the intersection points of EMR and Mrs. OQ1,Q1Q2, Q2Q3 and Q3Q4 are the quantities for the four products L,M,N, and O respectively. Their respective prices are P1Q1,P2Q2, P3Q3 and P4Q4. These are the price-output combinations which maximizes total revenue from each product and they also maximise the overall revenue of the firm.

12.5 DUMPING

Dumping refers to selling in the foreign market at price below the home market price. According to some economists, dumping means selling in the foreign market at a price below the cost of production. If the foreign price is above the home market price, it is referred to as reverse dumping. Dumping may be sporadic, intermittent or long period. Sporadic dumping is resorted mostly to sell the excess stock that may arise occasionally. Intermittent dumping refers to the periodic sale abroad of goods at prices below the home market price. Intermittent dumping may be resorted to gain a foothold in the foreign market to combat a new competition in order to retain a long held position; to eliminate or discipline competitor. Long-period dumping may be resorted to facilitate the utilization of the full capacity of the plant continuously. Operation at full capacity lowers the average cost and increases profits in the home market. The foreign market price must at least recoup the marginal cost of the product and the home market price must be above the average cost. Dumping is generally condemned. Most nations take measures to combat dumping like imposing anti-dumping import duties.

12.6 TRANSFER PRICING

Transfer prices relate to the prices charged by different divisions of the same firm for commodities and services exchanged between them. This system of pricing has become common in the modern industrial system consisting of multi-product –multi-process companies. Organisation of large firms on a divisional basis is found advantageous from efficiency and profitability point of view. All divisions in a firm are profit centers. Transfer pricing becomes more relevant in those firms where inter-profit-centre relationship system exists. Manager of each division of the firm tries to increase his profits for which he has to raise the price he charges to another division. This may result in increasing the profits of his division but in bringing sown the company profits. In other words it refers to the determination of the price of the intermediate products sold by one sem-autonomous division of the same firm. It is essential in determining the optimal output of each division and of the firm as a whole, and in evaluating divisional performance and determining divisional rewards.

Market skimming pricing-Skimming pricing is like skimming cream from milk. Products which do not face competition in the market are sold at an artificially high "Which is gradually reduced over a period of time. The firms following this policy earn greater profits per unit at the initial stages of the product entry in the market. These surpluses can be used for further expansion and growth of the firms. High prices avoid competition unless the competing firms bring in genuine quality products. This policy has the advantage of earning high profits in the initial years whereby company's costs can be recovered and used for promotional avenues till the time competitors enter the market. The policy also has the disadvantage of attracting competition as high profit margins will induce the competitors to introduce similar products.

This policy is suitable in the following cases :

- The products must be of high quality which correspond to their high prices.
- Products are patented and, therefore, there exists barriers to entry in the trade.
- The cost of production is low so as to offer higher profit margins to the sellers.
- Product features provide value satisfaction to consumers.
- Potential competitors are weak in introducing a similar product in the market in the near future.
- Product demand is inelastic. Consumers are ready to pay a high price for the products.

- Price sensitivity is uncertain. High prices can be subsequently reduced but low prices cannot easily be increased later on.

12.7 MARKET PENETRATING PRICING

As against charging high prices at the introductory stage of the product, the penetrating policy aims at capturing a bigger share of the market by charging low prices of the product. The firms penetrate deep into the market, sell their products at low price to attract a large number of customers, make large volumes of sales and work at a low profit margin. High volume of sales will result in low per unit cost of products and also offer the firms economies of scale. This will give the firms cost advantage over their competitors and a promising long-run profit and growth. This pricing policy is suitable in the following cases :

Products must be price sensitive so that low price can result in sales.

- An opportunity to enjoy economies of scale must exist, that is, larger should result in low cost of production and distribution.
- Firms are prepared to sacrifice their short-run profits in the hope to capture a major share of market.. Initially, firms might not even be able to recover their starting up costs.
- Low prices should result in keeping the competitors away from the market. If not so done, entry of competitors will vitiate the very purpose of the pricing policy.

