CONTENTS

UNIT 1

NOTES

CHAPTER 1 MARKETING MANAGEMENT AND MARKETING FUNCTIONS

★ STRUCTURE ★

1.0 LEARNING OBJECTIVES

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

- understand the concept of exchange functions.
- explain the meaning of channels of distribution.
- understand different aspects of marketing.
- discuss about the importance of marketing.
- explain the objectives of marketing.

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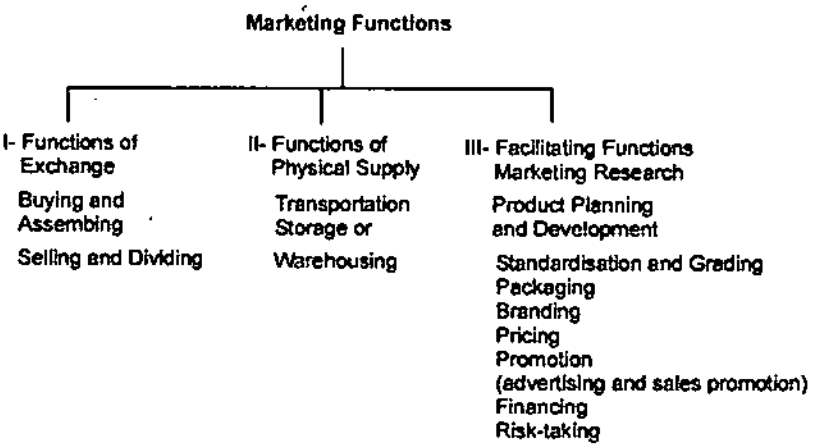
1.1 INTRODUCTION

Essentially, the marketing function is aimed at providing and distributing foods and services as required by the customers and in a manner which is at once efficient and economical.

The marketing functions may be classified as follows:



1.2 FUNCTIONS OF EXCHANGE

Exchange functions involve transfer of ownership. Ownership transfers occur reportedly as physical products flow from producers to final buyers. When physical products pass through different channels of distribution before reaching the final buyers, there may be more than one transfer of ownership. For example, when a manufacturer sells his output to wholesalers who, in turn resell it to retailers who, again in turn, resell it to consumers, the ownership of the product will be transferred thrice.

For affecting the transfer of ownership it is necessary that goods are both bought and sold. It is only the manufacturer who will only sell, though he is also engaged in buying raw materials, stores, etc. In the case of services, ownership transfer is not in the same sense as in the case of physical products. In this case the consumers obtain the right to consume or enjoy the services.

Buying and Assembling

Buying is the step in the process of making. A manufacturer has to buy his requirements of raw materials. The traders or the middlemen have to buy finished products from the manufactures. Efficient buying is essential for successful selling. It will enable the manufacturers or the traders to earn profits.

Buying refers to decision-making regarding:

1. determination of business needs;
2. the quantity to be purchased;
3. the price;
4. determining the time when goods will be needed; and
5. determining the suppliers from whom purchases are to be made.

The goods may be purchased in any of the following ways, namely:

1. by inspection;
2. by samples or patterns; and
3. by description of brand.

Buying by inspection involves inspection of the whole lot of goods proposed to be purchased. Buying by samples involves checking of a representative sample of goods before purchases. Buying by description is employed in the case of branded goods which have become popular through advertising. Purchase of goods mentioned in the catalogues and price list of the suppliers may also be referred to as purchasing by description.

There may be other kinds of buying such as:

1. Forward buying which is made to accumulate goods in order to gain from price increases;
2. contract buying under which goods are purchased from suppliers over a period of time under long term contracts; and
3. concentrated buying which is resorted to when sources of supply are limited.

Assembling implies seeking out sources of supply; buying wisely to quality, quantity and variety, and making commodities available when and where they are wanted. The assembling function is performed in the case of goods which are purchased at different centres and which cannot be purchased by the manufacturers unless they are made available in large quantities. Thus, a manufacturer assembles raw materials to ensure smooth production while a trader assembles goods produced by a number of manufacturers.

Selling and Dividing

Marketing is basically concerned with bringing the buyers and the sellers together. It seeks to ensure that the right product is made available at the right place in the right quantity at the right place and at the right time to the consumer. This can be achieved only by performing the selling function.

Selling may be defined as affecting transfer of ownership in goods by the seller to the buyer in exchange for money. It may also be described as the dispersion function of marketing. It involves a process whereby the seller ascertains, activates and satisfies the needs or wants of the buyer to the mutual continuous benefits of both the buyer as well as the seller.

1.3 FUNCTIONS OF PHYSICAL SUPPLY

Physical supply of marketing is concerned with imparting place and time utility to the goods. It consists in transfer of goods from one place to another and in storing the goods for use in the future.

Transport

Transport means conveyance, carriage and movement of materials and goods from one place to another. It plays an important role in marketing. It serves as a link between the producer and the consumer who may be separated by long distances. It helps in buying, assembling and selling of goods. It creates place utility by moving the materials and goods from the places where they are available in plenty, to places where they are in short supply. In the absence of quick and easy modes of transport, producers would not produce more than what the local markets could absorb, and the consumers would not be able to consume what is not produced locally.

Land, water and air transport are the various modes of transportation of goods and materials. The decision as regards the choice of a particular mode of transport will have to be made keeping in view (1) the cost of transport; (2) speed; (3) flexibility; (4) reliability; and (5) availability of different modes of transport.

Warehousing

Warehousing refers to the holding and preservation of goods till the time they are sold and delivered to the customers. In the present-day world, production of goods is largely in anticipation of demand.

This necessitates a time-gap between production and consumption of goods. In the case of goods with seasonal production or demand, such time gap is inevitable. Warehouses enable storage of goods till there is demand for them. They can also be used to store the raw materials in adequate quantity to carry on the production activity smoothly without any interruption. Other important functions of warehouses are creation of time utility, price stabilisation and safe custody of goods. There are three types of warehouses, namely, private, public and bonded warehouses. Private warehouses are owned and operated by large manufacturers and

traders. Public warehouses may be owned and operated by private individuals or groups thereof. They have to work under a licence in accordance with the prescribed rules and regulations. Any member of the public is free to make use of such warehouses, which provide excellent storage facilities at nominal cost.

