PRINCIPLES OF MARKETING

M-204

Self Learning Material

Directorate of Distance Education

SWAMI VIVEKANAND SUBHARTI UNIVERSITY
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BLOCK—1

PRODUCT MARKETING AND CONSUMER BEHAVIOUR

Unit—1

Introduction

STRUCTURE

1.1 Objective

The main objective of this particular unit is to give proper knowledge of the marketing principles and theories. The study of nature and scope of marketing as well as its importance in the economy and business. The unit discusses various issues of marketing such as marketing mix, selling, marketing environment etc.. elaborately which is certaining going to make the students reasonably perfect in this field.

1.2 Introduction

Marketing is a broad topic that covers a range of aspects, including advertising, public relations, sales, and promotions. People often confuse sales with marketing, when in fact the two are very different. The

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former involves getting a product or service into the market, promoting it, influencing behavior, and encouraging sales. Sales are the actual transaction of getting a product or service into the hands of your customers.

1.3 Nature and Scope of Marketing

Strategies in marketing have changed enormously since Jay Conrad Levinson introduced the guerrilla concept over 20 years ago. Tactics that were considered radical then are almost main stream now. With so many messages bombarding the consumer in the marketplace today, it is now more difficult than ever to get your product noticed, so marketers have learned to be creative.

Companies without a marketing mindset are at a disadvantage in today's business world. Those who are still centered around their products, rather than their customers, are doomed to fail. Knowing what your clients' expectations are, exceeding them, and building a reputation based on that is the key to success. Pay attention to your customers, and they will come back time and time again. Ignore them, and they will disappear faster than you can spend your marketing budget to try to bring them back.

Many people do not know much about marketing and they always feel that the marketing staff in the company is a burden on the company and they do not justify the dollars spent on them. But the fact is that sincere marketing efforts never go waste. When you invest in marketing related activities, you are sure to reap benefits. Well run marketing campaigns can help you earn good profits.

Some people have a misconception about the term marketing, they feel that it is an easy task and anyone can do it. But as a business person you have to get rid of this view point and employ a professional marketing agency that will device your marketing strategy and help you execute it as well. Or you can also have the assistance of an independent marketing consultant who can oversee the marketing efforts that are being put in by the marketing department.

The outside marketing agency or the professional marketing consultant will be able to focus on all the company's marketing requirements without being bothered by the aspects like internal company politics or employee relationships etc. These professionals are very aware of the strategies that work for various products and the strategies that will not work. For devising your marketing strategies you definitely should take assistance from these marketing professionals.

Nature of Marketing

What is marketing? What kind of Phenomena are appropriately termed marketing phenomena? How do marketing activities differ from non-marketing activities? What is a marketing system? How can marketing processes be distinguished from other social processes?

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Which institutions should one refer to as marketing institutions? *In short, what is the proper conceptual domain of the construct labeled "marketing"?*

The American Marketing Association defines marketing as "the performance of business activities that direct the flow of goods and services from producer to consumer or user." This position has come under attack from various quarters as being too restrictive and has prompted one textbook on marketing to note: "Marketing is not easy to define. No one has yet been able to formulate a clear, concise definition that finds universal acceptance."

Although vigorous debate concerning the basic nature of marketing has alternately waxed and waned since the early 1900s, the most prominent controversy probably traces back to a position paper by the marketing staff of the Ohio State University in 1965. They suggested that the marketing be considered "the process in a society by which the demand structure for economic goods and services is anticipated or enlarged and satisfied through the conception, promotion, exchange, and physical distribution of goods and services."

Note the conspicuous absence of notion that marketing consists of a set of business activities (as in the AMA definition). Rather they considered marketing as a social process.

Other marketing commentators began to espouse the dual theses that (1) marketing be broadened to include non-business organisations, and (2) marketing's societal dimensions deserve scrutiny. Thus Ferber prophesied that marketing would diversify into the social and public policy field. And Lavidge sounded a similar call to arms by admonishing marketers to cease evaluating new products solely on the basis of whether they can be sold. Rather, he suggested, they should evalute new products from a societal perspective, that is, should the product be sold?

The movement to expand the concept of marketing probably became irreversible when the Journal of Marketing devoted an entire issue to marketing's social/environmental role. At that time, Kotler and Zaltman coined the term social marketing, which they defined as "the design, implementation and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication, Distribution, and marketing research."

Although there are so many definitions given of marketing yet still some questions appear to be central to the "nature of marketing" controversy. A good definition of marketing must be both properly inclusive and exclusive. To rigorously evaluate these issues require a conceptual model of scope of marketing.

Scope of Marketing

No matter which definition of marketing one prefers, the scope of marketing is unquestionably broad. Often included are such diverse

subject areas as consumer behaviour, pricing, purchasing, sales management, product management, marketing communications, comparative marketing, social marketing, the efficiency/productivity of marketing systems, the role of marketing in economic development, packaging, channels of distribution, marketing research, societal issues in marketing, retailing, wholesaling, the social responsibility of marketing, international marketing, commodity marketing and physical distribution. Now lets have a look at the brief description of the scope of marketing given below:—

The scope of marketing (profit sector)

Micro

Positive:— Problems, issues, theories, and research concerning:

(a) Individual consumer buyer behaviour
(b) How firms determine prices
(c) How firms determine products
(d) How firms determine promotion
(e) How firms determine channels of distribution
(f) Case studies of marketing practices

Normative:— Problems, issues, normative models, and research concerning how firms should:

(a) Determine the marketing mix
(b) Make pricing decisions
(c) Make product decisions
(d) Make promotion decisions
(e) Make packaging decisions
(f) Make purchasing decisions
(g) Make international marketing decisions
(h) Organize their marketing departments
(i) Control their marketing efforts
(j) Plan their marketing strategy
(k) Apply systems theory to marketing problems
(l) Manage retail establishments
(m) Implement the marketing concept

Macro

Positive:— Problems, issues, theories and research concerning:

(a) Aggregate consumption patterns
(b) Institutional approach to marketing
(c) Commodity approach to marketing
(d) Comparative marketing
(e) Legal aspects of marketing
(f) The efficiency of marketing systems
(g) Whether the poor pay more
(h) Whether marketing spurs or retards the economic development

(i) Power and conflict relationships in channels of distribution
(j) Whether marketing functions are universal
(k) Whether the marketing concept is consistent with consumer's interest

Normative:— Problems, issues, normative models, and research concerning:

(a) How marketing can be made more efficient
(b) Whether distribution costs too much
(c) Whether advertising is socially desirable
(d) Whether consumer sovereignty is desirable
(e) Whether stimulating demand is desirable
(f) Whether poor should pay more
(g) What kinds of laws regulating marketing are optimal
(h) Whether vertical marketing systems are socially desirable
(i) Whether marketing should have special social responsibilities

Scope of marketing (non-profit sector)

Micro

Positive:— Problems, issues, theories and research concerning:

(a) Consumer's purchasing of public goods
(b) How nonprofit organizations determine prices
(c) How nonprofit organizations determine products
(d) How nonprofit organizations determine promotion
(e) How nonprofit organizations determine channels of distribution
(f) Case studies of public goods marketing

Normative:— Problems, issues, normative models, and research concerning how nonprofit organizations should:

(a) Determine the marketing mix (Social Marketing)
(b) Make pricing decisions
(c) Make product decisions
(d) Make promotion decisions
(e) Make packaging decisions
(f) Make purchasing decisions
(g) Make international marketing decisions
(h) Organize their marketing efforts
(i) Control their marketing efforts
(j) Plan their marketing strategy
(k) Apply systems theory to marketing problems

Macro

Positive:— Problems, issues, theories and research concerning:

(a) The institutional framework for public goods
(b) Whether television advertising influences elections

(c) Whether public service advertising influences behaviour
(d) Whether existing distribution systems for public goods are efficient
(e) How public goods are recycled

Normative:— Problems, normative models, and research concerning :

(a) Whether society should allow politicians to be "sold" like toothpaste
(b) Whether the demand for public goods should be stimulated
(c) Whether "low informational content" political advertising is socially desirable
(d) Whether the army should be allowed to advertise for recruits

1.4 Importance of Marketing as a Business Function and in the Economy

Business Marketing is the practice of organizations, including commercial businesses, governments and institutions, facilitating the sale of their products or services to other companies or organizations that in turn resell them, use them as components in products or services they offer, or use them to support their operations. Also known as industrial marketing, business marketing is also called business-to-business marketing, or B2B marketing, for short. (Note that while marketing to government entities shares some of the same dynamics of organizational marketing, B2G Marketing is meaningfully different.)

Origins of Business Marketing

In the broadest sense, the practice of one purveyor of goods doing trade with another is as old as commerce itself. As a niche in the field of marketing as we know it today, however, its history is more recent. In his introduction to Fundamentals of Business Marketing Research, J. David Lichtenthal, professor of marketing at the City University of New York's Zicklin School of Business, notes that industrial marketing has been around since the mid-19th century, although the bulk of research on the discipline of business marketing has come about in the last 25 years.

Morris, Pitt and Honeycutt, 2001, point out that for many years business marketing took a back seat to consumer marketing, which entailed providers of goods or services selling directly to households through mass media and retail channels. This began to change in middle to late 1970s. A variety of academic periodicals, such as the Journal of Business-to-Business Marketing and the Journal of Business & Industrial Marketing, now publish studies on the subject regularly, and professional conferences on business-to-business marketing are held every year. What's more, business marketing courses are commonplace at many universities today. In fact, Dwyer and Tanner (2006) point out that more marketing majors begin their careers in business marketing today than in consumer marketing.

Business Marketing vs. Consumer Marketing

Although on the surface the differences between business and consumer marketing may seem obvious, there are more subtle distinctions between the two with substantial ramifications. Dwyer and Tanner (2006) note that business marketing generally entails shorter and more direct channels of distribution.

While consumer marketing is aimed at large demographic groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing. According to Hutt and Speh (2001), most business marketers commit only a small part of their promotional budgets to advertising, and that is usually through direct mail efforts and trade journals. While that advertising is limited, it often helps the business marketer set up successful sales calls.

Marketing to a business trying to make a profit (Business-to-Business marketing) as opposed to an individual for personal use (Business-to-Consumer, or B2C marketing) is similar in terms of the fundamental principals of marketing. In B2C, B2B and B2G marketing situations, the marketer must always:

- Successfully match the product/service strengths with the needs of a definable target market;
- Position and price to align the product/service with its market, often an intricate balance; and
- Communicate and sell it in the fashion that demonstrates its value effectively to the target market.

These are the fundamental principals of the 4 Ps of marketing (the marketing mix) first documented by E. Jerome McCarthy in 1960.

Who is Customer in a B2B Sale?

While "other businesses" might seem like the simple answer, Dwyer and Tanner (2006) say business customers fall into four broad categories: companies that consume products or services, government agencies, institutions and resellers.

The first category includes original equipment manufacturers, such as automakers, who buy gauges to put in their cars, and users, which are companies that purchase products for their own consumption. The second category, government agencies, is the biggest. In fact, the U.S. government is the biggest single purchaser of products and services in the country, spending more than $300 billion annually. But this category also includes state and local governments. The third category, institutions, includes schools, hospitals and nursing homes, churches and charities. Finally, resellers consist of wholesalers, brokers and industrial distributors.

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So what are the meaningful differences between B2B and B2C marketing?

A B2C sale is to an individual. That individual may be influenced by other factors such as family members or friends, but ultimately it's a single person that pulls out their wallet. A B2B sale is to an organization. And in that simple distinction lies a web of complications that differ because of the organizational nature of the sale and which vary widely by firmographic (i.e., "demographic" for segmenting businesses) such as business size, location, industry and revenue base.

The marketing mix is affected by the B2B uniqueness which include complexity of business products and services, diversity of demand and the differing nature of the sales itself (including fewer customers buying larger volumes). Because there are some important subtleties to the B2B sale, the issues are broken down beyond just the original 4 Ps developed by McCarthy.

B2B Marketing Strategies

B2B Branding

B2B branding is different from B2C in some crucial ways, including the need to closely align corporate brands, divisional brands and product/service brands and to apply your brand standards to material often considered "informal" such as email and other electronic correspondence.

Product (or Service)

Because business customers are focused on creating shareholder value for themselves, the cost-saving or revenue-producing benefits of products and services are important to factor in throughout the product development and marketing cycles.

People (Target Market)

Quite often, the target market for a business product or service is smaller and has more specialized needs reflective of a specific industry or niche. Regardless of the size of the target market, the business customer is making an organizational purchase decision and the dynamics of this, both procedurally and in terms of how they value what they are buying from you; differ dramatically from the consumer market. There may be multiple influencers on the purchase decision, which may also have to be marketed to, though they may not be members of the decision making unit.

Pricing & Promotion

The business market can be convinced to pay premium prices more often than the consumer market if you know how to structure your pricing and payment terms well. This price premium is particularly achievable if you support it with a strong brand.

Promotion planning is relatively easy when you know the media, information seeking and decision making habits of your customer base, not to mention the vocabulary unique to their segment. Specific trade shows, analysts, publications, blogs and retail/wholesale outlets tend to be fairly common to each industry/product area. What this means is that once you figure it out for your industry/product, the promotion plan almost writes itself (depending on your budget) but figuring it out can be a special skill and it takes time to build up experience in your specific field. Promotion techniques rely heavily on Marketing Communications strategies.

Place (Sales & Distribution)

The importance of a knowledgeable, experienced and effective direct (inside or outside) sales force is often critical in the business market. If you sell through distribution channels also, the number and type of sales forces can vary tremendously and your success as a marketer is highly dependent on their success.

B2B Marketing Communications Methodologies

The purpose of B2B marketing communications is to support the organizations' sales effort and improve company profitability. B2B marketing communications tactics generally include advertising, public relations, direct mail, trade show support, sales collateral, branding, and interactive services such as website design and search engine optimization. The Business Marketing Association is the trade organization that serves B2B marketing professionals. It was founded in 1922 and offers certification programs, research services, conferences, industry awards and training programs.

Positioning Statement

An important first step in business to business marketing is the development of your positioning statement. This is a statement of what you do and how you do it differently and better and efficiently than your competitors.