12.8 DISCOUNT PRICING

It refers to selling at a price less than the list) price to deal with different classes of customers, (ii) prompt them to make early payments,(iii)courage them to buy in large volumes, and (iv) encourage off season buying. Deductions from the list price is called as discount. Following are the different types of discounts offered by the firms:

- **Cash discount** - It is offered to customers for prompt payment of their bills. It increases sellers' liquidity and reduces the possibility of bad debts.
- **Quantity discount** - It is offered to customers who place bulk orders with sellers. For example, sellers can sell a product at Rs. 15 per unit if units up to 100 in number are bought and Rs. 13.50 if units more than 100 in number are bought. It therefore gives incentive to buy large number of units from one seller rather than buying from multiple sources.

- **Seasonal Discount**-To maintain smooth level of production and sales throughout the year, sellers offer seasonal or off-season discount to sell their goods during off-peak season. Discount on sale of woollens during summer is an example of seasonal discount.
- **Trade discount** – It refers to discount offered by manufacturer to channel members (whole salers , retailers etc.) for smoothly carrying out the sales activities and providing the important functions of selling, storing and record keeping.

12.9 PRODUCT LINE PRICING

When sellers sell different varieties of the same product, they resort to a pricing policy referred to as product line pricing. This policy is adopted when different varieties of products have different features with respect to their cost, speed, size, design, customer valuation, competitors' prices etc.

Optional-product pricing - This pricing policy is offered by companies which offer optional products along with the main product. A music system., for example , will sell audio cassettes or CDs with it. The firms have to price these accessories in a manner that will attract customers to buy the main product. The price of the CDs , if listed below the market price, will induce buyers to buy the same along with the CD player rather than buying them separately from the same of a different seller.

Keep-out pricing - It aims at selling products at a price that will keep competitors out of the market. It may even amount to selling below the cost, that is, loss. This policy therefore, suitable for big business firms which can offset this loss against profits from sale of other products.

Follow the leader pricing- This pricing policy is normally followed in oligopolistic market situations which is characterized by a few sellers. Small seller quickly responds to big firms' marketing and pricing strategies. A price cut by a big seller is followed by other also but a price rise is not followed by them. Big firms may lose the market by a rise but cannot attract more customers through a price cut. Since small firms charge the same price as big ones do, this is called as "follow the leader" pricing policy.

By-product pricing - Processing of iron, petroleum and chemical products in by-products which are of no use to the seller of the main product. He may, therefore, either dispose them off as scrap and adjust the scrap value in the cost of the main product thereby reducing the overall cost and price of that product or sell it to consumers at a price that the consumers value it at. The scrap value or the selling price should be more than the cost of storing the by-products, otherwise it will be reflected in the selling price of the main product.

12.10 SEGMENTED PRICING

It refers to selling the products at different prices where difference in prices is not commensurate with the difference in costs. Perhaps, difference in prices is more than the difference in their costs resulting in additional profits for the firms. Segmented pricing can take different forms such as :

- **Customer segmentation** - Same products are sold to different customers at different prices. A doctor, for example, may sell his services to affluent clients at a price higher than that charged from poorer sections of society.
- **Product-form segmentation -** A product is brought out in different versions and sold at different prices where price difference is more than the cost difference. Example Sale of Maruti Zen,
- **Location segmentation -** Products sold at different locations are priced differently. This is because of difference in the buying capacity of buyers at different locations. A product which sells for Rs. 500 in a big showroom may sell for Rs. 400 in a small retail outlet.
- **Time segmentation** - The same product sells at different prices during different times of the year. An air conditioner that sells for Rs. 25,000 during summer season may sell for Rs. 24,000 during winter season. This form of segmented pricing supports the discount pricing where off-season discounts are offered to keep the production line going.