Bonded warehouses are operated by the government mainly at ports. They are used to store dutiable goods, *i.e.*, goods that are liable to customs duty. Duty on such goods does not become payable until they are removed from warehouse. The owner of the goods cannot interfere with them without the permission of the customs authorities.

1.4 FACILITATING FUNCTIONS

Facilitating functions are aimed at assisting the processes of exchange and physical supply of goods.

Marketing Research

Marketing research may be defined as the gathering, recording and analysis of all facts about any problem relating to the transfer and sale of goods and services from the producer to consumer. The objectives of marketing research are to determine:

1. the degree up to which a product would be acceptable to consumers and the consumers' preference for any variation of the product;
2. the reasons for particular consumer preferences;
3. the time when the products are needed;
4. the price which would be acceptable; and
5. the most appropriate method of advertising.

Products Planning and Management

A product can be marketed successfully only when it possesses the characteristics which are in close conformity with the needs and desires of the buyers. This calls for frequent adaptation of the product to afford maximum satisfaction and utility to the present and prospective buyers.

It is the responsibility of the marketing department to design and develop the right type of products, including introduction of new products, improvement of the existing products, and dropping out products which have ceased to be popular with the consumers.

A company not engaged in appropriate product planning and development is bound, sooner rather than later, to face elimination from the market.

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In the case of industries such as pharmaceuticals and electronics, there have been rapid changes over the past years and only companies which have kept themselves in step with changes have continued to survive and grow.

Standardisation and Grading

Standardisation is rightly a facilitating function of marketing because, it helps in efficient performance of marketing functions, particularly those relating to buying and selling by sample and description. Standardisation means the production of such goods as having uniformity of the same specification with regard to shape, size, colour, materials, performance, etc.

If a commodity is to be produced on a large scale by mass production methods, it will have to be standardised for the sake of availing economies of scale. The extent to which variety is required, is a limiting factor on the scale of production. However, standardisation is possible only if buyers are prepared to accept some restriction of choice.

Standardisation also helps in efficient and cost effective advertising. Grading involves a division of products into classes made of units possessing similar characteristics of size and quality. Grading is not necessary in the case of most manufactured goods because they possess uniform characteristics. However, in the case of raw materials and other agricultural products, grading in accordance with fixed or varying standards of quality becomes necessary.

Grading enables the manufacturers to produce standardised goods. It removes the elements of uncertainty from buying. It facilitates the sale by sample and description. It enables the seller to obtain a better price for his goods.

Pricing

The price of a product relative to the quality, quantity and the package of the product will in a measure determine the consumers' attitude towards the enterprise. The level at which an enterprise sets its prices will affect both its marketing and profitability. In some cases, it may be more profitable for an enterprise to concentrate on the more limited demand market. While the economic law of supply and demand, *i.e.*, the lower the price the greater the demand, will apply in general to all pricing decisions, the demand for certain products displays greater sensitivity to price changes. Products with greater demand elasticity will have far less demand when the prices are increased. As against this, products with less demand elasticity will not be affected in the same proportion as increase in the price.

Pricing of products is also affected by considerations of availability of substitute products, durability and ability to postpone purchase, income, population and the prices of competing products. While population and availability of disposable income with the people may influence the decision regarding the price determination, factors such as current fashion, individual tastes, prestige, imitation of others, convenience or security will also have an effect on price determination and buying behaviour of the people. In fact, certain products will sell more only if they are priced relatively high.

Among the many problems facing the setting up of the price of a product, the following bear special mention:

1. The price of a new products is relatively more difficult to set as compared to the old and tried products.
2. It is difficult to assess changes in the price of competitive products. Determination of the middle man's margin also poses problems.
3. In case of two or more products having inter-related production cost, price setting for each creates problems of allocations of costs.
4. In any case the determination of the appropriate timings, frequency and amount of price changes is not an easy task.

Price determination in the case of products of an enterprise will also have to take into account the objectives, policies and constraints of the enterprise and the management. The areas which require decision-making in this respect may be as follows:

1. Does the enterprise intend to project the image of quality producer of goods and services and identify this with price levels?
2. Does the enterprise have short-term and long-term objectives in terms of overall profitability and the extent to which these objectives are to affect the pricing of products, regardless of whether they are new or well established?
3. Does the enterprise intend to follow discriminatory pricing such that it wants to set lower prices for the same goods in selected markets and a higher price in other?
4. Does the company intend to retain its share in the existing market?
5. Is the enterprise prepared to sacrifice short-term profits in favour of long-term objectives?
6. Does the company propose to assume price leadership so as to gain from competitive price stability at a later stage?

7. To what extent will the company co-exist with price-cutting measures adopted by its competitors?

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Packaging

Packaging may be considered from three basic standpoints, namely,

1. as a productive device;
2. as a product utility factor; and
3. as a form of marketing promotion.

A package on the shelf of a retail store and in the kitchen of a housewife is a form of an advertising. Where buying depends to a considerable extent on impulse, package shape or colour may be the major means of creating product preference. An ideal packing should have the following features:

1. Easy identification in all selling situations particularly vis-a-vis competitive products;
2. Effective appeal both in the shop and in the household;
3. Easy conversion of cartons or outer covers into display material;
4. Impact of product visibility, *i.e.*, use of glass containers, visible packs, etc.;
5. Impact of colour; and
6. The plus and minus points of returnable and non-returnable packaging.

Branding

Branding means giving a name to a product by which it should become known and be remembered by the consumers. The brand name distinguishes the products manufactured by one producer from those manufactured by others. Branded goods are also easy to be identified by the consumers.