Developing your messages

The next step is to develop your messages. There is usually a primary message that conveys more strongly to your customers about what you do and the benefit it offers to them, supported by a number of secondary messages, each of which may have a number of supporting arguments, facts and figures.

Building a campaign plan

Whatever form your B2B marketing campaign will take, build a comprehensive plan up front to target resources where you believe they will deliver the best return on investment, and make sure you have all the infrastructure in place to support each stage of the marketing process - and that doesn't just include developing the lead - make sure the entire organization is geared up to handle the inquiries appropriately.

Briefing an agency

A standard briefing document is usually a good idea for briefing an agency. As well as focusing the agency on what's important to you and your campaign, it serves as a checklist of all the important things to consider as part of your brief. Typical elements to an agency brief are: Your objectives, target market, target audience, product, campaign description, your product positioning, graphical considerations, corporate guidelines, and any other supporting material and distribution.

Measuring results

The real value in results measurement is in tying the marketing campaign back to business results. After all, you're not in the business of developing marketing campaigns for marketing sake. So always put metrics in place to measure your campaigns, and if at all possible, measure your impact upon your desired objectives, be it Cost Per Acquisition, Cost per Lead or tangible changes in customer perception.

How Big is Business Marketing?

Hutt and Speh (2001) note that "business marketers serve the largest market of all, the dollar volume of transactions in the industrial or business market significantly exceeds that of the ultimate consumer market." For example, they note that companies such as GE, DuPont and IBM spend more than $60 million a day on purchases to support their operations.

Dwyer and Tanner (2006) say the purchases made by companies, government agencies and institutions "account for more than half of the economic activity in industrialized countries such as the United States, Canada and France." A 2003 study sponsored by the Business Marketing Association estimated that business-to-business marketers in the United States spend about $85 billion a year to promote their goods and services.

The fact that there is such a thing as the Business Marketing Association speaks to the size and credibility of the industry. BMA traces its origins to 1922 with the formation of the National Industrial Advertising Association. Today, BMA, headquartered in Chicago, has more than 2,000 members in 19 chapters across the country. Among its members are marketing communications agencies that are largely or exclusively business-to-business oriented.

What's Driving Growth in B2B Marketing?

The tremendous growth and change that business marketing is experiencing is due in large part to three "revolutions" occurring around the world today, according to Morris, Pitt and Honeycutt (2001).

First is the technological revolution. Technology is changing at an unprecedented pace, and these changes are speeding up the pace of new product and service development. A large part of that has to do with the Internet, which is discussed in more detail below.

Technology and business strategy go hand in hand. Both are corelated. While technology supports forming organization strategy, the

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business strategy is also helpful in technology development. Both play a great role in business marketing.

Second is the entrepreneurial revolution. To stay competitive, many companies have downsized and reinvented themselves. Adaptability, flexibility, speed, aggressiveness and innovativeness are the keys to remaining competitive today. Marketing is taking the entrepreneurial lead by finding market segments, untapped needs and new uses for existing products, and by creating new processes for sales, distribution and customer service.

The third revolution is one occurring within marketing itself. Companies are looking beyond traditional assumptions and adopting new frameworks, theories, models and concepts. They're also moving away from the mass market and the preoccupation with the transaction. Relationships, partnerships and alliances are what define marketing today. The cookie-cutter approach is out. Companies are customizing marketing programs to individual accounts.

B2B Business to Business (or "Industrial")

Typical examples of a B2B selling process are...

- An organization is seeking to build a new warehouse building. After carefully documenting their requirements, it obtains three proposals from suitable construction firms and after a long process of evaluation and negotiation it places an order with the organization that it believes has offered the best value for money.
- An organization has significant need for legal services and obtains submissions from two law firms. Analysis of the proposals and subsequent discussions determines that there is no price advantage to placing all of the work with one firm and the decision is made to split the work between the two firms based on an evaluation of each firm's capabilities.
- A sales representative makes an appointment with a small organization that employs 22 people. He demonstrates a photocopier/fax/printer to the office administrator. After discussing the proposal with the business owner it is decided to sign a contract to obtain the machine on a fully maintained rental and consumables basis with an upgrade after 2 years.

The main features of the B2B selling process are...

- Marketing is one-to-one in nature. It is relatively easy for the seller to identify a prospective customer and to build a face-to-face relationship.
- High value considered purchase.
- Purchase decision is typically made by a group of people ("buying team") not one person.
- Often the buying/selling process is complex and includes many stages (for example; request for expression of interest, request

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for tender, selection process, awarding of tender, contract negotiations, and signing of final contract).

- Selling activities involve long processes of prospecting, qualifying, wooing, making representations, preparing tenders, developing strategies and contract negotiations.

B2C Business to Consumer (or "Consumer")

Examples of the B2C selling/buying process are...

- A family are at home on a Sunday night and are watching television. An advertisement appears that advertises home delivered pizza. The family decides to order a pizza.
- Walking down a supermarket aisle, a single man aged in his early 30's sees a hair care product that claims to reduce dandruff. He pick's the product and adds it to his shopping cart.
- A pensioner visits her local shopping mall. She purchases a number of items including her favourite brand of tea. She has bought the same brand of tea for the last 18 years.

The main features of the B2C selling process are...

- Marketing is one-to-many in nature. It is not practical for sellers to individually identify the prospective customers nor meet them face-to-face.
- Lower value of purchase.
- Decision making is quite often impulsive (spur of the moment) in nature.
- Greater reliance on distribution (getting into retail outlets).
- More effort put into mass marketing (One to many).
- More reliance on branding.
- Higher use of main media (television, radio, print media) advertising to build the brand and to achieve top of mind awareness.

Proponents of the industrial marketing process argue that it requires a high degree of specialisation and that traditional advertising or marketing techniques are inadequate when addressing industrial marketing issues.

Blurring Between the Definitions

As in all things, the definitions are not clear cut. For example, an organisation that sells electronic components may seek to distribute its products through marketing channels (see channel (marketing)), and be selling relatively low value products. However, the final purchaser is still a business. Equally there are big ticket items purchased by non-business consumers (houses and motor vehicles being the obvious examples). However, even though these definitions are blurred, sales and marketing activities aimed at B2B are distinctly different from B2C (as outlined above).

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Competitive Tendering

Industrial marketing often involves competitive tendering (see tender, tendering). This is a process where a purchasing organisation undertakes to procure goods and services from suitable suppliers. Due to the high value of some purchases (for example buying a new computer system, manufacturing machinery, or outsourcing a maintenance contract) and the complexity of such purchases, the purchasing organisation will seek to obtain a number of bids from competing suppliers and choose the best offering. An entire profession (strategic procurement) that includes tertiary training and qualifications has been built around the process of making important purchases. The key requirement in any competitive tender is to ensure that...

- The business case for the purchase has been completed and approved.
- The purchasing organisation's objectives for the purchase are clearly defined.
- The procurement process is agreed upon and it conforms with fiscal guidelines and organisational policies.
- The selection criteria have been established.
- A budget has been estimated and the financial resources are available.
- A buying team (or committee) has been assembled.
- A specification has been written.
- A preliminary scan of the market place has determined that enough potential suppliers are available to make the process viable (this can sometimes be achieved using an expression of interest process).
- It has been clearly established that a competitive tendering process is the best method for meeting the objectives of this purchasing project. If (for example) it was known that there was only one organisation capable of supplying; best to get on with talking to them and negotiating a contract.

Because of the significant value of many purchases, issues of probity arise. Organisations seek to ensure that awarding a contract is based on "best fit" to the agreed criteria, and not bribery, corruption, or incompetence.

Bidding Process

Suppliers who are seeking to win a competitive tender go through a bidding process. At its most primitive, this would consist of evaluating the specification (issued by the purchasing organisation), designing a suitable proposal, and working out a price. This is a "primitive" approach because...

- There is an old saying in industrial marketing; "if the first time you have heard about a tender is when you are invited to submit, then you have already lost it."

- While flippant, the previous point illustrates a basic requirement for being successful in competitive tendering; it is important to develop a strong relationship with a prospective customer organisation well before they have started the formal part of their procurement process.

Non-Tender Purchasing

Not all industrial sales involve competitive tendering. Tender processes are time consuming and expensive, particularly when executed with the aim of ensuring probity. Government agencies are particularly likely to utilise elaborate competitive tendering processes due to the expectation that they should be seen at all times to be responsibly and accountably spending public monies. Private companies are able to avoid the complexity of a fully transparent tender process but are still able to run the procurement process with some rigour.

Developing a sales strategy/solution selling/technical selling

The "art" of technical selling (solution selling) follows a three stage process...

- Stage 1: Sell the appointment: Never sell over the telephone. The aim of the first contact with a prospective purchaser is to sell the appointment. The reason is simple; industrial sales are complex, any attempt to sell over the phone will trivialise your product or service and run the risk of not fully understanding the customer's need.
- Stage 2: Understand their needs: The best method of selling is to minimise the information about your goods or services until you have fully understood your customer's requirements.
- Stage 3: Develop and propose a solution. The solution is (of course) developed from your (or the firm that you represent's) product or service offerings.

The important point about solution selling is that it is essential not to sell the solution before you understand the customer's requirements; otherwise you are highly likely to unwittingly sell them on how ill-suited your solution is to meeting their requirements.

To illustrate: imagine a couple seeking the services of an architect start their first meeting with the inevitable "we want to build a house." If the architect leapt in at that point and proceeded to show them his favourite design influence "the Mediterranean look" only to discover that they hate "Mediterranean" and wanted something "a bit more Frank Lloyd Wright" he will have gone most of the way toward alienating the sale. You can see that if he had "kept his powder dry" for a bit longer and first discovered what they were looking for, he could have better understood which way to skew his pitch. He was equally capable of designing in a Frank Lloyd Wright style.

1.5 Modern and Traditional Marketing Concepts

Marketing is an ongoing process of planning and executing the marketing mix (Product, Price, Place, Promotion often referred to as

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the 4 Ps) for products, services or ideas to create exchange between individuals and organizations.

Marketing tends to be seen as a creative industry, which includes advertising, distribution and selling. It is also concerned with anticipating the customers' future needs and wants, which are often discovered through market research.

Essentially, marketing is the process of creating or directing an organization to be successful in selling a product or service that people not only desire, but are willing to buy.

Therefore good marketing must be able to create a "proposition" or set of benefits for the end customer that delivers value through products or services.

Its specialist areas include:

- advertising and branding
- communications
- database marketing
- Professional selling
- direct marketing
- event organization
- field marketing
- global marketing
- international marketing
- internet marketing
- industrial marketing
- market research
- neighborhood marketing
- public relations
- retailing
- search engine marketing
- marketing strategy
- marketing plan
- strategic management
- Experiential marketing
- Bluetooth marketing
- Social Influence Marketing

Overview

A market-focused, or customer-focused, organization first determines what its potential customers desire, and then builds the product or service. Marketing theory and practice is justified in the belief that customers use a product or service because they have a need, or because it provides a perceived benefit.

Two major factors of marketing are the recruitment of new customers (acquisition) and the retention and expansion of relationships

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with existing customers (base management). Once a marketer has converted the prospective buyer, base management marketing takes over. The process for base management shifts the marketer to building a relationship, nurturing the links, enhancing the benefits that sold the buyer in the first place, and improving the product/service continuously to protect the business from competitive encroachments.

For a marketing plan to be successful, the mix of the four "Ps" must reflect the wants and desires of the consumers or Shoppers in the target market. Trying to convince a market segment to buy something they don't want is extremely expensive and seldom successful. Marketers depend on insights from marketing research, both formal and informal, to determine what consumers want and what they are willing to pay for. Marketers hope that this process will give them a sustainable competitive advantage. Marketing management is the practical application of this process. The offer is also an important addition to the 4P's theory.

Within most organizations, the activities encompassed by the marketing function are led by a Vice President or Director of Marketing. A growing number of organizations, especially large US companies, have a Chief Marketing Officer position, reporting to the Chief Executive Officer.

The American Marketing Association (AMA) states, "Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."

Marketing methods are informed by many of the social sciences, particularly psychology, sociology, and economics. Anthropology is also a small, but growing influence. Market research underpins these activities. Through advertising, it is also related to many of the creative arts. Marketing is a wide and heavily interconnected subject with extensive publications. It is also an area of activity infamous for re-inventing itself and its vocabulary according to the times and the culture.

Conceptual Overview

"Marketing" is an instructive business domain that serves to inform and educate target markets about the value and competitive advantage of a company and its products. "Value" is worth derived by the customer from owning and using the product. "Competitive Advantage" is a depiction that the company or its products are each doing something better than their competition in a way that could benefit the customer.

Marketing is focused on the task of conveying pertinent company and product related information to specific customers, and there are a multitude of decisions (strategies) to be made within the marketing domain regarding what information to deliver, how much information

to deliver, to whom to deliver, how to deliver, to deliver, and where to deliver. Once the decisions are made, there are numerous ways (tactics) and processes that could be employed in support of the selected strategies.

As Marketing is often misinterpreted as just advertising or sales, Chris Newton, in What is marketing? (Marketing Help Online, 2008), defined marketing as every strategy and decision made in the following twelve areas:

- Identifying and quantifying the need in the marketplace
- Identifying and quantifying the target markets
- Identifying the optimum cost effective media – online and offline - to reach the target markets
- Reviewing the priorities of the product offering in your overall product mix 'matrix'
- Identifying and developing the most effective distribution channels, be they wholesaler networks, partnering alliances, franchising, or any number of conduits to the market.
- Testing different ways of packaging the concepts or products to find their most 'easy-to-sell' form
- Testing to find the optimum pricing strategies
- Developing effective promotional strategies and effective advertising and supporting collateral, offers, and launch strategies
- Developing and documenting the sales process
- Finding the optimum execution of the sales process – through testing of selling scripts, people selection, supporting collateral, skills and attitudinal training, tracking, measuring and refining
- Ensuring that sales projections reflect realistic production capacities
- Developing nurture programs to optimise the lifetime value of the customer

The goal of marketing is to build and maintain a preference for a company and its products within the target markets. The goal of any business is to build mutually profitable and sustainable relationships with its customers. While all business domains are responsible for accomplishing this goal, the marketing domain bears a significant share of the responsibility. Within the larger scope of its definition, marketing is performed through the actions of three coordinated disciplines named: "Product Marketing", "Corporate Marketing", and "Marketing Communications".