12.11 PSYCHOLOGICAL PRICING

Price carries a psychological feeling about the quality of the product in the buyer's mind. High prices generally symbolise high quality and therefore, even if the goods worth Rs. 300 are sold for Rs. 500, consumers will readily purschase them provided they are sold at an established and reputed showroom. Some sellers believe in pricing that ends at an odd number, for example Rs. 499 instead . 500. Though the difference is only Re. 1, psychologically, buyers fell that they are paying 400s and not 500s.

Promotional pricing - To promote the sale of products, sellers sometimes sell their products at a price below their cost price in the hope that loss on sale of one product can be made up against profit on sale of another product. This is done to attract consumers for the loss –making product so that it proves to be successful in the long-run.

12.12 PRICING METHODS, POLICIES AND PRACTICES

In setting the price for products, the manufacturers consider primarily the profit .Each producer has his aim of profit maximisation. Usually, the pricing policy is based on the goal of obtaining a reasonable profit. Most of the businessmen want to hold the price at constant level..They do not desire frequent actuations. The price rigidity is the practice of many producers. Rigidity does not mean inflexibility. It means that prices are stable over a given period, say a year.

There are four important methods of pricing: (i) Cost-plus or full cost pricing, (ii) Pricing for a of return, (iii) Marginal cost pricing, (iv) Administered pricing and (v) Going-rate policy.

Full Cost Pricing: Cost -plus or full cost pricing is a method commonly adopted by the businessmen to fix a price of the product. He calculates the cost of production per unit and adds a margin of profit to it. In other words, the producer adds a certain percentage of profit which he considers as fair to his cost in order to arrive at a price which is acceptable to the consumers. This procedure is known as cost-plus pricing.

Cost-plus pricing means the addition of a certain percentage of profit to the cost of production to arrive at a price. For example, the cost of production of a product is Rs.10. If the management es to have a mark of 100 per cent, then Rs.10 is the addition to the cost. Hence, the price is Rs.20 per unit of the product. Here two elements make up the price: one is the average cost per unit and the other is the mark-up (profit). These two components are found in the cost-plus pricing.

Despite a few limitations, this method is very popular among many producers in India, the publishing Industry uses cost-plus pricing in fixing the prices of various publications. Cost of production is first assessed and a certain percentage of profit is added and the selling price is fixed. This percentage is called **mark up**. Sometimes pricing of the product by this method may result in making the price to be prohibitive. When such a firm has to face competition it finds it very difficult to sell its product in the market. In such cases, it has to abandon the cost- plus pricing and bring the price to the level of the rivals. In order to do so, it has to reduce some costs. This means that cost-plus pricing will have to be modified suitably.

In India, cost-plus pricing methods is extensively used. It is because of two specific advantages. Firstly, presence of seller's market in India, makes it possible to pass on the additional costs to the buyers. Secondly, this is easy and has approval of the government in fixing the prices of the product of all public sector industries.

Rate of Return Pricing: The cost-plus pricing method has led to a controversy with regard to fair rate of return. Some businessmen argue that the decent percent of return on investment is fair, but some others do not accept this conclusion. Under this method, the price is determined by the planned rate of return on investment which is expected to be converted into a percentage of the mark up. The profit margin is determined on the basis of the rate of production and the total cost of a year's normal production. Then, the capital turnover is computed by taking the ratio of invested capital to the annual standard cost. Then the mark up percentage of profit is obtained by multiplying capital turnover by the goal rate of return. Let us take the following example: say, the capital turnover is Rs.0.9 lakh. The desired rate of return is 27 per cent. Now – % mark up = Capital turnover x desired rate of return

· = 0.9 x 27 = 24 per cent

Now, 24 per cent is the mark up. Or it may also be found out by this method:

While defining the rate of return, it is held that it should cut across business cycles and should be determined on the basis of standards of reasonableness. This method is essentially the cost-plus pricing method but an improved one. Since it builds price on cost which is standardised, it develops a profit mark up related to a rate of return.