Branding may be done in any of the following ways: (1) *symbols* and *marks* which may be used as brand names, such as, Wolf tools, Charminar cigarettes, etc.; (2) *special names,* which may be given for branded products such as Lux toilet soap, Maruti car, etc.; (3) *the name of the manufacturer,* which may be used as a brand name such as Tata textiles, Bata shoes, etc.

Branding results in several advantages to the manufacturers. For example, by repeating the brand name through advertisements in mass media, the products may carve a special place for themselves in the market. The brand name in course of time becomes its own advertising. In many cases brands are generally accepted as the very proof of quality of the products concerned. Branded goods may be sold straightaway to the consumers without availing the services of middlemen.

1.5 CHANNELS OF DISTRIBUTION

The term channels of distribution refers to the system of marketing *institutions through which goods or services are transferred from* the original producers to the ultimate users or consumers. Among the important institution which act as channels of distribution, the important ones are:

1. Retailers;
2. Wholesalers;
3. Agents and brokers; and
4. Facilitating institutions such as commodity exchanges, trade associations, freight carriers, and so on.

Decision-making as regards channels of distribution must ultimately be based on whether the producer wants to carry out the basic marketing processes himself or through the various channels. No doubt channels of distribution will mean increase in costs but it can be justified in terms of economic advantages such as increased profitability, market penetration, etc. The choice of a particular channel will ordinarily be influenced by the following factors;

Product Factors

1. *Unit Price:* A product which is priced too high will generally have a short channel. Since demand for such a product will be limited, the producer can easily sell it directly to the consumers. As against this, a low-priced product with heavy demand will often have a long channel because of the producer's inability to deal directly with a number of consumers.
2. *Weight and Size:* A product which is bulky or heavy in weight will generally have a short channel because of the high cost of transportation. As against it, the small or light-weight goods may often have a long channel.
3. *Standardised or Job-based Production:* Where a product is manufactured according to standardised specifications, it will have a long channel because of universal demand. As against this, if a product is made to order in accordance with individual customer's taste and preference, it will possibly have a short channel because of the need of direct contact, as far as possible, between the buyer and the producer.
4. *After-marketing Service:* If the product requires servicing or other attention after its sale, it will have a short channel. If it can do without after-sales service, it may have a long channel.

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5. *Nature of Product:* A perishable product cannot have a long channel since time is of the essence of its saleability. A non-perishable product, on the other hand, can do with a long channel.

6. *Seasonal Goods:* A product which has a demand only in a particular season will often have a short channel because of the reluctance of middlemen to take the risk of blocking of capital. As against this, if a product is sold round the year, it may have a long channel.

Market Factors

1. *Size of Market:* The larger the size of the market to be approached, the longer will be the channel. As against this, if a product is sold in a limited area, it will have a short channel.

2. *Nature of Consumers:* If a product is meant for personal use of the consumers, it may have a long channel. But if it is bought by industrial users who generally prefer to get their supplies directly from the producers, it will have a short channel.

3. *Geographical Coverage:* In a densely populated area, the producer may profit more by dealing directly with consumers, thus shortening the channel. As against this, if the population is spread over a larger area in small pockets, there will have to be a long channel.

Consumer Factors

1. *Number of Consumers:* The larger the number of customers, the longer will be the distribution channel and *vice versa*. The other influencing factors will be the concentration of dispersal of customers over the area.

2. *Quantity of Goods to be purchased:* Where a product is bought in large quantities, it may be beneficial for the producer to have direct dealings with consumers or have the distribution channel as short as possible. However, if the product is sold in small quantities, there may have to be a long channel.

3. *Need for Credit:* Where goods are required to be sold on credit, the producer will need a long channel as it would facilitate recovery of dues. As against his, where goods are sold for cash, a short channel may it be helpful.

Middlemen Factors

1. *Availability:* The length or shortness of a channel will often depend on the availability of middlemen and their willingness to act according to the producers' bidding.

2. *Cost:* If the price of a product is likely to increase to an unreasonable extent due to intervention of middlemen, the channel ought to be kept short. As against this, if middlemen charge reasonably for the services rendered by them, the channel may be allowed to be long.

3. *Contribution to Increased Marketing:* The producer will require the services of middlemen only when he is convinced that by doing so, he would be able to sell more. If middlemen do not contribute to increased marketing, the channel may be kept as short as possible.

Manufacturer Factors

1. *Financial Soundness:* A financially sound producer can sell goods direct to big consumers and realise the sale proceeds at his convenience. But if the producer cannot afford to block his capital in this manner he will have to seek middlemen so as to ensure quick availability of funds.

2. *Marketing Policies:* If a producer believes in establishing direct contact with his consumers, he will eliminate most of the middlemen so that the distribution attracts only the customers belonging to the upper strata of society, he will have to bank on middlemen therefore the channel will be long.

Advertising and Marketing Promotion

Advertising is the non-personal communication directed at target audience through various media in order to present and promote products, services and ideas. The cost of media space, time, advertisement production, is borne by the sponsor of sponsors. Advertising should be distinguished from publicity by means of which an organisation derives benefits from favourable free showing, description and discussion of its products in a variety of media.

Retailers, wholesalers, trade shows, exhibitions, samples, special offers and demonstrations are classified as marketing promotion. Advertising is an important element of marketing strategy—though it is difficult to measure its contribution to profits. However, the objectives of advertising will greatly contribute to assessment of an advertising campaign. The following may be stated to be the objectives of advertising:

1. To ensure potential customers of a new product of services;

2. To indicate new users of an existing product;

3. To remind customers of existing products in order to maintain loyalty against competing pressures;

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4. To provide information about significant qualities of a product;
5. To stimulate inquiries;
6. To give reasons why middlemen should stock a product;
7. To provide technical information about a product;
8. To build a corporate company image; and
9. To give information on price change, special offers, etc.