Two Levels of Marketing

Strategic marketing: attempts to determine how an organization competes against its competitors in a market place. In particular, it aims at generating a competitive advantage relative to its competitors.Operational marketing: executes marketing functions to

attract and keep customers and to maximize the value derived for them, as well as to satisfy the customer with prompt services and meeting the customer expectations. Operational Marketing includes the determination of the porter's five forces.

Four Ps

In the early 1960s, Professor Neil Borden at Harvard Business School identified a number of company performance actions that can influence the consumer decision to purchase goods or services. Borden suggested that all those actions of the company represented a "Marketing Mix". Professor E. Jerome McCarthy, also at the Harvard Business School in the early 1960s, suggested that the Marketing Mix contained 4 elements: product, price, place and promotion.

In popular usage, "marketing" is the promotion of products, especially advertising and branding. However, in professional usage the term has a wider meaning which recognizes that marketing is customer-centered. Products are often developed to meet the desires of groups of customers or even, in some cases, for specific customers. E. Jerome McCarthy divided marketing into four general sets of activities. His typology has become so universally recognized that his four activity sets, the Four Ps, have passed into the language.

The four Ps are:

- **Product:** The product aspects of marketing deal with the specifications of the actual goods or services, and how it relates to the end-user's needs and wants. The scope of a product generally includes supporting elements such as warranties, guarantees, and support.
- **Pricing:** This refers to the process of setting a price for a product, including discounts. The price need not be monetary - it can simply be what is exchanged for the product or services, e.g. time, energy, psychology or attention.
- **Promotion:** This includes advertising, sales promotion, publicity, and personal selling, branding and refers to the various methods of promoting the product, brand, or company.
- **Placement (or distribution):** refers to how the product gets to the customer; for example, point of sale placement or retailing. This fourth P has also sometimes been called Place, referring to the channel by which a product or services is sold (e.g. online vs. retail), which geographic region or industry, to which segment (young adults, families, business people), etc. also referring to how the environment in which the product is sold in, can affect sales.

These four elements are often referred to as the marketing mix, which a marketer can use to craft a marketing plan. The four Ps model is most useful when marketing low value consumer products. Industrial products, services, high value consumer products require adjustments

to this model. Services marketing must account for the unique nature of services. Industrial or B2B marketing must account for the long term contractual agreements that are typical in supply chain transactions. Relationship marketing attempts to do this by looking at marketing from a long term relationship perspective rather than individual transactions.

As a counter to this, Morgan, in Riding the Waves of Change (Jossey-Bass, 1988), suggests that one of the greatest limitations of the 4 Ps approach "is that it unconsciously emphasizes the inside–out view (looking from the company outwards), whereas the essence of marketing should be the outside–in approach". Nevertheless, the 4 Ps offer a memorable and workable guide to the major categories of marketing activity, as well as a framework within which these can be used.

Seven Ps

As well as the standard four P's (Product, Pricing, Promotion and Place), services marketing calls upon an extra three, totaling seven and known together as the extended marketing mix. These are:

- **People:** Any person coming into contact with customers can have an impact on overall satisfaction. Whether as part of a supporting service to a product or involved in a total service, people are particularly important because, in the customer's eyes, they are generally inseparable from the total service. As a result of this, they must be appropriately trained, well motivated and the right type of person. Fellow customers are also sometimes referred to under 'people', as they too can affect the customer's service experience, (e.g., at a sporting event).
- **Process:** This is the process(es) involved in providing a service and the behaviour of people, which can be crucial to customer satisfaction.
- **Physical evidence:** Unlike a product, a service cannot be experienced before it is delivered, which makes it intangible. This, therefore, means that potential customers could perceive greater risk when deciding whether to use a service. To reduce the feeling of risk, thus improving the chance for success, it is often vital to offer potential customers the chance to see what a service would be like. This is done by providing physical evidence, such as case studies, testimonials or demonstrations.

Four New Ps

- **Personalization:** It is here referred customization of products and services through the use of the Internet. Early examples include Dell on-line and Amazon.com, but this concept is further extended with emerging social media and advanced algorithms. Emerging technologies will continue to push this idea forward.
- **Participation:** This is to allow the customer to participate in what the brand should stand for; what should be the product

directions and even which ads to run. This concept is laying the foundation for disruptive change through democratization of information.

- **Peer-to-Peer:** This refers to customer networks and communities where advocacy happens. The historical problem with marketing is that it is "interruptive" in nature, trying to impose a brand on the customer. This is most apparent in TV advertising. These "passive customer bases" will ultimately be replaced by the "active customer communities". Brand engagement happens within those conversations. P2P is now being referred as Social Computing and is likely to be the most disruptive force in the future of marketing.
- **Predictive modeling:** This refers to algorithms that are being successfully applied in marketing problems (both a regression as well as a classification problem).

1.6 Marketing Mix

The marketing mix is generally accepted as the use and specification of the four Ps describing the strategic position of a product in the marketplace. One version of the origins of the marketing mix starts in 1948 when James Culliton said that a marketing decision should be a result of something similar to a recipe. This version continued in 1953 when Neil Borden, in his American Marketing Association presidential address, took the recipe idea one step further and coined the term 'Marketing-Mix'. A prominent marketer, E. Jerome McCarthy, proposed a 4 P classification in 1960, which would see wide popularity. The four Ps concept is explained in most marketing textbooks and classes.

Definition

Although some marketers have added other Ps, such as personnel and packaging, the fundamentals of marketing typically identifies the four Ps of the marketing mix as referring to:

- **Product** - An object or a service that is mass produced or manufactured on a large scale with a specific volume of units. A typical example of a mass produced service is the hotel industry. A less obvious but ubiquitous mass produced service is a computer operating system. Typical examples of a mass produced objects are the motor car and the disposable razor.
- **Pricing** – The price is the amount a customer pays for the product. It is determined by a number of factors including market share, competition, material costs, product identity and the customer's perceived value of the product. The business may increase or decrease the price of product if other stores have the same product.
- **Place** – Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It

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can include any physical store as well as virtual stores on the Internet.

- **Promotion** – Promotion represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements - advertising, public relations, word of mouth and point of sale. A certain amount of crossover occurs when promotion uses the four principle elements together, which is common in film promotion. Advertising covers any communication that is paid for, from television and cinema commercials, radio and Internet adverts through print media and billboards. One of the most notable means of promotion today is the Promotional Product, as in useful items distributed to targeted audiences with no obligation attached. This category has grown each year for the past decade while most other forms have suffered. It is the only form of advertising that targets all five senses and has the recipient thanking the giver. Public relations are 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.

Broadly defined, optimizing the marketing mix is the primary responsibility of marketing. By offering the product with the right combination of the four Ps marketers can improve their results and marketing effectiveness. Making small changes in the marketing mix is typically considered to be a tactical change. Making large changes in any of the four Ps can be considered strategic. For example, a large change in the price, say from $19.00 to $39.00 would be considered a strategic change in the position of the product. However a change of $131 to $130.99 would be considered a tactical change, potentially related to a promotional offer.

Criticisms

Peter Doyle claims that the marketing mix approach leads to unprofitable decisions because it is not grounded in financial objectives such as increasing shareholder value. According to Doyle it has never been clear what criteria to use in determining an optimum marketing mix. Objectives such as providing solutions for customers at low cost have not generated adequate profit margins. Doyle claims that developing marketing based objectives while ignoring profitability has resulted in the dot-com crash and the Japanese economic collapse. He also claims that pursuing a ROI approach while ignoring marketing objectives is just as problematic. He argues that a net present value approach maximizing shareholder value provides a "rational framework" for managing the marketing mix.

Some people claim the four Ps are too strongly oriented towards consumer markets and do not offer an appropriate model for industrial

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product marketing. Others claim it has too strong of a product market perspective and is not appropriate for the marketing of services. An expanded system based on Seven Ps stresses the importance of Place, Product, Price, Promotion, People, Process, and Physical evidence.

1.7 Marketing Environment

The market environment is a marketing term and refers to all of the forces outside of marketing that affect marketing management's ability to build and maintain successful relationships with target customers. The market environment consists of both the macroenvironment and the microenvironment.

The micro-environment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and public.

The company aspect of microenvironment refers to the internal environment of the company. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments has an impact on marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budgets.

The suppliers of a company are also an important aspect of the microenvironment because even the slightest delay in receiving supplies can result in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship.

Marketing intermediaries refers to resellers, physical distribution firms, marketing services agencies, and financial intermediaries. These are the people that help the company promote, sell, and distribute its products to final buyers. Resellers are those that hold and sell the company's product. They match the distribution to the customers and include places such as Wal-Mart, Target, and Best Buy. Physical distribution firms are places such as warehouses that store and transport the company's product from its origin to its destination. Marketing services agencies are companies that offer services such as conducting marketing research, advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and insurance companies.

Summary

1. Marketing is a broad topic that covers a range of aspects, including advertising, public relations, sales, and promotions.

2. The American Marketing Association defines marketing as "the performance of business activities that direct the flow of goods and services from producer to consumer or user."

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3. Business Marketing is the practice of organizations, including commercial businesses, governments and institutions, facilitating the sale of their products or services to other companies or organizations.

4. Marketing is an ongoing process of planning and executing the marketing mix (Product, Price, Place, Promotion often referred to as the 4 Ps) for products, services or ideas to create exchange between individuals and organizations.

5. The marketing mix is generally accepted as the use and specification of the four Ps describing the strategic position of a product in the marketplace.

Review Questions

1. Give a genuine definition of marketing?

2. What is the actual nature of marketing?

3. What are the macro-economic scope of marketing?

4. Write a short comparison between business marketing and consumer marketing?

5. What is 4 Ps concept of marketing?

6. What do you understand by 7 Ps concept of marketing?

7. What is marketing mix? Give a berief description.

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Unit— 2

Consumer Behaviour and Market Segmentation

STRUCTURE

2.1 Objective

It is advisable to understand the scope and nature of consumer behaviour to explore a healthy portion of the market for the product. The behaviour of consumer is the prime factor to determine the extent of market captured by the product. The principal objective of the unit is to make students perfect to understand various aspects of consumer behaviour as well as few other issues pertaining to the reaction of market towards industrial policy.

2.2 Introduction

Consumer behaviour as well as market segmentation are the main subject matter of this particular unit since these two factors are the prominent determinants of the market. The study of nature of consumer behaviour is essential from the product marketing point of view since it demonstrates the reaction of consumer towards the industrial policy changes. The scope of consumer behaviour shows the way consumer psychology influences the marketing of the product. Here in this unit, various aspects of market segmentation as well as its significance have been given extensive coverage.

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2.3 Nature, Scope and Significance of Consumer Behaviour

Consumer behaviour is the study of how people buy, what they buy, when they buy and why they buy. It blends elements from psychology, sociology, sociopsychology, anthropology and economics. It attempts to understand the buyer decision processes, buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as demographics, psychographics, and behavioural 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.

Belch and Belch define consumer behavior as 'the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires'. Basic model of consumer decision making also referred to as EKB model.

Stage	Brief Description
Problem recognition	The consumer perceives a need and becomes motivated to solve a problem.
Motivation Information search	The consumer searches for information required to make a purchase decision Perception
Information evaluation products	The consumer compares various brands and Attitude formation
Decision purchase	The consumer decides which brand to integrate
Post-purchase evaluation decision	The consumer evaluates their purchase Learning

Problem Recognition

Problem recognition is that result when there is a difference between one's desired state and one's actual state. Consumers are motivated to address this discrepancy and therefore they commence the buying process.

Sources of problem recognition include:

- An item is out of stock
- Dissatisfaction with a current product or service
- Consumer needs and wants
- Related products/purchases
- Marketer-induced
- New products

The relevant internal psychological process that is associated with problem recognition is motivation. A motive is a factor that compels action. Belch and Belch (2007) provide an explanation of motivation based on Maslow's hierarchy of needs and Freud's psychoanalytic theory.

Information Search

Once the consumer has recognised a problem, they search for information on products and services that can solve that problem. Belch and Belch (2007) explain that consumers undertake both an internal (memory) and an external search.

Sources of information include:

- Personal sources
- Commercial sources
- Public sources
- Personal experience

The relevant internal psychological process that is associated with information search is perception. Perception is defined as 'the process by which an individual receives, selects, organises, and interprets information to create a meaningful picture of the world'.

The selective perception process Stage Description Selective exposure consumers select which promotional messages they will expose themselves to. Selective attention consumers select which promotional messages they will pay attention to Selective comprehension consumer interpret messages in line with their beliefs, attitudes, motives and experiences Selective retention consumers remember messages that are more meaningful or important to them.

You should consider the implications of this process on the development of an effective promotional strategy. First, which sources of information are more effective for the brand and second, what type of message and media strategy will increase the likelihood that consumers are exposed to our message, that they will pay attention to the message, that they will understand the message, and remember our message.

Information Evaluation

At this time the consumer compares the brands and products that are in their evoked set. How can the marketing organization increase the likelihood that their brand is part of the consumer's evoked (consideration) set? Consumers evaluate alternatives in terms of the functional and psychological benefits that they offer. The marketing organization needs to understand what benefits consumers are seeking and therefore which attributes are most important in terms of making a decision.

The relevant internal psychological process that is associated with the alternative evaluation stage is attitude formation. Belch and Belch (2007, p.117) note that attitudes are learned predispositions' towards

an object. Attitudes comprise both cognitive and affective elements - that is both what you think and how you feel about something. The multi-attribute attitude model explains how consumers evaluate alternatives on a range of attributes. Belch and Belch (2007) identify a number of strategies that can be used to influence the process (attitude change strategies). Finally, there are a range of ways that consumers apply criteria to make decisions. Belch and Belch (2007) explain how information is integrated and how decision rules are made including the use of heuristics. The marketing organisation should know how consumers evaluate alternatives on salient or important attributes and make their buying.