Marginal Cost Pricing: Under cost-plus pricing and rate of return pricing, the prices of products are determined on the basis of total costs, (variable + fixed costs). Under marginal cost pricing, fixed costs are ignored and pricing is determined on the basis of marginal costs. Marginal cost means cost of producing additional units of the product. The firm uses only those costs which are directly attributable to the output of the specific period. The price so determined must cover the marginal cost and the total cost will have to be covered in the long run. Price based on marginal costs will be much more aggressive than the one based on total costs. Further, when a firm has a large unused capacity, it should explore the possibility of producing and selling more - it should coverI marginal cost. The real difficulty is to know the marginal cost.

Advantages of Marginal Cost Pricing : Under marginal cost pricing, prices are never rendered uncompetitive merely because of higher fixed overhead costs. If the variable costs are higher, the prices also will be higher, but they can be controlled in the short period and thus make the price competitive. Marginal costs reflect more accurately the future as distinct from the present cost structure. Marginal cost pricing permits a producer to resort to aggressive price policy than **is possible** under full cost pricing. An aggressive pricing would lead to higher sales and by increased marginal physical productivity and lower input factor prices, marginal cost can be reduced.. Marginal cost pricing is very much useful over the life cycle of a product.

Marginal cost pricing is more effective than full cost pricing because it helps in solving short run problems. That is, under the conditions of change, marginal cost is the most suitable method of short-run pricing. In the short-run pricing, only marginal costs are covered and fixed costs completely ignored.

The only difficulty in marginal cost pricing is ignorance of the marginal cost technique. In a period of business recession, the firms using marginal cost pricing can overcome the recession by lowering the pries and thereby allowing the sales to increase. With the existence of idle capacity and the pressure of fixed costs, firms successfully cut down prices to a point equivalent to marginal cost and earn a fair rate of return in the period of crisis.

Going Rate Pricing : The going rate pricing is opposite of full cost or cost-plus pricing. The going rate means, adjusting its own price policy to the general price structure in the industry, adopted where it is difficult to measure the costs. Though the firm has complete freedom to fix its own price, it will not do so, but instead, it tries to adjust its own price policy with the price prevailing in the market. The going rate pricing is adopted when the price leadership is very well established. When firms want to avoid the tension of price rivalry in the market, they adopt the going rate pricing. This is very easy and there is no need for a firm to take the trouble of calculating costs and demand.

Some guidelines for price fixation have been given by Bates and Parkinson are: .

- It is necessary to know the costs incurred in relation to output and also to distinguish between prime costs and overhead costs.
- In the beginning, prices should cover prime costs and later on the price should cover the entire costs.
- The firms must know the prices of the products sold by other firms. The costs incurred must be comparable to the costs of the other firms for the same amount of output.
- If the demand for the product of a firm is sluggish, then it will have to reduce the price a bit in order to improve its position.

- If the costs of raw-materials and labour rise, the firm is compelled to increase the price.
- If the costs are rising and the sales are sluggish, then the firm must be able to refrain from raising the price.
- The capacity of the plant must be used to the optimum extent. Production should be concentrated on those products whose demand is high.
- The firm by improving sales campaign , must build the image of the firm.
- If the price set by the firm are bringing good profit, then the firm should resort to expansion of production.
- Prices should not go against the public interest.
- If the company is making high profits by selling at a price, the rivals are sure to enter into the industry and compete with the profits.

12.13 PRICING OF A NEW PRODUCT

If the new product is with high distinctiveness among the existing products, then the fixation of the price should be based on the demand, the market target and the promotional strategy.

In the case of pioneer products, the estimation of their demand is very difficult. The estimate of demand for such products should be studied in the following manner:

- Whether the new product is accepted by the consumers.
- At what price it is acceptable.
- If three or four prices are fixed, what would be the volume of sales at each price and
- What would be the reaction of the manufacturers of the substitutes.