1.6 MEANING OF MARKETING

There can be no precise, all-purpose definition of marketing. This is owing to two reasons. One, at each stage of its evolution, hitherto unknown potentialities of the marketing function came to light. Secondly, marketing has not thus far recognized a theoretical base. The following definition highlight different aspects of marketing:

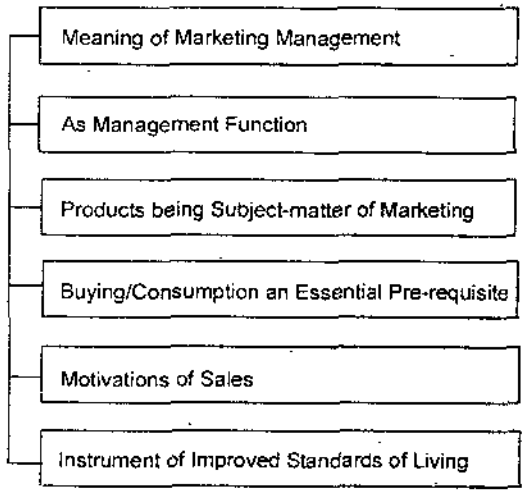
1. Edward Cundiff and Richard Still: *"Marketing is the managerial process by which products are matched with markets and through which the consumer is enabled to use or enjoy the product."*
2. E.F.L Brech: *"Marketing is the process of determing consumer demand for a product or service, motivating its sale and distributing it into ultimate consumption at a profit."*
3. Philip Kotler: *"Marketing is specifically concerned with how transactions are created, stimulated, facilitated and valued."*
4. William Stanton: *"Marketing is a total system of interacting business activities which is designed to plan, price, promote and distribute the want satisfying products and services to present and potential customers."*

These definitions bring into focus the following features of marketing:

Marketing as Management Functions

Marketing as an operational management function is as important as production, personnel or finance functions. For this reason, it involves planning, organisation, direction, coordination and control of activities concerning marketing of goods and services produced by an enterprise.

Marketing and production activities are highly interlocked. Only those goods and services can be marketed that can be produced, and only those goods and services should be produced which can be marketed. In this sense, marketing is a managerial function which is concerned with matching specific products with specific markets.



In association with the production department, the marketing department is involved in decision-making concerning selection, manufacture and marketing of products that posses as many of the characteristics as are desired by the people who constitute the market while, at the sametime, seeking to achieve the profitability goals of the enterprise.

Products as Subject-matter of Marketing

Marketing is not concerned with tangible goods alone. It plays a similar role in respect of distribution of services. Thus, if a car manufacturer is interested in information as regards potential buyers, the types of cars needed by them, as also the channels through which these could be made available to them, so is an insurance company which is in the business of providing insurance coverage.

Buy/Consumption is Pre-requisite to Marketing

All marketing activity is directed at the existing and potential users and consumers of goods and services marketed by the producer. Movement of goods from the producer is in anticipation of the goods being bought by the users. Distribution of services is in anticipation of the services being consumed by the users. In other words, marketing will be a useless exercise if goods are not purchased by the users, or services are not consumed by the users.

Movement of goods from the producer to the final user results in transfer of ownership. In case the goods move through various channels of distribution, there is transfer of ownership every time the goods change hands. As regards services, the consumers obtain the right to consume or enjoy the services. But whether it is acquisition of ownership by the buyer, or right of consumption by the user, it is always in consideration of payment of the price demanded by the producer/supplier.

Motivation of Marketing

Having been instrumental in ensuring production of desired products, marketing management is next concerned with decision-making as regards pricing, selling, advertising, other promotional activities, transport, etc., to motivate and facilitate marketing.

Instrument of Improved Standards of Living

Through creation of time, place and possession utilities, marketing process makes it possible for consumers to use and enjoy the products of their choice at the time and place of their liking. By making available useful and quality goods at reasonable prices, marketing helps in improving living standards of people.

When the term "Marketing or distribution is used in the physical distribution it conveys the meaning of 'transporting' the goods to ultimate consumers through different channels of distribution or direct from the producer." Marketing, thus, assumes the role of a customer satisfying process, which is quite distinct from that of a goods producing process. The marketing management has, therefore, to strike a balance between the production and distribution in such a manner which helps both the producer to get his produce moving and the consumer to get his satisfaction with fair amount of consumers surplus.

Marketing as a Business Function

In traditional sense, says EE. Clark, "marketing consists of those efforts which affect transfers in ownership of goods and care for their physical distribution." When viewed in economic terms marketing is "creation of time, place and ownership utilities Marketing as a business function is "the movement of goods and services from the producer to the user." To produce is not sufficient. Neither it is the acid test of business success unless it is sold at a reasonable profit to those who are prepared to buy at a reasonable price which for them is satisfying and worth parting with. Marketing as a philosophy is "a customers' -satisfying process."

1.7 DEFINITION OF MARKETING

1. *"Marketing is the delivery of a standard of living to society."*

   —Paul Mazur

2. *"Marketing is the creation and delivery of a standard of living to society."* —Professor McNair

3. *"Marketing is the performance of business activities that direct the*

flow of goods and services from producer to consumer or user."
—American Marketing Association

4. *"Marketing involves the design of products acceptable to the consumers and the transfer of ownership between seller and buyer."*
—Herry Hansen

5. *"Marketing is a total system of interacting business activities designed to plan, price, promote, and distribute want-satisfying products and services to present and potential customers."*
—William Stanton

From the above definitions, it is clear that different thinkers have defined the terms in different contexts. But all agree that marketing is s business activity which directs the flow of goods and services from producer to the user. Marketing as a function has been viewed from different angles by different thinkers. Different views as expressed above. in the five definitions may be summarised in the following few words:

1. *From Society's Points of View:* Marketing is a creation and distribution of standard of living to the society. Marketing is instrumental in spreading the civilisation throughout the world.
2. *As a Factual, Descriptive and Operative Thinking:* Marketing is nothing but transfer of goods and services to those, who are prepared to pay for the same.
3. *From Legal Point of View:* Marketing is considered to be the transfer of ownership from producer to user against payment.
4. *As a Combination of Traditional and Modern Concepts:* Marketing is an activity of satisfying the consumer by selling the goods and services to him.
5. *From Management's Point of View:* Marketing is planning, promoting and distributing the goods and services in a manner in which it satisfies ultimate consumer. "Marketing is not an activity," opines M.C. *Shukla,* "nor is it exactly the sum of several, rather, it is the result of the interaction of many activities. For him Marketing is a *Managerial function which starts with the product and ends with the complete satisfaction of the consumer's want.*

1.8 MODERN CONCEPT OF MARKETING

Above discussions make it abundantly clear that traditionally marketing is a business function which is engaged in bringing together both the seller and the buyer at a place where they can meet and transact

business to the mutual satisfaction of both. But marketing has now crossed the traditional barrier. It is something more than what the traditionalists have thought of. The modern concept views marketing as the entire business process and not as an isolated and separate functional process. The total or modern concept is 'marketing-minded' and it considers the consumer as the sole factor around whom the whole business activity clusters. Nothing in the modern concept is considered in isolation. Every action is consumer-oriented. What he wants, at what price he wants, what satisfies him and to what extent competitors are trying to allure him are some of the questions which every marketing management *is for* answer. Today marketing is not considered to be a meeting ground to both buyers and sellers but it is now considered in its totality taking the consumer as a moving factor. Modern concept of marketing is consumer-oriented. It is a *state of mind* of both owners and managers to plan and to execute the production and distribution plans making the consumer a *constant focal point* of all their business activities.

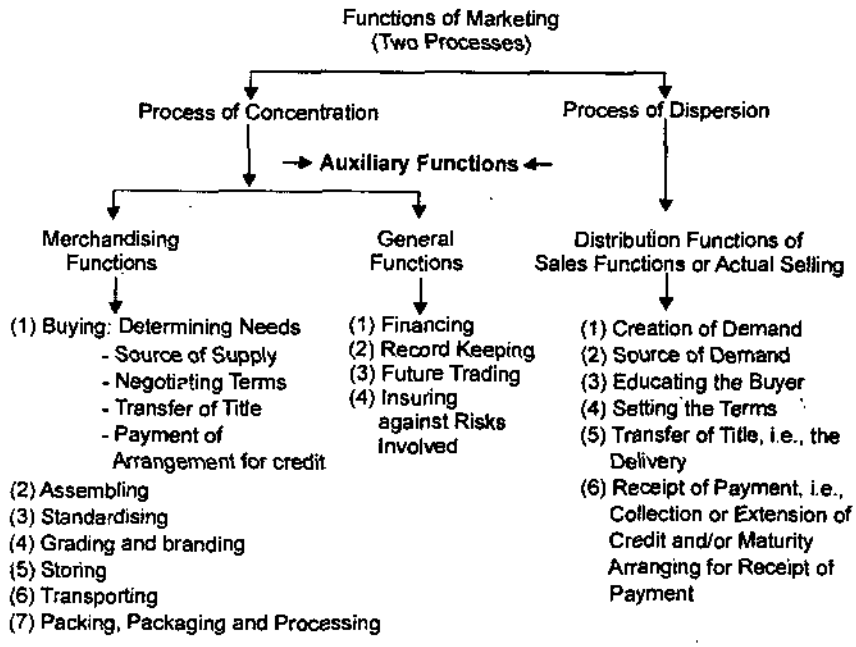
1.9 FUNCTIONS OF MARKETING

The total or modern concept of marketing envisages the adjustment of production of goods and services to the needs of consumers. Consumption is the sole aim of any production. Adam Smith, the noted economist, has said long ago that" consumption is the sole end and purpose of all production." Marketing management considers the journey through which the goods and services produced passed before reaching to the hands of the ultimate consumer. It is the entire journey of goods and services which forms L'1e marketing functions.

Firstly, marketing function can broadly be divided into the following two processes.

1. **The Process of Concentration:** Which consists of collection of goods and services at a place where the sellers and buyers are expected to meet for transacting the business.
2. **The Process of Dispersion:** Which comprises the distribution activity. The process delivers the goods and services to the ultimate consumer after the deal is struck between the seller and the purchaser.

The above two processes involve many auxiliary functions which facilitate the marketing of goods and services. The whole of marketing functions may be depicted with the help of the following chart.



1.10 IMPORTANCE OF MARKETING

The process of marketing is concerned with relating the needs and desires of people with the goods and services offered by the producer. While there can be no marketing without production, similarly there can be no production without effective and efficient marketing.

The importance of marketing is brought out by the following:

1. **Increase in National Income:** Efficient marketing of goods and services results in substantial reduction in the cost of distribution, thus leading to lower prices for the consumers. In turn, this results in an increase in national income.

2. **Production of Socially Useful Products:** Marketing involves a regular interaction with the present and potential users and consumers of goods and services with a view to ascertaining their needs and desires. This facilitates production of socially useful goods and services.

3. **Improvement in Living Standards:** The marketing process aims at making available to the consumers goods and services which have been perfected after years of intensive research and experimentation. This has the effect of raising living standards and improving quality of life in general.

4. **Educational Value:** Through competent advertising and marketingmanship, marketing serves to educate the people abou

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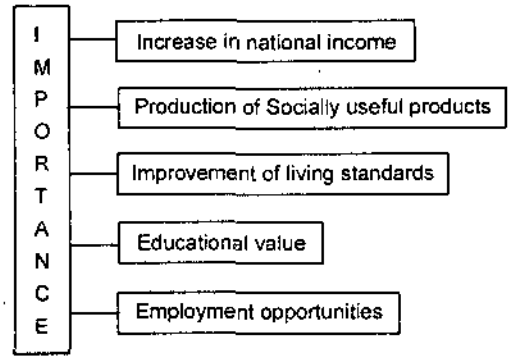
the availability of goods and services which would best fulfil their needs and desires. It is only due to marketing that goods and services which were till recently considered as a luxury, have become necessaries today.