Purchase Decision

Once the alternatives have been evaluated, the consumer is ready to make a purchase decision. Sometimes purchase intention does not result in an actual purchase. The marketing organization must facilitate the consumer to act on their purchase intention. The provision of credit or payment terms may encourage purchase, or a sales promotion such as the opportunity to receive a premium or enter a competition may provide an incentive to buy now. The relevant internal psychological process that is associated with purchase decision is integration.

Post Purchase Evaluation

The EKB model was further developed by Rice (1993) which suggested their should be a feedback loop, Foxall (2005) further suggests the importance of the post purchase evaluation and that the post purchase evaluation is key due to its influences on future purchase patterns.

2.4 Market Segmentation

A market segment is a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs. A true market segment meets all of the following criteria: —It is distinct from other segments (heterogeneity across segments), It is homogeneous within the segment (exhibits common attributes); It responds similarly to a market stimulus, and it can be reached by a market intervention.

Market segmentation is the process of classifying a market into distinct subsets (segments) that behave in similar ways or have similar needs. The segmentation process in itself consists of segment identification, segment characterization, segment evaluation and target segment selection. If each segment is fairly homogeneous in its needs and attitudes, it is likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprising a given product or service, sold at a given price, and distributed and promoted in a certain way.

Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private sector. Generally

segmentation is conducted using demographic, geographic, attitudinal or behavioural data. Small segments are often termed niche markets or specialty markets. However, all segments fall into either consumer or industrial markets. Although industrial market segmentation is quite different from consumer market segmentation, both have similar objectives.

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

Improved segmentation can lead to significantly improved marketing effectiveness. Distinct segments can have different industry structures and thus have higher or lower attractiveness (Porter). With the right segmentation, the right lists can be purchased, advertising results can be improved and customer satisfaction can be increased.

Successful Segmentation

Successful segmentation requires the following:

- homogeneity within the segment
- heterogeneity between segments
- segments are measurable and identifiable
- segments are stable over time
- segments are accessible and actionable
- target segment is large enough to be profitable

2.5 Variables Used for Segmentation

- Geographic variables
  - — region of the world or country, East, West, South, North, Central, coastal, hilly, etc.
  - — country size/country size : Metropolitan Cities, small cities, towns.
  - — Density of Area Urban, Semi-urban, Rural.
  - — climate Hot, Cold, Humid, Rainy.
- Demographic variables
  - — age
  - — gender Male and Female
  - — family size
  - — family life cycle
  - — education Primary, High School, Secondary, College, Universities.
  - — income
  - — occupation
  - — socioeconomic status

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- — religion
- — nationality/race (ethnic marketing)
- — language

- Psychographic variables
  - — personality
  - — life style
  - — value
  - — attitude
- Behavioural variables
  - — benefit sought
  - — product usage rate
  - — brand loyalty
  - — product end use
  - — readiness-to-buy stage
  - — decision making unit
  - — profitability
  - — income status

2.6 Bases for Market Segmentation

When numerous variables are combined to give an in-depth understanding of a segment, this is referred to as depth segmentation. When enough information is combined to create a clear picture of a typical member of a segment, this is referred to as a buyer profile. When the profile is limited to demographic variables it is called a demographic profile (typically shortened to "a demographic"). A statistical technique commonly used in determining a profile is cluster analysis. Other techniques used to identify segments are algorithms such as CHAID and regresion-based CHAID and discriminant analysis. Alternatively, segments can be modelled directly from consumer preferences via discrete choice methodologies such as choice-based conjoint and maximum difference scaling.

Segmentation basically involves dividing consumers into groups such that members of a group (1) are as similar as possible to members of that same group but (2) differ as much as possible from members of other segments. This enables us then to "treat" each segment differently—e.g., by:

- Providing different products (e.g., some consumers like cola taste, while others prefer lime)
- Offering different prices (some consumers will take the cheapest product available, while others will pay for desired features)
- Distributing the products where they are likely to be bought by the targeted segment.

In order for a segment structure to be useful:

- Each segment must have an identity—i.e., it must contain members that can be described in some way (e.g., price sensitive) that behave differently from another segment.

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- Each segment must engage in systematic behaviours (e.g., a price sensitive segment should consistently prefer the low price item rather than randomly switching between high and low priced brands).
- Each segment must offer marketing mix efficiency potential—i.e., it must be profitable to serve. For example, a large segment may be profitable even though the competition it attracts tends to keep prices down. A smaller segment may be profitable if, for example, it is price insensitive or can be targeted efficiently (e.g., if its members consistently subscribe to one magazine where all the company's advertising can be put). Some segments are not cost effective. For example, a small group of consumers would love to have a no-sports news channel (similar to CNN), but we are just too small a group to be profitable from.

There are three "levels" of segmentation. Levels here refer to the tradeoff between the difficulty of implementing a segmentation scheme and the benefits that result.

The first level of segmentation involves personal characteristics—e.g., demographics. This is a fairly easy method of segmentation to employ because (1) we have a good idea of who is in each segment and (2) we can easily target these segments. For example, if we want to reach males ages fifteen through thirty-five, we can find out which TV shows they watch from firms such as Nielsen (similar services exist for newspapers and magazines). The trouble with this method of segmentation, however, is that there is often not a good correlation between personal characteristics of consumers and what they want to buy. Perhaps males may want more flavor, and be willing to settle for more calories, in a soft drink than women do, but there is a great deal of variation within group. Interestingly, it has been found that people who live in the same area, as operationalized by their zip-codes, tend to share a many consumption relevant characteristics. Firms such as Claritas will sell profiles of zip-code based communities that can be used in aiming messages at particularly receptive residents. For example, the U.S. Army aggressively targets communities dubbed "Guns and Pickups."

Psychographics includes a bit more information about the consumer than his or her mere descriptive characteristics. For example, two men could both be plumbers, aged 45, married with two children, and have annual incomes of $45,000: However, one could be couch potato who comes home and eats fast food while watching television. The other could be a health enthusiast who spends his time exercising. Several firms have tried to come up with psychographic profiles of consumers.

Since most of these programs are proprietary, there is not a lot of published research on their usefulness. However, some firms are paying a great deal of money for these firms' consulting. For example, Merrill Lynch used VALS to change its advertising strategy. The firm had seen a disappointing response to its advertising campaign featuring a herd

bulls used to symbolize the bull market. A lot of consumers responded, but not the wealthier ones the firm had hoped for. By making a very simple change—substituting a lone bull for the herd—based on advice from SRI, the wealthier group, which wanted to "stand apart" from the crowd, was attracted.

The second level is benefit desired—that is, segmenting on what someone wants rather than who he or she is. Implementing segmentation on benefit desired is more difficult since we have to research for each product category. The benefit, however, is that we can now make product that matches more closely a particular segment's specific desires, and we can promote, price, and distribute it according to the desires of the segment. This method, then, lends itself extremely well to strong product positioning—we make a product that offers specific benefits, and we aggressively promote this fact to interested consumers.

A drawback, however, is some efficiency is lost in marketing communication. While we can look up which television programs males ages twenty to thirty watch, we do not have this information for the segment of consumers that prefers scented over unscented handsoap.

The third level is segmentation based on behavior. Behavior here refers to a person's response (or lack of response) to a given treatment. For example, some consumers will switch from their preferred brand to another one that happens to be on sale (the "switchers,") while others will stay with the preferred brand (the "loyals"). The trick, then, is to get as many switchers as possible to switch to your brand (which will take some incentive, such as a cents off coupon) while not giving this incentive to the brand loyals (who would have bought your brand even without the discount). In practice, segmenting on behaviour can be very difficult. For example, supermarkets spend a great deal of money to establish the "clubs" that give price sensitive customers who are willing to go through with the required paperwork discounts not available to the "lazier" ones that end up paying full price. Despite this difficulty, the rewards are often great, because we can tailor the kind of deal we give a consumer to the minimum concession needed to get that consumer to buy our (as opposed to a competing) product.

Direct marketing offers exceptional opportunities for segmentation because marketers can buy lists of consumer names, addresses, and phone-numbers that indicate their specific interests. For example, if we want to target auto enthusiasts, we can buy lists of subscribers to auto magazines and people who have bought auto supplies through the mail. We can also buy lists of people who have particular auto makes registered.

No one list will contain all the consumers we want, and in recent years technology has made it possible, through the "merge-purge" process, to combine lists. For example, to reach the above-mentioned auto-enthusiasts, we buy lists of subscribers to several different car magazines, lists of buyers from the Hot Wheels and Wiring catalog, and registrations of Porsche automobiles in several states. We then combine

these lists (the merge part). However, there will obviously be some overlap between the different lists—some people subscribe to more than one magazine, for example: The purge process, in turn, identifies and takes out as many duplicates as possible. This is not as simple a task as it may sound up front.

Perspectives on Consumer Behaviour and Motivation

We considered several perspectives on behaviour as a way to understand what motivates the consumer. Each of these perspectives suggests different things as to what the marketer should do and what can (and cannot) be controlled. Note that each perspective tends to contain a "grain" of truth and that one should not be too dogmatic in emphasizing one over the others.

- The Hard Core Behavioural perspective is based on learning theories such as operant and classical conditioning. These theories suggest that consumers must learn from their own experiences—i.e., in order to avoid getting sick from overeating, a consumer must experience the stomach and other ailments resulting from gluttony rather than merely observing other people who overeat and get sick. This suggests, then, that it is important to reward good behavior (e.g., buying our brand) to the extent possible. Money spent on advertising is seen as less useful. Hard core behaviourists tend to look at observable behaviour (e.g., buying our brand or buying another) rather than trying to find out what is going on inside the heads of consumers—i.e., hard core behaviorists do not like to mess with "mushy" things like attitudes.
- The Social Learning Perspective, in contrast, allows for vicarious learning—i.e., learning obtained by watching others getting good or bad consequences for behaviour. The models that may be observed and imitated include peers and family members as well as relevant others that may be observed in advertising. From our study of social influences, we know that certain people are more likely to be imitated than others—e.g., those that are more similar to ourselves based on relevant factors such as age, social status, or ethnic group. Consider, for example, the poor man who is rejected by women because of his dandruff until he gets "with it" and uses Head 'n' Shoulders shampoo. Other dandruff sufferers are likely to learn from the model's experience. Generally, observations are made of overt behavior, but some room is made for individual reasoning in learning from others. This perspective is clearly more realistic than that of the "Hard Core" view, but it should be noted that the strength of learning tends to be greater for that gained from own experience.
- The Cognitive approach emphasizes consumer thinking rather than mere behaviour—we will encounter this to a great extent when we study decision making and attitudes. Here, the emphasis is on how people reason themselves to the consequences of their

behaviour. Note that it is often somewhat more difficult to attempt to "get into" a consumer's head than it is to merely observe his or her behaviour, and what we "observe" is somewhat more subjective. Note also that a wealth of different factors influence people's thinking, and some expectations and assumptions that we hold tend to be culturally influenced (e.g., an American assumes that hard work will tend to lead to a promotion, while members of certain other cultures believe that personal relationships, and perhaps even luck, tend to be more important).

- The Biological approach suggests that most behaviour is determined by genetics or other biological bases. By this perspective, it is suggested that consumers eat the foods they eat in large part because the body craves these foods. Note that although craving for fatty foods seems quite maladaptive in today's society, it could have been very adaptive earlier in human history where food was scarce and obtaining as many calories as possible helped ensure survival. Clearly, this perspective is very misleading when one takes it as the only explanation of behaviour—for example, people in different cultures learn to enjoy various kinds of foods. The main implication of biological determinism is that the marketer must adapt—for example, food advertisements are more likely to be effective when people are hungry, and thus they might better be run in the late afternoon rather than in the late morning.
- The Rational Expectations perspective is based on an economic way of looking at the World. Economists assume that people think rationally and have perfect information, even though they know very well that these assumptions are often unrealistic. However, despite the unrealistic assumptions made, economists often make relatively accurate predictions of human behaviour. (The Cognitive perspective, however, is able to identify certain significant exceptions to rational behaviour, however).
- The Psychoanalytic perspective is based on the work of historical psychologists such as Sigmund Freud who suggest that (1) much behaviour has a biological basis which is (2) often sexual in nature, and (3) that early experiences in childhood will have a profound, but unconscious effect on later life—e.g., people who are rejected in an early, "oral" phase of development may become "oral retentive" and end up as wine connoisseurs later in life. Because of societal injunctions against explicit discussion of sexuality in Western society at Freud's time [late 1800s to mid 1900s], many objects were thought to take on seemingly unrelated symbolic meanings—e.g., a tie might become a symbol of a male reproductive organ. Although modern psychologists certainly recognize that early experiences may influence later psychological well being, the psychoanalytic view has largely been discredited today as being much too centered on the issue of sex. However,

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this perspective enjoys a great deal of popularity among many advertising executives. It should be noted that Freudian psychology tends to violate the cherished scientific ideal of parsimony, where a scientist is expected to propose the simplest theory that will account for observed phenomena.

Properties of Motivation

Motivation is described through several properties:

- Motivation is composed of energy and direction. A person may or may not have enough motivation to engage in a given activity. For example, a person may be motivated enough to go and shop for food, but not enough to engage in a comprehensive exercise program.
- Motives may be overt, hidden, and multiple. Some motivations are publicly expressed (e.g., the desire to buy an energy efficient house), while others (e.g., the desire to look wealthy by buying a fancy car) are not. Individuals may also hold multiple motivations (e.g., buy a car and save money for retirement) which may conflict.
- Many motivations are driven by the desire for tension reduction (e.g., eliminate thirst or hunger).
- Motivations can be driven by both internal and external factors. That is, a person may want a painting either because he or she likes it (internal motivation) or because this will give her status among the artistic elite (external).
- Motivations may have either a positive or negative valence—people may either be motivated to achieve something (e.g., get a promotion at work) or avoid something (e.g., being hospitalized without having adequate insurance).
- Consumers are motivated to achieve goals. Achieving these goals may require sustained activity over time (e.g., exercising every day for months or years) as opposed to just taking some action once.
- Consumers maintain a balance between the desires for stability and variety. Most consumers want some variety (e.g., they do not want to eat the same meal every day), but also want a certain stability (they do not want to try an entirely new food every day).
- Motivation reflects individual differences. Different consumers are motivated to achieve different things, and it may be difficult to infer motivations from looking at actual behaviour without understanding these differences in desired outcomes.