Product Acceptability

It is based on the willingness of the consumers to buy the product. The willingness to buy depends upon a factor that is whether it would meet their requirements. If it does not meet the needs and requirements of the consumers, the product should be improved to serve the purpose. Supposing the new product is a strategic alternative, then it should be found out* consumers would buy the new one in place of the old one.

Price Discrimination means offering different prices to different customers. Price Discrimination only works if the Firm has Market Power if the firm can distinguish between customers and the firm can prevent resale.

First Degree Price Discrimination is also called Perfect Price Discrimination. The Firm charges each customer exactly what they are willing to pay i.e. the Firm prices according to the demand curve. Marginal Revenue is the Price, therefore P=MC is the optimum. The Firm captures the entire surplus

In practice it is nearly impossible. Auctions attempt to approximate this situation.

Second Degree Price Discrimination also called Quantity Discrimination. The Firm offers bulk discounts to customers who buy large quantities. This works if a firm cannot distinguish between customers; instead offer 1 at P1or 2 or more at P2each and customers will sort themselves depending on their individual demands.

Third Degree Price Discrimination also called Multi-Market Price Discrimination. The Firm charges different prices in different markets. All people in the same market pay the same price. The market could be geographically or demographically defined for eg. Ex. Student or Senior Discounts

Two-Part Tariff :The Firm charges a price per use as well as a membership/entrance fee. The Price should be set at P = MC to maximize consumer surplus. The membership or entrance fee can then be set to capture all the consumer surplus.

Bundle Pricing 1 : The Firm sells two items as a bundle. Bundling works if consumers value the goods differently.

Pricing Strategies: Every firm has to take pricing decisions from time to time depending upon its pricing policies and conditions prevailing in the market. As an element of the marketing –mix, pricing strategies should be directed towards the accomplishment of specific marketing objectives which lead to overall organisational objectives. Pricing is not an end in itself, but a means to achieve certain objectives of the marketing department of a firm. Some of the important pricing strategies are as follows: **Pricing at prevailing prices**: This strategy is followed to stay in the market because a price above the market price would sharply bring down sales while a lower price would not significantly increase sales. **Penetrating Pricing**, **One price versus Variable Price Policy**: hear the seller charges the same price to similar types of customers who purchase similar quantities of the product under essentially the same term of sale. **Price Lining**: is used extensively by the retailers. The retailers usually offer a good , better and best assortment of merchandise at different price levels **Psychological Pricing**, **Leader Pricing**, **Follow the leader Pricing**, **Discriminatory or Dual Pricing** , **Resale Price Maintenance** , **Value for Money** and **Premium Pricing** are some of the strategies companies follow to get their merchandise into the hands of the customers.

12.14 SUMMARY

One of the most important decisions made by managers is setting the price of the firm's product. If price is set too high, the firm will be unable to compete with other suppliers. But if the price is too low, the firm may not be able to earn a normal rate of profit. Manager must tailor their decisions to the specific market environment in which their firm operate. Decision making environment depends on the structure of the market, naturally it follows that no single theory of the firm can adequately describe all of the conditions in which firms operate. The ability of an individual firm to affect the price and total amount of a product supplied to a market is related to the number of firms providing that product. If there are numerous sellers of nearly equal size, the influence of any one firm is likely to be small. In contrast, in a market consisting of only a few sellers, an individual firm can have considerable impact on price and total supply. The size distribution of the firms is also an important characteristic of market structure. When the market includes a dominant firm or a few large firms that provide a substantial proportion of total supply , those large businesses may be able to exert considerable influence over price and product attributes. For example Microsoft computers.

12.15 SELF ASSESSMENT QUESTIONS

1. What are the objectives of pricing ?
2. Discuss the importance of pricing policy.
3. How is the price for the new product determined?
4. Explain the factors affecting price determination.
5. Distinguish between market skimming and market penetration pricing policy
6. Explain Full cost pricing and Marginal Cost pricing.

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