5. **Employment Opportunities:** Marketing has created substantial employment opportunities. In India, around 40 million people are engaged in wholesale and retail business alone. Add to it those engaged in transportation of goods, warehousing, advertising and marketingmanship, and one can have an idea about the huge employment potential that marketing has.

In the USA, about one-third of people employed are engaged in the field of marketing.

1.11 OBJECTIVES OF MARKETING

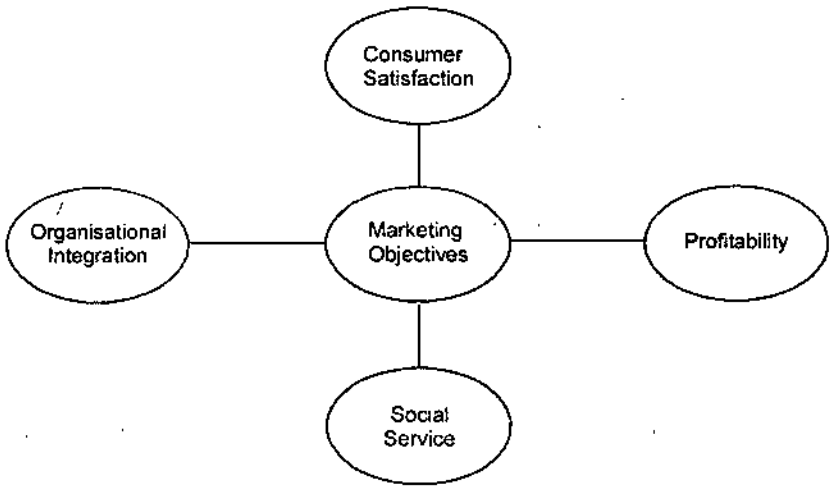
The main objectives of marketing may be stated as follows:

1. To secure consumer satisfaction.
2. To achieve organisational integration.
3. To attain profitability of operations.
4. To serve the society.

Consumer Satisfaction

An important objective of marketing is to organise the factors of production within the organisation keeping in view the factors of consumption outside. To begin with, this calls for a careful assessment of the existing and anticipated physical, financial and personnel resources of the organisation. Such assessment will enable the enterprise to know its strengths and weaknesses. Secondly, it requires a thorough understanding of who the present and prospective customers of the business are, and what are their wants and desires. Assessment of the internal resource position

and determination of the nature and strength of demand will enable the enterprise to allocate its resources to the creation of supplies of the required goods and services. The next step is to adopt suitable pricing, distribution and promotion policies to ensure that the goods and services do, in fact, reach the consumers for whom they are intended. Consumers are the targets of the marketing function. All marketing activities begin and end with the consumer. In the present-day world, it is not possible to sell whatever one produces. It is not the products but the satisfactions are sold. It would be suicidal for an enterprise to view marketing in terms of its product offering. It should rather see it in a larger perspective of the fundamental needs and desires of customers which its products are going to satisfy.



Organisational Integration

As an enterprise grows, function such as production, finance, and marketing get more complex and are, therefore, split into smaller parts. While the object of such sub-division is to benefit from specialisation, the unintended consequence is decreasing communication between functional department, and between sub-departments within the same functional department. This often leads to conflict as regards departmental goals.

Thus, while the production department is excessively interested in reduction of costs, the marketing department seeks single-mindedly to increase marketing. The production department's emphasis is on reduction in the number of products, standardisation of the product variety, longer time-interval between the model changes, and all such measures as would minimise costs of production. The marketing department seeks to pursue wholly opposite goals, such as, increasing the number of products, wider variety, frequent model changes, lower pricing, and so on. The finance department may come forth with its own priorities

which may be contrary to the goals of both production and marketing department. It may, for example, oppose expenditure on research and development or innovation which, though beneficial in the long-run, may cost a large sum in the initial years. On top of it, it may prefer to go in for short-term small gains to keep the shareholders satisfied even if this is at the expense of customer's interests. To be able to accomplish its objective of assuring consumer satisfaction within the framework of profitability goals of the enterprise, the marketing management seeks to bring about as nearly perfect integration between the various functions as possible.

This is done by making the relevant decision fully keeping in view their impact on the enterprise as a whole and its overall objectives. From the point of view of the enterprise, the test of integration lies in (1) distinct consumer orientation in the marketing of products, *i.e.*, conforming the products to the needs and desires of customers rather than pushing up the existing products by fair and foul means without any regard for the customers' interests; (2) subordination of (individual) departmental interests to the interests of the enterprise as a whole; and (3) unified efforts on the part of all departments towards attainment of the enterprise goals.

Profitability

A business enterprise is an economic institution. It is required to generate profits from sale of the goods and services produced by it. Moreover, it has to earn profits on a sufficiently regular basis so as to be able to pay a return on the capital invested by the owners (shareholders), as also to set apart funds for future growth and to meet unforeseen business situations.

The profit goal of an enterprise is of vital interest to its marketing department. This is because profits materialise from sale of goods and services and it is the responsibility of the marketing department to effect the marketing. However, marketing will be possible only when customers are created and retained, and customers can be created and retained only if the goods and services produced by the enterprise satisfy them in terms of meeting their needs and desires. Thus, profitability of an enterprise is intimately linked with ability to provide customer satisfaction. Profitability to an enterprise can be increased by either increasing the marketing volume or by cutting down the costs of production and distribution. Increase in marketing will result in increase in profits, irrespective of smallness of the profit margin in the price. Increased efficiency in production and distribution methods will result in increase in profits even if the marketing volume remains unchanged. It should be the objective of the marketing function to adopt both the strategies simultaneously to increase profitability of the enterprise.