The reality that consumers are frequently motivated by multiple motives suggests a possibility that motives may conflict. Three main types of conflict exists:

- **Approach-avoidance:** One alternative has both positive consequences (that one wishes to seek out) and negative consequences (that one wants to avoid). For example, eating a

large banana split is an enjoyable experience ("approach"), but it contains a lot of calories ("avoidance") and may make one feel ill later (another avoidance).

- **Approach-approach:** A consumer wants to do two incompatible things at the same time. A classic example is "Rainman's" desire both to stay with his brother and stay at the institution. Another example is a consumer who only has one week's vacation but wants equally to go to Hawaii and Greenland, but has time and money only for one of the two.
- **Avoidance-avoidance:** A consumer does not want to go for either of two alternatives, but must choose the lesser of two evils. For example, the consumer does not want to pay for car insurance, but does not want to get into an accident or get caught by the police without it. A "work ethic disadvantaged" student does not want to study, but does not want to fail his or her courses, either.

Personality and Consumer Behaviour

Traditional research in marketing has not been particularly successful in finding a link between personality and consumer behaviour. Part of the problem here is that much of the theory has been developed by clinical psychologists who have tended to work with maladjusted people. Not surprisingly, research that sought to predict, based on standard personality inventories, which kinds of consumers would buy Chevrolets as opposed to Fords was not successful.

Emotion

Emotion impacts marketing efforts in several ways. One purpose is to get attention to a stimulus (since emotionally charged individuals tend to be less predictable than calmer ones, there has been an evolutionary advantage in paying attention to emotion). Secondly, emotion influences information processing. In general, happy people tend to scrutinize arguments given (e.g., purported benefits of using a product) somewhat less, since they do not want to lose their happy moods by doing too much thinking. In general, happy ads are somewhat better liked, and may be better remembered. Empathy may also increase liking for the ad and the sponsoring product.

Attitudes

Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioural intentions toward some object—within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

Beliefs

The first component is beliefs. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative

beliefs (e.g., coffee is easily spilled and stains papers). In addition, some beliefs may be neutral (coffee is black), and some may differ in valance depending on the person or the situation (e.g., coffee is hot and stimulates—good on a cold morning, but not good on a hot summer evening when one wants to sleep). Note also that the beliefs that consumers hold need not be accurate (e.g., that pork contains little fat), and some beliefs may, upon closer examination, be contradictory (e.g., that a historical figure was a good person but also owned slaves).

Affect

Consumers also hold certain feelings toward brands or other objects. Sometimes these feelings are based on the beliefs (e.g., a person feels nauseated when thinking about a hamburger because of the tremendous amount of fat it contains), but there may also be feelings which are relatively independent of beliefs. For example, an extreme environmentalist may believe that cutting down trees is morally wrong, but may have positive affect toward Christmas trees because he or she unconsciously associates these trees with the experience that he or she had at Christmas as a child.

Behavioural Intention

The behavioural intention is what the consumer plans to do with respect to the object (e.g., buy or not buy the brand). As with affect, this is sometimes a logical consequence of beliefs (or affect), but may sometimes reflect other circumstances—e.g., although a consumer does not really like a restaurant, he or she will go there because it is a hangout for his or her friends.

Attitude-Behavior Consistency

Consumers often do not behave consistently with their attitudes for several reasons:

- **Ability:** He or she may be unable to do so. Although junior high school student likes pick-up trucks and would like to buy one, she may lack a driver's license.
- **Competing demands for resources:** Although the above student would like to buy a pickup truck on her sixteenth birthday, she would rather have a computer, and has money for only one of the two.
- **Social influence:** A student thinks that smoking is really cool, but since his friends think it's disgusting, he does not smoke.
- **Measurement problems:** Measuring attitudes is difficult. In many situations, consumers do not consciously set out to enumerate how positively or negatively they feel about mopeds, and when a market researcher asks them about their beliefs about mopeds, how important these beliefs are, and their evaluation of the performance of mopeds with respect to these beliefs, consumers often do not give very reliable answers. Thus, the consumers may act consistently with their true attitudes, which were never uncovered because an erroneous measurement was made.

Attitude Change Strategies

Changing attitudes is generally very difficult, particularly when consumers suspect that the marketer has a self-serving agenda in bringing about this change (e.g., to get the consumer to buy more or to switch brands).

Changing Affect

One approach is to try to change affect, which may or may not involve getting consumers to change their beliefs. One strategy uses the approach of classical conditioning try to "pair" the product with a liked stimulus. For example, we "pair" a car with a beautiful woman. Alternatively, we can try to get people to like the advertisement and hope that this liking will "spill over" into the purchase of a product. For example, the Pillsbury Doughboy does not really emphasize the conveyance of much information to the consumer; instead, it attempts to create a warm, fuzzy image. Although Energizer Bunny ads try to get people to believe that their batteries last longer, the main emphasis is on the likeable bunny. Finally, products which are better known, through the mere exposure effect, tend to be better liked—that is, the more a product is advertised and seen in stores, the more it will generally be liked, even if consumers do not develop any specific beliefs about the product.

Changing Behaviour

People like to believe that their behaviour is rational; thus, once they use our products, chances are that they will continue unless someone is able to get them to switch. One way to get people to switch to our brand is to use temporary price discounts and coupons; however, when consumers buy a product on deal, they may justify the purchase based on that deal (i.e., the low price) and may then switch to other brands on deal later. A better way to get people to switch to our brand is to at least temporarily obtain better shelf space so that the product is more convenient. Consumers are less likely to use this availability as a rationale for their purchase and may continue to buy the product even when the product is less conveniently located. (Notice, by the way, that this represents a case of shaping).

Changing Beliefs

Although attempting to change beliefs is the obvious way to attempt attitude change, particularly when consumers hold unfavorable or inaccurate ones, this is often difficult to achieve because consumers tend to resist. Several approaches to belief change exist:

- **Change currently held beliefs:** It is generally very difficult to attempt to change beliefs that people hold, particularly those that are strongly held, even if they are inaccurate. For example, the petroleum industry advertised for a long time that its profits were lower than were commonly believed, and provided extensive

factual evidence in its advertising to support this reality. Consumers were suspicious and rejected this information, however.

- **Change the importance of beliefs:** Although the sugar manufacturers would undoubtedly like to decrease the importance of healthy teeth, it is usually not feasible to make beliefs less important—consumers are likely to reason, why, then, would you bother bringing them up in the first place? However, it may be possible to strengthen beliefs that favor us—e.g., a vitamin supplement manufacturer may advertise that it is extremely important for women to replace iron lost through menstruation. Most consumers already agree with this, but the belief can be made stronger.
- **Add beliefs:** Consumers are less likely to resist the addition of beliefs so long as they do not conflict with existing beliefs. Thus, the beef industry has added beliefs that beef (1) is convenient and (2) can be used to make a number of creative dishes. Vitamin manufacturers attempt to add the belief that stress causes vitamin depletion, which sounds quite plausible to most people.
- **Change ideal:** It is usually difficult, and very risky, to attempt to change ideals, and only few firms succeed. For example, Hard Candy may have attempted to change the ideal away from traditional beauty toward more unique self expression.

Summary

1. Consumer behaviour is the study of how people buy, what they buy, when they buy and why they buy.

2. Consumer behaviour studies characteristics of individual consumers such as demographics, psychographics, and behavioural variables in an attempt to understand people's wants.

3. A market segment is a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs.

4. Successful segmentation requires the following:

- homogeneity within the segment
- heterogeneity between segments
- segments are measurable and identifiable

5. There are three "levels" of segmentation.

(i) Based on personal characteristics
(ii) Based on desired benefit
(iii) Based on Behaviour

Review Questions

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1. How do you define consumer behaviour?
2. What are the various stages of consumer behaviour? Give a berief description.
3. What is market segmentation?
4. Write a short note on the three significant levels of market segmentation?
5. What are the characteristics of successful segmentation?
6. What are the principal variables used for segmentation determination?

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Unit— 3

Product

STRUCTURE

3.1 Objective

The main objective of the unit is to make readers understand the conceptual basis of the product as well as the planning and developments of the product. The unit gives a proper glimps of the scope of brand naming in the marketing of the product. Classification of the product based on their uses and nature has been done nicely. Various other issues pertaining to the product such as packaging, Trading etc have been given extensive touch. The product life cycle has been discussed elaborately.

3.2 Introduction

The conceptual introduction of the product comprises scope, nature and development of product. In the following paras, we are going to discuss various issues pertaining to the development and planning of the product. The development of the product itself is the science of the market which has to be dealt properly to avoid constraints in the way of product marketing.

Scope

- **Breadth** — number of product lines in a range.
- **Depth** — number of product items in a product line.

Steps in product design:—

- Design and development of product ideas.

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- Selection of and sifting through product ideas.
- Design and testing of product concept.
- Analysis of instead of product concept.
- Design and testing of emotional product.

Packaging

Requirements of good packaging:—

- Functional - effectively contain and protect the contents
- Provide convenience during distribution, sale, opening, use, reuse, etc.
- Be environmentally responsible
- Be cost effective
- Appropriately designed for target market
- Eye-catching (particularly for retail/consumer sales)
- Communicate attributes and recommended use of the product and package
- Compliant with retailers' requirements
- Promotes image of enterprise
- Distinguishable from competitors' products
- Meet legal requirements for product and packaging
- Point of difference in service and supply of product.
- For a perfect product, perfect colour.

Forms of Packaging

- Specialty packaging — emphasizes the elegant character of the product
- Packaging for double-use
- Combination packaging two or more products packaged in the same container
- Kaleidoscopic packaging — packaging changes continually to reflect a series or particular theme
- Packaging for immediate consumption — to be thrown away after use
- Packaging for resale — packed, into appropriate quantities, for the retailer or wholesaler

Trademarks

Significance of a trademark

- Distinguishes one company's goods from those of another
- Serves as advertisement for quality
- Protects both consumers and manufacturers

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- Used in displays and advertising campaigns
- Used to market new products

Brands

A brand is a name, term, design, symbol, or other feature that distinguishes products and services from competitive offerings. A brand represents the consumers' experience with an organization, product, or service.

A brand has also been defined as an identifiable entity that makes a specific promise of value. Co-branding involves marketing activity involving two or more products.

3.3 Product Focus

In a product innovation approach, the company pursues product innovation, then tries to develop a market for the product. Product innovation drives the process and marketing research is conducted primarily to ensure that a profitable market segment(s) exists for the innovation. The rationale is that customers may not know what options will be available to them in the future so we should not expect them to tell us what they will buy in the future. However, marketers can aggressively over-pursue product innovation and try to overcapitalize on a niche. When pursuing a product innovation approach, marketers must ensure that they have a varied and multi-tiered approach to product innovation.

It is claimed that if Thomas Edison depended on marketing research he would have produced larger candles rather than inventing light bulbs. Many firms, such as research and development focused companies, successfully focus on product innovation (Such as Nintendo who constantly change the way Video games are played). Many purists doubt whether this is really a form of marketing orientation at all, because of the ex post status of consumer research. Some even question whether it is marketing.

- An emerging area of study and practice concerns internal marketing, or how employees are trained and managed to deliver the brand in a way that positively impacts the acquisition and retention of customers (employer branding).
- Diffusion of innovations research explores how and why people adopt new products, services and ideas.
- A relatively new form of marketing uses the Internet and is called Internet marketing or more generally e-marketing, affiliate marketing, desktop advertising or online marketing. It typically tries to perfect the segmentation strategy used in traditional marketing. It targets its audience more precisely, and is sometimes called personalized marketing or one-to-one marketing.

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- With consumers' eroding attention span and willingness to give time to advertising messages, marketers are turning to forms of permission marketing such as branded content, custom media and reality marketing.
- The use of herd behavior in marketing.

3.4 Consumer and Industrial Goods

The classification of goods—physical products—is essential to business because it provides a basis for determining the strategies needed to move them through the marketing system. The two main forms of classifications are consumer goods and industrial goods.

Consumer Goods

Consumer goods are goods that are bought from retail stores for personal, family, or household use. They are grouped into three subcategories on the basis of consumer buying habits: convenience goods, shopping goods, and specialty goods.

Consumer goods can also be differentiated on the basis of durability. Durable goods are products that have a long life, such as furniture and garden tools. Nondurable goods are those that are quickly used up, or worn out, or that become outdated, such as food, school supplies, and disposable cameras.

Convenience Goods:— Convenience goods are items that buyers want to buy with the least amount of effort, that is, as conveniently as possible. Most are nondurable goods of low value that are frequently purchased in small quantities. These goods can be further divided into two subcategories: staple and impulse items.

Staple convenience goods are basic items that buyers plan to buy before they enter a store, and include milk, bread, and toilet paper. Impulse items are other convenience goods that are purchased without prior planning, such as candy bars, soft drinks, and tabloid newspapers.

Since convenience goods are not actually sought out by consumers, producers attempt to get as wide a distribution as possible through wholesalers. To extend the distribution, these items are also frequently made available through vending machines in offices, factories, schools, and other settings. Within stores, they are placed at checkout stands and other high-traffic areas.

Shopping Goods:— Shopping goods are purchased only after the buyer compares the products of more than one store or looks at more than one assortment of goods before making a deliberate buying decision. These goods are usually of higher value than convenience goods, bought infrequently, and are durable. Price, quality, style, and color are typically factors in the buying decision. Televisions, computers, lawnmowers, bedding, and camping equipment are all examples of shopping goods.

Because customers are going to shop for these goods, a fundamental strategy in establishing stores that specialize in them is to locate near similar stores in active shopping areas. Ongoing strategies for marketing shopping goods include the heavy use of advertising in local media, including newspapers, radio, and television. Advertising for shopping goods is often done cooperatively with the manufacturers of the goods.

Specialty Goods:— Specialty goods are items that are unique or unusual—at least in the mind of the buyer. Buyers know exactly what they want and are willing to exert considerable effort to obtain it. These goods are usually, but not necessarily, of high value, and they may or may not be durable goods.

They differ from shopping goods primarily because price is not the chief consideration. Often the attributes that make them unique are brand preference (e.g., a certain make of automobile) or personal preference (e.g., a food dish prepared in a specific way). Other items that fall into this category are wedding dresses, antiques, fine jewelry, and golf clubs.

Producers and distributors of specialty goods prefer to place their goods only in selected retail outlets. These outlets are chosen on the basis of their willingness and ability to provide a high level of advertising and personal selling for the product. Consistency of image between the product and the store is also a factor in selecting outlets.

The distinction among convenience, shopping, and specialty goods is not always clear. As noted earlier, these classifications are based on consumers' buying habits. Consequently, a given item may be a convenience good for one person, a shopping good for another, and a specialty good for a third. For example, for a person who does not want to spend time shopping, buying a pair of shoes might be a convenience purchase. In contrast, another person might buy shoes only after considerable thought and comparison: in this instance, the shoes are a shopping good. Still another individual who perhaps prefers a certain brand or has an unusual size will buy individual shoes only from a specific retail location; for this buyer, the shoes are a specialty good.

Industrial Goods

Industrial goods are products that companies purchase to make other products, which they then sell. Some are used directly in the production of the products for resale, and some are used indirectly. Unlike consumer goods, industrial goods are classified on the basis of their use rather than customer buying habits. These goods are divided into five subcategories: installations, accessory equipment, raw materials, fabricated parts and materials, and industrial supplies.

Industrial goods also carry designations related to their durability. Durable industrial goods that cost large sums of money are referred to

as capital items. Nondurable industrial goods that are used up within a year are called expense items.

Installations:— Installations are major capital items that are typically used directly in the production of goods. Some installations, such as conveyor systems, robotics equipment, and machine tools, are designed and built for specialized situations. Other installations, such as stamping machines, large commercial ovens, and computerized axial tomography (CAT) scan machines, are built to a standard design but can be modified to meet individual requirements.

The purchase of installations requires extensive research and careful decision making on the part of the buyer. Manufacturers of installations can make their availability known through advertising. However, actual sale of installations requires the technical knowledge and assistance that can best be provided by personal selling.

Accessory Equipment Goods that fall into the subcategory of accessory equipment are capital items that are less expensive and have shorter lives than installations. Examples include hand tools, computers, desk calculators, and forklifts. While some types of accessory equipment, such as hand tools, are involved directly in the production process, most are only indirectly involved.

The relatively low unit value of accessory equipment, combined with a market made up of buyers from several different types of businesses, dictates a broad marketing strategy. Sellers rely heavily on advertisements in trade publications and mailings to purchasing agents and other business buyers. When personal selling is needed, it is usually done by intermediaries, such as wholesalers.

Raw Materials:— Raw materials are products that are purchased in their raw state for the purpose of processing them into consumer or industrial goods. Examples are iron ore, crude oil, diamonds, copper, timber, wheat, and leather. Some (e.g., wheat) may be converted directly into another consumer product (cereal). Others (e.g., timber) may be converted into an intermediate product (lumber) to be resold for use in another industry (construction).

Most raw materials are graded according to quality so that there is some assurance of consistency within each grade. There is, however, little difference between offerings within a grade. Consequently, sales negotiations focus on price, delivery, and credit terms. This negotiation plus the fact that raw materials are ordinarily sold in large quantities make personal selling the principal marketing approach for these goods.

Fabricated Parts and Materials:— Fabricated parts are items that are purchased to be placed in the final product without further processing. Fabricated materials, on the other hand, require additional processing before being placed in the end product. Many industries, including the auto industry, rely heavily on fabricated parts. Automakers

use such fabricated parts as batteries, sun roofs, windshields, and spark plugs. They also use several fabricated materials, including steel and upholstery fabric. As a matter of fact, many industries actually buy more fabricated items than raw materials.

Buyers of fabricated parts and materials have well-defined specifications for their needs. They may work closely with a company in designing the components or materials they require, or they may invite bids from several companies. In either case, in order to be in a position to get the business, personal contact must be maintained with the buyers over time. Here again, personal selling is a key component in the marketing strategy.

Industrial Supplies:— Industrial supplies are frequently purchased expense items. They contribute indirectly to the production of final products or to the administration of the production process. Supplies include computer paper, light bulbs, lubrication oil, cleaning supplies, and office supplies.

Buyers of industrial supplies do not spend a great deal of time on their purchasing decisions unless they are ordering large quantities. As a result, companies marketing supplies place their emphasis on advertising—particularly in the form of catalogues—to business buyers. When large orders are at stake, sales representatives may be used.

It is not always clear whether a product is a consumer good or an industrial good. The key to differentiating them is to identify the use the buyer intends to make of the good. Goods that are in their final form, are ready to be consumed, and are bought to be resold to the final consumer are classified as consumer goods. On the other hand, if they are bought by a business for its own use, they are considered industrial goods. Some items, such as flour and pick-up trucks, can fall into either classification, depending on how they are used. Flour purchased by a supermarket for resale would be classified as a consumer good, but flour purchased by a bakery to make pastries would be classified as an industrial good. A pickup truck bought for personal use is a consumer good; if purchased to transport lawnmowers for a lawn service, it is an industrial good.

3.5 Product Planning and Development

Overview

Since the late Seventies industrial companies have experienced changes involving all of their activities as a result of a broad range of predominantly organizational and managerial innovations, including Just in Time (JIT), Total Quality Management (TQM), Concurrent Engineering (CE) among others. This process of change has been so radical as to suggest that a new production paradigm has emerged.

Product development is critical for the performance of many companies. The success of product development efforts can determine

the viability of companies and economies. Therefore, it is important to learn from the improvements achieved in the operations management science and transfer successful concepts and principles to product development in construction. The aim is to achieve similar improvements as obtained in manufacturing, such as reduced waste, reduced lead times, and other effects that improve quality, accelerate learning and lower costs. In order to make this transfer effective it is important to consider the nature of product development, and its differences and similarities in relation to physical production.

Many problems related to the quality of the PDP are directly related to the structure of activities and their relationships throughout time. Planning and controlling the PDP is usually developed separately by each design specialty, in an excessively informal manner. Without the consideration of the work that must be developed by other design disciplines, it is difficult to coordinate the schedule and the information flow in a multidisciplinary environment such as design. Moreover, planning is effective when it is matched to available information by establishing different hierarchical planning and control levels.

The Product Development Process

Product development is a set of activities beginning with the perception of a market opportunity and ending in the production, sale and delivery of a product. These authors stress that it is necessary to bring together the main functions of the enterprise, e.g. marketing, design and manufacturing to achieve successful PDP.

Product development can also be defined as the process of converting an idea, market needs or client requirements into the information from which a product or technical system can be produced. Although each PDP is unique, there are common features that are shared between different projects.

Understanding what those projects have in common is an important step to guide the management of future product development processes. The most fundamental difference of product development in relation to physical production is that the value aspect of design is much more significant.

Product development is usually a complex process because of the range of technical issues that must be addressed, and also because of the variety of people and organizational structures that must be employed over the life of a product development effort. Product development involves a large number of decisions in a highly uncertain environment. The internal and external uncertainty often pushes the design process away from the best design sequence, resulting in low productivity, prolonged duration and decreased value of the design solution. Due to the nature of the process, it is difficult to assess the amount of completed or remaining work in any design task and consequently, in the project as a whole.

In product development, the work tends to expand to fill the available time, because it is always possible to improve design in some way. As a result, it is not possible to plan the design process as a sequence of well defined steps, since most decisions are affected by some that have been made before and also by others that will be made in future stages of the project. Similarly to physical production, product development should not be planned at a very fine level of detail, since it is a highly unpredictable and uncertain process.

Nevertheless, modelling the PDP process and decomposing it into workflow activities is necessary to organise the work of the product development team and direct its efforts. The goals of process modeling are several, including learning about the process, suggesting ways of controlling it, and also developing common goals and understanding of tasks among the members of the project team. However, product development is more difficult to model than physical production processes because of a greater variety; lower number of repetitions, and the high level of human intervention. As a result, PDP modeling is in an earlier stage of development compared to other areas of management science. The evolution of product development models and its relation with operations management are presented below.

Evolution of Product Development Models

The evolution of design science can be grouped in three categories: craft design, sequential and concurrent engineering. Until the Second World War, products and production processes were simpler, and thus there was little need for specific managerial practices within design. With the diffusion of systematized design methods, due to the development of large-scale systems and the production of weapons after the War, new methods for managing product development emerged.

Based on a survey related to the automotive and aerospace industrial sectors, Yazdani & Holmes (1999) proposed four models of design definition, which illustrates the evolution of sequential design towards concurrent engineering. The first model, named sequential, represents the traditional form of product development organization. The methods adopted in this model are functionally oriented with little integration, rather than process oriented. Predominantly, many layers of management are required in this type of organization. This model has not proved to be satisfactory to cope with the emerging industrial pressures, i.e. reduced cost and time and better quality.

The second model, named design centered, emerged because the cost of change at each sequential stage was very high, and it became apparent that more life-cycle considerations were demanded. This model does not require a departmental integration, but an understanding of the downstream activities. Downstream design changes are minimized through a higher level of design analysis at the front-end process. The process is still predominantly sequential, but there is a higher confidence

in design information. The ongoing drive to reduce development lead times and the need for more complex products made the task of modeling downstream considerations increasingly difficult.

This fact led to the necessity of a greater involvement of downstream activities to bring all specific expertise to the design stage. This initiated the development of concurrent product definition. In this model, each stage of product development has a gate attached. Information exchange is facilitated by the introduction of multi-functional teams. Usually there is a matrix style organization related to the concurrent model.

Finally, the dynamic model, a further development of the concurrent model, emerged due to the necessity of a much more intense degree of communication between the teams from the start of the PDP. A wide range of technical, business and project management skills are required to enable the project team to make the necessary decisions. Also, a fully dedicated multi-functional project team is required, which results in a very flat organizational model. This model has been only identified in Japanese automotive companies, and it is also referred as "set based concurrent engineering".

3.6 Packaging and Functions

Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of design, evaluation, and production of packages. Package labelling (BrE) or labeling (AmE) is any written, electronic, or graphic communications on the packaging or on a separate but associated label.

Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. It is fully integrated into government, business, institutional, industry, and personal use.

The Purposes of Packaging and Package Labels

Packaging and package labelling have several objectives:

- **Physical protection** - The objects enclosed in the package may require protection from, among other things, shock, vibration, compression, temperature, etc.
- **Barrier protection** - A barrier from oxygen, water vapor, dust, etc., is often required. Permeation is a critical factor in design. Some packages contain desiccants or Oxygen absorbers to help extend shelf life. Modified atmospheres or controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh, and safe for the intended shelf life is a primary function.

- **Containment or agglomeration** - Small objects are typically grouped together in one package for reasons of efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. Liquids, powders, and granules need containment.
- **Information transmission** - Packages and labels communicate how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by governments.
- **Marketing** - The packaging and labels can be used by marketers to encourage potential buyers to purchase the product. Package design has been an important and constantly evolving phenomenon for several decades. Marketing communications and graphic design are applied to the surface of the package and (in many cases) the point of sale display.
- **Security** - Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter tampering and also can have tamper-evident features to help indicate tampering. Packages can be engineered to help reduce the risks of package pilferage: Some package constructions are more resistant to pilferage and some have pilfer indicating seals. Packages may include authentication seals to help indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices, such as dye-packs, RFID tags, or electronic article surveillance tags, that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of loss prevention.
- **Convenience** - Packages can have features which add convenience in distribution, handling, stacking, display, sale, opening, reclosing, use, and reuse.
- **Portion control** - Single serving or single dosage packaging has a precise amount of contents to control usage. Bulk commodities (such as salt) can be divided into packages that are a more suitable size for individual households. It also aids the control of inventory: selling sealed one-liter-bottles of milk, rather than having people bring their own bottles to fill themselves.

Packaging Types

Packaging may be looked at as several different types. For example a transport package or distribution package is the package form used to ship, store, and handle the product or inner packages. Some identify a consumer package as one which is directed toward a consumer or household.

Packaging may be discussed in relation to the type of product being packaged: medical device packaging, bulk chemical packaging,

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over-the-counter drug packaging, retail food packaging, military material packaging, pharmaceutical packaging, etc.

It is sometimes convenient to categorize packages by layer or function: "primary", "secondary", etc.

- Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.
- Secondary packaging is outside the primary packaging – perhaps used to group primary packages together.
- Tertiary packaging is used for bulk handling, warehouse storage and transport shipping. The most common form is a palletized unit load that packs tightly into containers.

These broad categories can be somewhat arbitrary. For example, depending on the use, a shrink wrap can be primary packaging when applied directly to the product, secondary packaging when combining smaller packages, and tertiary packaging on some distribution packs.

Symbols Used on Packages and Labels

Many types of symbols for package labelling are nationally and internationally standardized. For consumer packaging, symbols exist for product certifications, trademarks, proof of purchase, etc. Some requirements and symbols exist to communicate aspects of consumer use and safety. Recycling directions, Resin identification code (below), and package environmental claims have special codes and symbols.

Bar codes (below), Universal Product Codes, and RFID labels are common to allow automated information management.

Shipments of hazardous materials or dangerous goods have special information and symbols (labels, plackards, etc) as required by UN, country, and specific carrier requirements. Two examples are below:

With transport packages, standardised symbols are also used to aid in handling. Some common ones are shown below while others are listed in ASTM D5445 "Standard Practice for Pictorial Markings for Handling of Goods" and ISO 780 "Pictorial marking for handling of goods".

Package design and development are often thought of as an integral part of the new product development process. Alternatively, development of a package (or component) can be a separate process, but must be linked closely with the product to be packaged. Package design starts with the identification of all the requirements: structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, graphic design, end-use, environmental, etc. The design criteria, time targets, resources, and cost constraints need to be established and agreed upon.