Increase in marketing volume can be brought about by (1) *market development i.e.,* selling of existing products in new markets; (2) *product development, i.e.,* developing new products for sale in existing markets; (3) *market penetration, i.e.,* increasing the marketing of existing production in the existing markets; and (4) *diversification, i.e.,* developing new products for sale in new markets. However, in each case, careful cost benefit analysis will have to be made for the strategy to be adopted to push up profitability. In other words, not only the financial costs of the proposed strategy but also the social, legal and ethical implications will have to be taken into account.

The question of pricing the products also has an important bearing on profitability. Pricing of the goods may be cost-based, demand-based or competition based. Cost based pricing takes into account the production and distribution costs of the goods and services, with an appropriate profit margin added to these while determining the price. Demand-based pricing means adjustment of the price to the market conditions such that a higher price may be charged for goods and services with greater demand without consideration to the costs incurred. Under the competition-based pricing, goods and services may be priced at a level which may be higher, lower or equal to that charged by competitors. However, while making a decision on pricing, it is useful to remember that marketing involves an exchange - and an exchange that is beneficial to both, the enterprise and customer.

To sum up, it should be an important objective of the enterprise to ensure that the profits made by it from the marketing of goods and service should be judged by customers, government, and the public at large as a fair return achieved by fair means.

Social Service

There are two distinctly opposite views as regards the social aspect of marketing. According to the first, marketing is a tool to be used to justify as well as to stimulate, unbounded consumption and self-indulgence. According to the second, marketing must develop social consciousness, in other words, it must become involved in vital issues and provide important public services.

It is clear that in the present-day world, promotion of limitless consumption and self-indulgence cannot be justified as an objective of marketing. In any case, existence of several laws and effective consumer protection groups will make it difficult for any enterprise to indulge in manipulation and exploitation of consumers as well as the public at large. The social objectives of marketing may be listed as follows:

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1. It should set and maintain highest standards of quality of goods and services.
2. It should only provide goods which are socially useful and not hoodwink people into buying goods which are frivolous and of no benefit to the buyers or the public at large.
3. It should aim at minimising the costs of distribution, thus, lowering its effect on the price of goods and service.
4. It should not resort to unfair trade practices, like profiteering, deliberate low pricing to edge out competitors, etc.
5. It should not make false claims while advertising its products.
6. It should not add to environmental pollution through development and promotion of disposable products like paper napkins, or by switching to disposable or throw packages.
7. It should be ever attentive to consumer grievances as regards over-pricing, substandard quality, or faulty packaging of goods.
8. It should abide by the laws of the land as regards regulation of patents, trade marks, packaging, labelling, weights and measurements.
9. It should maintain reasonably high ethical standards in dealings with consumers and the public at large.

ORGANISATION OF MARKETING FUNCTION

In a small concern, executives may have to attend to all types of problems whether relating to production, finance, personnel, or marketing. However; in a large enterprise, division of work based on specialisation is not only desirable but also in a way essential for the proper execution of diverse functions.

In the marketing department of a large enterprise, there may be several executives with specialised knowledge and training in various fields, such as marketing research, physical distribution, advertising, and so on. The division of work among these executives based on their skills and aptitude is the responsibility of the chief marketing executive, who may be variously designated as Vice President, General Manager, Director, etc.

The marketing manager in this case will mainly be discharging staff functions being an expert in the fields of activities assigned to him. The marketing manager will be the principal line executive managing the marketing force, though he will also be discharging certain staff functions such as looking after training. The products manager will coordinate and control all marketing activities concerning the product.

1.12 MARKETING MANAGEMENT

Today, producers and consumers both are undertaking one or the other kind of marketing activities to facilitate convenient transfer of goods. Marketing management has become very important for promotion of marketing as well as consumers' satisfaction. Marketing Management involves planning, organising, directing and controlling of all marketing activities. It is an important operative function of management. It performs all managerial functions in the field of marketing. It is concerned with the direction of purposeful activities towards the achievement of marketing goals. It has to look after the production and marketing of those goods and services which provide maximum satisfaction to the consumer. It increases the efficiency and effectiveness of the marketing activities of the organisation. It implies coordination of several factors for mutual gain.

1. *"Marketing management is concerned with the direction of purposeful activities towards the attainment of marketing goals."*

   —E.W. Cundiff and R.R. Still.

2. *"Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target audiences for the purpose of mutual or personal gain. It relies heavily on the adaptation and coordination of product, price, promotion and place of achieving effective response."*

   —Philip Kotler.

3. *"Marketing management is a process of planning, organising, implementing and controlling marketing activities in order to effectively and efficiently facilitate and expedite exchanges."*

   —Pride and Farell.

Marketing management includes all activities which are necessary to determine the needs of customers and supply goods and services to satisfy their needs in order to achieve the objectives of the business. The basic goal of all marketing management is the satisfaction of needs of the customers and, generation of revenue for the business. Marketing management is the marketing concept in action.

1.13 OBJECTIVES OF MARKETING MANAGEMENT

The term 'Marketing' means different things to different people. For a housewife, it means buying family requirements at the market place. For a marketingman, it means persuading customers to buying goods and services. A marketing manager may interpret it in terms of selling.

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An advertising executive may equate it with advertising. A lawyer may perceive it as comprising all those efforts which have the effect of transfer of ownership in goods and their physical distribution. An economist may describe it as a function which creates time, place and possession utilities, and so on. The fact that marketing means all these activities and functions and a lot more. The concept of marketing has evolved over a long period and has undergone several changes. That explains why there is no single definition of the term. Among the several stages of evolution of marketing, the barter system prevailing in the early phases of civilisation may be said to be the first, since it necessitated the coming together of producers and consumers at a central place at a mutually convenient time. The invention of money as a common medium of exchange solved the problems of the barter systems, but it further added to the importance of the marketing function. The second stage in the evolution of marketing came with the onset of the Industrial Revolution. The various technological developments had made it possible to produce goods on a mass scale. But marketing was basically production-oriented, the assumption being that if a product possessed the qualities of being good and reasonable priced, it was bound to have a ready demand and that whatever could be produced, could also effortlessly be sold.