Transport packaging needs to be matched to its logistics system. Packages designed for controlled shipments of uniform pallet loads may not be suited to mixed shipments with express carriers.

An example of how package design is affected by other factors is the relationship to logistics. When the distribution system includes

individual shipments by a small parcel carrier, the sortation, handling, and mixed stacking make severe demands on the strength and protective ability of the transport package. If the logistics system consists of uniform palletized unit loads, the structural design of the package can be designed to those specific needs: vertical stacking, perhaps for a longer time frame. A package designed for one mode of shipment may not be suited for another.

Sometimes the objectives of package development seem contradictory. For example, regulations for an over-the-counter drug might require the package to be tamper-evident and child resistant: These intentionally make the package difficult to open. The intended consumer, however, might be handicapped or elderly and be unable to readily open the package. Meeting all goals is a challenge.

Package design may take place within a company or with various degrees of external packaging engineering: contract engineers, consultants, vendor evaluations, independent laboratories, contract packagers, total outsourcing, etc. Some sort of formal Project planning and Project Management methodology is required for all but the simplest package design and development programs. An effective quality management system and verification and validation protocols are mandatory for some types of packaging and recommended for all.

Package development involves considerations for sustainability, environmental responsibility, and applicable environmental and recycling regulations. It may involve a life cycle assessment which considers the material and energy inputs and outputs to the package, the packaged product (contents), the packaging process, the logistics system, waste management, etc. It is necessary to know the relevant regulatory requirements for point of manufacture, sale, and use.

The traditional "three R's" of reduce, reuse, and recycle are part of a waste hierarchy which may be considered in product and package development.

3.7 Product Life Cycle

Product Life Cycle Management is the succession of strategies used by management as a product goes through its product life cycle. The conditions in which a product is sold changes over time and must be managed as it moves through its succession of stages.

The product life cycle goes through many phases, involves many professional disciplines, and requires many skills, tools and processes. Product life cycle (PLC) has to do with the life of a product in the market with respect to business/commercial costs and sales measures; whereas product lifecycle management (PLM) has more to do with managing descriptions and properties of a product through its development and useful life, mainly from a business/engineering point of view. To say that a product has a life cycle is to assert four things: (1) that products have a limited life, (2) product sales pass through distinct stages, each posing different challenges, opportunities, and

problems to the seller, (3) profits rise and fall at different stages of product life cycle, and (4) products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life cycle stage.

The different stages in a product life cycle are:

1. Market introduction stage

- cost high
- sales volume low
- no/little competition - competitive manufacturers watch for acceptance/segment growth losses
- demand has to be created
- customers have to be prompted to try the product

2. Growth stage

- costs reduced due to economies of scale
- sales volume increases significantly
- profitability
- public awareness
- competition begins to increase with a few new players in establishing market
- prices to maximize market share

3. Mature stage

- Costs are very low as you are well established in market & no need for publicity.
- sales volume peaks
- increase in competitive offerings
- prices tend to drop due to the proliferation of competing products
- brand differentiation, feature diversification, as each player seeks to differentiate from competition with "how much product" is offered
- Industrial profits go down

4. Decline or Stability stage

- costs become counter-optimal
- sales volume decline or stabilize
- prices, profitability diminish
- profit becomes more a challenge of production/distribution efficiency than increased sales

Market Identification

A "micro-market" can be used to describe a Walkman, more portable, as well as individually and privately recordable; and then Compact Discs ("CDs") brought increased capacity and CD-R offered

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individual private recording...and so the process goes. The below section on the "technology lifecycle" is a most appropriate concept in this context Most of the context is not in English so you may need a translator.

In short, termination is not always the end of the cycle; it can be the end of a micro-entrant within the grander scope of a macro-environment. The auto industry, fast-food industry, petro-chemical industry, are just a few that demonstrate a macro-environment that overall has not terminated even while micro-entrants over time have come and gone.

Lessons of the Product Life Cycle (PLC)

It is claimed that every product has a life cycle. It is launched, it grows, and at some point, may die. A fair comment is that - at least in the short term - not all products or services die. Jeans may die, but clothes probably will not. Legal services or medical services may die, but depending on the social and political climate, probably will not.

Even though its validity is questionable, it can offer a useful 'model' for managers to keep at the back of their mind. Indeed, if their products are in the introductory or growth phases, or in that of decline, it perhaps should be at the front of their mind; for the predominant features of these phases may be those revolving around such life and death. Between these two extremes, it is salutary for them to have that vision of mortality in front of them.

However, the most important aspect of product life-cycles is that, even under normal conditions, to all practical intents and purposes they often do not exist (hence, there needs to be more emphasis on model/reality mappings). In most markets the majority of the major brands have held their position for at least two decades. The dominant product life-cycle, that of the brand leaders which almost monopolize many markets, is therefore one of continuity.

Summary

1. A brand is a name, term, design, symbol, or other feature that distinguishes products and services from competitive offerings.

2. Consumer goods are goods that are bought from retail stores for personal, family, or household use.

3. Industrial goods are products that companies purchase to make other products, which they then sell.

4. Product development is a set of activities beginning with the perception of a market opportunity and ending in the production, sale and delivery of a product.

5. Product Life Cycle Management is the succession of strategies used by management as a product goes through its product life cycle.

Review Questions

1. What are the requirements of good packaging?
2. What is the relevence of brand name in marketing?
3. Distinguish between consumer and industrial goods?
4. Write a short note on the process of product development?
5. What is product life cycle? Give brief description.

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BLOCK—2

PRICE, PROMOTION AND DISTRIBUTION OF A PRODUCT

Unit—1

Price

STRUCTURE

1.1 Objective

Price is the most significant factor in the marketing which influences selling and production of the product. It is one of the principal element of the marketing mix. The conceptual understanding of price dermination is very essential to forecast as well as evaluate marketing behaviour. This particular unit makes students perfect in understanding all these aspects of price and its determinants.

1.2 Introduction

Price of the product is determined on the basis of various factors such as production cost, marketing expenses, demand etc. At the same time the price of the product determines its demand and supply in the marketing. Price influences the nature of the product and the nature of the product too works as a determinant of price. Pricing of the product is somewhat influenced by discount and rebate given on the product upto some extent.

1.3 Importance of Price in Marketing Mix

Pricing is one of the most important elements of the marketing mix, as it is the only mix, which generates a turnover for the organisation. The remaining 3p's are the variable cost for the organisation. It costs to produce and design a product, it costs to distribute a product and costs to promote it. Price must support these elements of the mix. Pricing is difficult and must reflect supply and demand relationship. Pricing a product too high or too low could mean a loss of sales for the organisation. Pricing should take into account the following factors:

- Fixed and variable costs.
- Competition.
- Company objectives.
- Proposed positioning strategies.
- Target group and willingness to pay.

Pricing Strategies

An organisation can adopt a number of pricing strategies. The pricing strategies are based much on what objectives the company has set itself to achieve.

- **Penetration pricing:** Where the organisation sets a low price to increase sales and market share.
- **Skimming pricing:** The organisation sets an initial high price and then slowly lowers the price to make the product available to a wider market. The objective is to skim profits of the market layer by layer.
- **Competition pricing:** Setting a price in comparison with competitors.
- **Product Line Pricing:** Pricing different products within the same product range at different price points. An example would be a video manufacturer offering different video recorders with different features at different prices. The greater the features and the benefit obtained the greater the consumer will pay. This form of price discrimination assists the company in maximising turnover and profits.
- **Bundle Pricing:** The organisation bundles a group of products at a reduced price.
- **Psychological pricing:** The seller here will consider the psychology of price and the positioning of price within the market place. The seller will therefore charge 99p instead of £1 or $199 instead of $200.
- **Premium pricing:** The price set is high to reflect the exclusiveness of the product. An example of products using this strategy would be Harrods, first class airline services, porsche etc.

- **Optional pricing:** The organisation sells optional extras along with the product to maximise its turnover. This strategy is used commonly within the car industry.

1.4 Factors Affecting Price of Product/Services

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- Production and distribution costs
- Substitute goods available
- Normal trade practices
- Fixed prices
- Reaction of distributors
- Reaction of consumers
- Nature of demand:
  - — elastic/inelastic
- Form of market:
  - — Perfect competition
  - — Monopolistic competition
  - — Monopoly
  - — Oligopoly

The market price paid by consumers for goods and services reflect opportunity costs. Markets for productive resources (natural, human and capital), known as factor markets, determine the opportunity costs of productive resources. Market price can also be used to help determine the best way to allocate scarce resources.

Demand and Supply

Demand (demand is the willingness to buy coupled with the ability to buy it. Goods that are demanded must give satisfaction (or utility))

- **Law of demand-** the lower the product"s price, the greater the quantity that people will buy, assuming ceteris paribus.
- **Individual demand-** a demand by individuals for goods and services
- **Market demand-** demand by all consumers for a particular good or service.
- **The demand curve-** shows the relationship between prices, quantity and demand for a product in a graphical form.

Factors affecting demand:

- **Price-** generally the higher the price, the lower the demand for a good or service
- **Income-** the higher the income, the more an individual/household can consume
- **Population-** a growing population means there are more potential consumers
- **Tastes-** influences what the consumer wants to buy
- **Prices of substitutes and complements-** a substitute is a product that could be used in place of another, a complement is a good that is used in conjunction with another.

- **Expected future prices-** if prices are expected to decrease, consumers may choose to delay the purchase for the good, as it reduces opportunity costs. However, if prices are expected to increase, consumers may purchase more goods now with the assistance of credit.

Movements along the Demand Curve

Contraction in demand is influenced by the price of the product rising. Expansion in demand is influenced by the reduction in the price for a good.

Shifts of the Demand Curve

An increase in demand is influenced by external factors (i.e. factor other than price). It is when the demand curve is shifted to the right.

A decrease in demand is influenced by external factors (i.e. factor other than price). It is when the curve is shifted to the left.

Supply (the amount of good a firm will sell at a certain price)

- **Law of supply-** states that as price raises quantity supplied rises or as price falls, quantity supplied will fall.
- **Individual supply-** supply by an individual firm of a particular good or service.
- **Market supply-** supply by all firms of a particular good or service.
- **The supply curve-** shows the relationship between prices, quantity and supply in graphical form.

Factors affecting supply:

- **Price/cost of factors of production-** reduced cost of production will result in an increase in supply.
- **Prices of substitutes and complements-** the price of other goods may encourage producers to switch to production of these goods resulting in reduced supply of the original good.
- **Expected future prices-** this can influence the production decisions of firms. Expected rises in prices can cause firms to raise production and increase supply.
- **Number of suppliers-** an increase in the number, if sellers are likely to result in increase in supply.
- **Technology-** new technology will lower cost of production and increase supply.

Shifts of the Supply Curve

- **Movement to equilibrium -** If the prices of goods or services are higher or lower than equilibrium, disequilibrium occurs. If prices are above equilibrium, supply will be greater than demand, that is, there will be an excess of goods that are left unsold, and forcing the prices to be lower until the surplus is removed. If prices are below equilibrium, the demand for a good exceeds the

supply. Producers then can sell their goods for higher prices until equilibrium is reached.

- Effects of changes in supply and/or demand on equilibrium market price and quantity through the use of diagrams.
- **Effects of changing levels of competition and market power on price and output** - If the level of competition decreases, a firm will have increased market power. This increase in market power allows them to have more influence over the market price. A firm that has no competition (a monopoly) can increase the price of a product by reducing output.

Alternatives to Market Solutions - The Role of Government

- **Price ceilings, price floors** - The government can intervene with the prices for goods and services by placing a price floor or price ceiling. A price floor is when the government sets a minimum price for a good, whilst a price ceiling is when the government sets a maximum price for a good. A price ceiling can be set to make a good or service more accessible to the community, whilst a price floor can be placed to guarantee producers a minimum price for their output.
- **Market failure** - situation where the market fails to allocate resources efficiently. It occurs with the provision of merit goods, public goods and externality benefits and are costs associated with the production and/or consumption of certain goods.
- **Merit goods, e.g. education** - These are commodities, which are regarded as being socially desirable, irrespective of consumer's preferences. The merit goods of society justify the government subsidizing the provision of these goods and services.
- **Public goods** - there are two important features of these goods. They are that i) they are indivisible in consumption (i.e. one person's consumption does not reduce the amount available, usually a non-rival or collective good) and ii) they are accessible to everyone. Public goods are usually too costly for individuals to purchase, and is usually regulated by the government.
- **Externalities** - An externality cost is a cost, which is not, reflected in the price for a product but on other people eg. pollution. A firm, which produces pollution, does not have to pay for it, nor do they sell it to consumers. Instead, communities pay for it in illnesses, loss of ability to do activities that are usually done everyday etc.

1.5 Discounts and Rebates

Discounts and rebates are used to reduce the selling price of goods or services, or to provide the extra competence to the goods in the market on which rebate or discount is given.

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Discounts or rebates are imposed by private and public sector players both. The government impose discount or rebate in the form of subsidies or tax relaxation while the private player impose cash discount in the form of reduced cost.

Some Facts about Discount and Rebates

- When taxable goods or services are sold at a discount, the tax applies to the reduced price paid by the purchaser.
- When a vendor issues a cash refund or a credit note for prompt payment of an account, or as a volume discount on goods/services for which tax has been collected, the vendor may also refund the amount of tax applicable to the discount given to the customer on the taxable goods/services.
- A discount, coupon or any other incentive offered by a retailer reduces the selling price of an item below the retailer's cost of the item.
- Coupons issued by retailers are considered to be the same as a cash discount, if the retailer redeeming these coupons does not receive reimbursement from a third party and records the sale price of the taxable goods/services at the reduced (discounted) amount. In this case the tax applies to the net amount paid by the customer for the purchase.
- When a coupon is issued by a retailer for a fixed amount (e.g. $30) which may be redeemed against the purchase of a combination of both taxable and exempt items, the coupon cannot be used to reduce the purchase price of the taxable items unless the coupon value is apportioned to the respective taxable and exempt items. In this case, the tax is payable on the net amount recorded on the bill of sale of each taxable item.

For example: If the total taxable and exempt purchases before redeeming the coupon is $300 (taxable $100 and exempt $200) and the coupon value is $30, the tax is calculated as follows:

- When a retailer redeems a coupon, and does not record the coupon as a discount or a reduction of the selling price, but rather as a cash payment toward the total purchase, the retailer must apply the tax on the total taxable purchase amount before deducting the amount of the coupon.
- When at the time of a sale the retailer does not reduce the purchase price of an item but issues what is referred to as "money", to be applied against future purchases, the tax must be collected on the full amount paid by the customer.
- When the retailer's "money" is presented for redemption on subsequent purchases, it is considered for sales tax purposes to be like any other retailer coupon. Therefore:

—If a retailer redeems the "money" as cash received toward the total invoice amount payable, the retailer must collect the tax on the total taxable purchase before deducting the value of the "money".

—If the retailer redeems the "money" by reducing the purchase price of the taxable goods/services and records the reduced amount on the invoice, the "money" is considered to be a discount and the tax applies on the net purchase amount.

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Summary

1. Pricing is one of the most important elements of the marketing mix, as it is the only mix, which generates a turnover for the organisation.

2. The market price paid by consumers for goods and services reflect **opportunity costs**.

3. Contraction in demand is influenced by the price of the product rising. Expansion in demand is influenced by the reduction in the price for a good.

4. Discounts and rebates are used to reduce the selling price of goods or services, or to provide the extra competence to the goods in the market on which rebate or discount is given.

Review Questions

1. How do you define the importance of price in the marketing mix?

2. Write a short note on the pricing strategies of the companies?

3. What is the impact of demand and supply on the pricing of the goods? Give brief description.

4. What is discout and rebate?

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Unit—2

Promotion

STRUCTURE

2.1 Objective

Once the planning of the product is done then the product is developed and after then the strategies to promote the product is involved. The promotion of product is very essential to establish a healthy market. The promotion of the product is possible through the advertisement. Advertising the product is the most important aspect in the promotion of the product. Salesmen too play bigger role in the promotion of the product. These are the prominent issues pertaining to the product promotion which we have discussed in this particular unit.

2.2 Introduction

Promotion of the product demands various methods through which producer gives immense of incentives for appealing consumers. To resolve the anxiety for selling the product, producer uses various methods to promote his product. Advertising is the most preferred medium to promote the product. The unit discusses the merits as well as limitations of advertising for the promotion of product.

2.3 Methods of Promotion

Short-term incentives to encourage buying of products:

- Instant appeal
- Anxiety to sell

An example of this is coupons or a sale. People are given an incentive to buy, but it does not build customer loyalty, nor encourage repeat buys in the future. A major drawback of sales promotion is that it is easily copied by competition. It cannot be used as a sustainable source of differentiation.

Marketing Public Relations (MPR)

- Stimulation of demand through press release giving a favourable report to a product
- Higher degree of credibility
- Effectively news
- Boosts enterprise's image

2.4 Marketing Communications

Marketing communications breaks down the strategies involved with marketing messages into categories based on the goals of each message. There are distinct stages in converting strangers to customers that govern the communication medium that should be used.

Advertising

- Paid form of public presentation and expressive promotion of ideas
- Aimed at masses
- Manufacturer may determine what goes into advertisement
- Pervasive and impersonal medium

Characteristics of an Effective Avertising

- Task of the salesman made easier
- Forces manufacturer to live up to conveyed image
- Protects and warns customers against false claims and inferior products
- Enables manufacturer to mass-produce product
- Continuous reminder
- Uninterrupted production a possibility
- Increases goodwill
- Raises standards of living (or perceptions thereof)
- Prices decrease with increased popularity
- Educates manufacturer and wholesaler about competitors' offerings as well as shortcomings in their own.

Objectives

- Maintain demand for well-known goods
- Introduce new and unknown goods
- Increase demand for well-known goods/products/services

Merits of Advertising

- Attract attention (awareness)
- Stimulate interest

- Create a desire
- Bring about action
- Creating awareness in the minds of the customer about product/ service
- Initiate/effect changes in the customer's minds about your product as a solution
- Advocate your product/service as a solution
- Create a satisfaction in customer's mind to buy your product/ service

Product advertising creates greater competition to produce better goods and services at lower prices. Advertising enhances the consumer's capacity to discriminate between products and between services. By informing the consumer of his choice, advertising elevates him to a position of strength in relation to individual producers. The principle of consumer sovereignty is misappropriated by people who set themselves up as protectors of the consumer and then press for regulation which is not in the interests of individual consumers. Consumer sovereignty entails not just the right of choice, but the right to be informed about the choices available through advertising and other marketing methods. Restrictions on advertising and marketing are a limitation of the individual's right to be informed and to exercise free choice, and are thus a suppression of his or her civil liberties.

Limitations of Advertising

There have been increasing efforts to protect the public interest by regulating the content and the influence of advertising. Some examples are: the ban on television tobacco advertising imposed in many countries, and the total ban of advertising to children under twelve too imposed by many Governments.

In Europe and elsewhere, there is a vigorous debate on whether (or how much) advertising to children should be regulated. This debate was exacerbated by a report released by the Kaiser Family Foundation in February 2004 which suggested that food advertising targeting children was an important factor in the epidemic of childhood obesity in the United States of America.

In many countries - namely New Zealand, South Africa, Canada, and many European countries - the advertising industry operates a system of self-regulation. Advertisers, advertising agencies and the media agree on a code of advertising standards that they attempt to uphold. The general aim of such codes is to ensure that any advertising is 'legal, decent, honest and truthful'.

Naturally, many advertisers view governmental regulation or even self-regulation as intrusion of their freedom of speech or a necessary evil. Therefore, they employ a wide-variety of linguistic devices to bypass regulatory laws. The advertisement of controversial products such as cigarettes and condoms is subject to government regulation in many countries. For instance, the tobacco industry is required by law in most countries to display warnings cautioning consumers about the

health hazards of their products. Linguistic variation is often used by advertisers as a creative device to reduce the impact of such requirements.

(i) Advertising must bear legal requirements, The certain regulations pertaining to the advertisement of particular products must be followed.

(ii) Ethic is one of the associate of advertising hence the advertising must be decent.

(iii) Advertising of non-social elements/products is prohibited such as tobacco and alcohol etc.

(iv) Honesty and truthfulness are two normative limitations of advertising.

Eight steps in an advertising campaign

- Market research
- Setting out aims
- Budgeting
- Choice of media (televison, newspaper, radio)
- Choice of actors (New Trend)
- Design and wording
- Co-ordination
- Test results

2.5 Personal Selling

Oral presentation given by a salesman who approaches individuals or a group of potential customers:

- Live, interactive relationship
- Personal interest
- Attention and response
- Interesting presentation

Personal Selling as a Career (Functions of a Sales Person)

Noted industrial psychologist Robert McMurry identified the main types of personal sales jobs:

- **Driver-sales person:** this person merely delivers the product and has few selling responsibilities.
- **Inside order taker:** In this position a person takes orders from within a selling environment. Examples include a sales clerk in a retail store, or a phone representative working for a catalog sales company. Some selling skills are required.
- **Outside order taker:** These salespeople go to the customer's place of business and take orders. Most of these sales are repeat business. Some selling is required, especially to establish new accounts.
- **Missionary sales person:** This type of sales involves selling goodwill but not any actual product or service. This salesperson's goal is to make a customer feel good about the company, products,

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or services the salesperson represents. Companies in the pharmaceutical and liquor industries, for example, typically employ missionary salespeople.

- **Sales engineer:** These positions are found in technical industries such as computers and copiers. Sales engineers provide technical support, explain the products, and adapt the product to the customer's needs.
- **Creative sales person:** These salespeople attempt to sell goods (vacuum cleaners or encyclopedias), services (insurance), or causes (charities). These salespeople are usually dealing with customers who are unaware of their need for the service or product, and so, the salespeople must possess the most refined selling skills.

2.6 Successful Sales Person

Sales professionals are very similar to athletes; they love the thrill of victory and abhor the agony of defeat. Sales professionals try their best to thwart competitive threats so that they service their customers well and meet revenue expectations.

However, there are numerous sales professionals representing hundreds of thousands of companies. And there are millions of home based businesses-they too sell products to clients. Many of these professionals and just as many are not. What is it then that separates the successful representative or business owner from the rest of the field? Let's have a look at the following qualities of a sales person:

1. They have a passion for selling. Which do you believe gets more results an energized sales representative or business owner or a monotone, practical person? Love what you do, love the product you are selling and love the people you sell with. If you don't, then get out. If you don't like what you sell, prospects will read right through you and think, "Why should I buy from someone who is not passionate about what they say or do?" Your energy and enthusiasm come through on each and every call, if you are dispassionate, you will not ask the right questions, you will not read the buying signs, hear objections and importantly will not make any money.
2. They have high energy. No one likes a monotone sales professional. People enjoy working with people that are fun interactive and entertaining. I am not saying that a sales professional has to perform magic tricks but they must know how to engage potential clients. You engage by being enthusiastic, by loving your audience and loving your product. Once you embrace these vital issues you can sell anything to anybody. The world of selling is a roller coaster; do not get discouraged by the peaks and valleys of selling. Remain enthusiastic and you will only see the top of the peaks.
3. They are self starters. One of the very first training courses that I ever ran, I handed out cards to all the attendees. The card

stated that the holder is now named CEO of his/her desk and territory. The CEO (Chief Enterprising Officer) is responsible for providing revenue, meeting quota and obtaining new clients in any manner they deem appropriate. Sales professionals that do not need hand holding and understand how to operate without much direction are typically the most successful. Sales professionals that are CEO's operate their territory similar to an SBU (Small Business Unit). They understand how to make profit, how to accommodate for loss, how to watch expenses and how to get the job done without direction and much advice. These sales professionals are entrepreneurial in spirit and in motion.

4. They are proud and excited about being with their company and products. Customers love to purchase products from people who are interested, involved and motivated to achieving long lasting success and resolving their business issues. Do you want to buy a product from uninterested sales professional? And, customers want to be educated about the products that they intend to purchase. What motivates buyers are energetic and knowledge-able people that know the industry, know the product and know the competitors.

5. They understand the sale process. Successful sales professionals understand that you need to know how to conduct the following:

   1. Prospect
   2. Quality
   3. Provide Interest
   4. Gain Conviction
   5. Conduct Demonstrat
   6. Handle Objection

When you understand the a sale and a prospect becomes easier to understand. Destina gnition in the process enables successful sales professionals r strategy and close more sales. Yes, this step is part of the step mentioned earlier in this part. As you go through the it becomes much easier when you understand which area y ently in, to assist you in getting closer to the end.

6. They are confident. o you earlier that the world of sales is similar to life oaster. You must know how to ride the peaks and uccess and failure. Doing so requires you to be ur abilities, confident in your product and conf company and its support. Confidence is the through all of your trials and tribulations. Confi aining focus, sticking to your plan and measuri he more confident you are in your team, in yo your product the better you can be at delive exceedingly important client support.

7. They do their homework. Successful sales pr
make excuses. They do not ask the marketi
advertise for them and they do not ask some
calls for them. Good sales professionals under
detective. They know how, where and when t
They do not banter, barter or babble, they r
their mission to achieve success.

Summary

1. Method of promotion consists of
   - Instant appeal
   - Anxiety to sell
2. Marketing communications breaks down the strategie
marketing messages into categories based on the goals of
3. Oral presentation given by a salesman who approach
or a group of potential customer is called personal selli
4. Destination recognition in the process enables suc
professionals plan better strategy and close more sales.

Revie Questions

1. Beriefly discuss the metho promotion?
2. What are the principal cheristics of effective adver
3. Write down the eight signt steps of advertising com
4. How many types of per sales jobs are there? Gi
description of their function
5. Discuss the qualities of ssful salesman?

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Unit—3

Distribution Channels and Physical Distribution

NOTES

STRUCTURE

.1 Objective

The concepts of distribution channels and the factors affecting distribution are the principal subject matters of the unit. Once the -lents will have completed this paticular unit, they will certainly be to understand/analyse the methods of product distribution as as the importance of its various channels.

Introduction

)istribution (or placement) is one of the four aspects of marketing. ibutor is the middleman between the manufacturer and retailer. product is manufactured, it may be warehoused or shipped to t echelon in the supply chain, typically either a distributor, or consumer.

→ other three parts of the marketing mix are product ent, pricing, and promotion. The physical distribution of the nprises of means of transportation, warehousing, inventory

5.3 The Distribution Channels

Frequently there may be a chain of intermediaries, each passing down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these will have their own specific needs, which the producer must take into account, along with those of the all-important end-user.

Types of Distribution Channels

A number of alternate 'channels' of distribution may be available:

- Selling direct, such as via mail order, Internet and telephone sales
- Agent, who typically sells direct on behalf of the producer
- Distributor (also called wholesaler), who sells to retailers
- Retailer (also called dealer or reseller), who sells to end customers
- Advertisement typically used for consumption goods

Distribution channels may not be restricted to physical products alone. They may be just as important for moving a service from producer to consumer in certain sectors, since both direct and indirect channels may be used. Hotels, for example, may sell their services (typically rooms) directly or through travel agents, tour operators, airlines, tourist boards, centralized reservation systems, etc.

There have also been some innovations in the distribution of services. For example, there has been an increase in franchising and in rental services - the latter offering anything from televisions through tools. There has also been some evidence of service integration, with services linking together, particularly in the travel and tourism sector. For example, links now exist between airlines, hotels and car rental services. In addition, there has been a significant increase in retail outlets for the service sector. Outlets such as estate agencies, building society offices are crowding out traditional grocers from high shopping areas.

Channel Members

Distribution channels can thus have a number of levels, defined the simplest level, that of direct contact with no intermediaries involved, as the 'zero-level' channel.

The next level, the 'one-level' channel, features one intermediary; in consumer goods a retailer, for industrial goods a distributor. In small markets (such as small countries) it can reach the whole market using just one- and zero-level channels.

In large markets (such as larger countries) a wholesaler, for example, is now mainly used to extend to the large number of small, neighborhood retailers.

In Japan the chain of distribution is often very long, levels are used, even for the simplest of consumer goods.