SUMMARY

- Exchange functions involve transfer of ownership. Ownership transfers occur reportedly as physical products flow from producers to final buyers.
- Transport means conveyance, carriage and movement of materials and goods from one place to another.
- Warehousing refers to the holding and preservation of goods till the time they are sold and delivered to the customers.
- The term channels of distribution refers to the systems of marketing institutions through which goods or services are transferred from the original producers to the ultimate users or consumers.
- The process of marketing is concerned with relating the needs and desires of people with the goods and services offered by the producer.
- The term 'Marketing' means different things to different people.

REVIEW QUESTIONS

1. What are different marketing functions?
2. Explain the different marketing functions:

(a) Functions of exchange

(b) Functions of physical supply

(c) Facilitating functions

3. Explain channels of distribution.

4. What do you understand by meaning of the term marketing?

5. Explain the marketing as Management Functions.

6. Explain organization of marketing function.

7. What are the different objectives of marketing management?

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CHAPTER 2 THEORIES AND TECHNIQUES OF MARKETING

★ STRUCTURE ★

2.0 LEARNING OBJECTIVES

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

- discuss about the role of marketing executive.
- define the term 'dyad'.
- explain the concept of degree of difficulty in marketing.
- discuss about the theoretical aspects of marketing.
- explain ideas theory of marketing.
- understand the 'behavioural-equation theory'.

2.1 INTRODUCTION

The fully qualified marketing executive has a thorough understanding of the various activities that make up the marketing-person's job, is aware of. the many problems that marketing-people are likely to encounter, and is prepared to make practical suggestions for their solution. The marketing executives must have a keen grasp of the theoretical aspects

of marketing techniques; and should have learned, preferably through field experience, how the theories relate it and work out in practice.

Although many marketing executives, some of them outstanding, have had little or no experience as marketing-persons, the normal progression to marketing management is through marketing. There are cases, however, of usually good marketing-people being utter failures as executives. The characteristics that make a person good at marketing do not necessarily make him or her a good executive. Nevertheless, all other things being equal, usually the person who has some marketing experience is likely to prove successful as a marketing executive.

Marketing executives must be in close and enough touch with actual marketing situations to have a sympathetic understanding of the problems faced daily by the marketing force. They realise that marketing-persons experience many frustrations. They know that marketing-people must cope with obstacles to marketing that often arise unexpectedly and require great ingenuity to surmount. Equipped with this understanding, marketing executives have the background needed to train marketing personnel for maximum productivity; they should also be able to direct the marketing forces to make efforts efficiently, and to evaluate individual's achievements realistically.

Although the terms 'personal marketing' and 'personal selling' are often used interchangeably, there is an important difference. Personal marketing is a broader concept. Personal marketing may or may not be an important part of personal marketing; it is never all of it. Along with other key marketing elements such as pricing, advertising, product development and research, marketing channels, and physical distribution, personal marketing is a means through which marketing programmes are implemented. Combined and integrated into a marketing programme, these marketing elements become the strategy with which a firm seeks to active its marketing objectives. Whereas the broad purpose of marketing is to bring a firm's products into contact with markets and to affect profitable exchanges of products for money, the purpose of personal marketing is to bring the *right products,* into contact with the right customers, and to make certain that *ownership transfers* take place.

Marketingmanship is one of the skills used in personal marketing; as defined by T.P. Stroh, it is a *direct, face-to-face, marketing-to-buyer influence which can communicate the facts necessary for making a buying decision/ or it can utilise the psychology of persuasion to encourage the formation of a buying decision.* Marketingmanship, then, is marketing-initiated effort that provides prospective buyers with information, and motivates or persuades them to make favourable buying decisions concerning the marketing's product or service. The marketing-person of today has to react and interact in many different ways to many different people.

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In addition to knowing the product thoroughly-regardless of how technical it may be, the marketing-person has to be a psychologist with one customer, a human computer with another, an adviser with another, and at the same time a friend with some buyers. Marketing-persons must adjust their personalities on every call, making sure that what they say and do is compatible with the personality of each prospect.

Marketingmanship may be implemented not only through personal marketing but through advertising. In fact, advertising has been described as 'Marketingmanship in print.' The American Marketing Association defines advertising as a paid form of personal presentation and promotion of ideas, goods, or services by an identified sponsor. Modern advertising is planned with motivation and/ or persuasion as the objective. Personal marketing and advertising are simply two means that marketers use to inform and to motivate or persuade prospective buyers to buy; both means make use of marketingmanship techniques. Marketingmanship in advertising utilizes nonpersonal presentations. Nonpersonal advertising type presentations are necessarily less flexible than those made by a marketing-personnel. An advantage unique to personal marketing is that the marketing-person can usually identify differences among buyers and pattern his or her presentation according to individual peculiarities.

2.2 BUYER-MARKETING-DYADS

Fundamental to an understanding of marketingmanship is recognition that it involves buyer-marketing interactions. Sociologists use the term 'dyad' to describe a situation in which two people interact with each other. The marketing-person and the prospect, personally interacting with each other, constitute an example of what we will call a 'buyer-marketing dyad.' Another example is provided by the interaction of a marketing using advertising with a particular prospect in the reading, listening, or viewing audience. In both the advertising and personal-marketing situations, the marketing, generally speaking, is trying to motivate or persuade the prospective buyer to behave favourably toward marketing. Whether or not the buyer reacts as the marketing desires depends upon the nature of the interaction. The opportunity for interaction is obviously less in the advertising case then in the personal-marketing case, pointing up another advantage unique to personal marketing. You should recognise, however, that in many situations, advertising and personal marketingmanship supplement, or support each other, and the buyer's reaction results from the combined impact of both.

In one interesting piece of research, Franklin Evans studied buyer-marketing dyads in the life insurance business. This research revealed that prospects

who bought insurance positively toward them, than prospects who did not buy. Furthermore, the more alike marketing-persons and their prospects were, the greater was the likelihood that a marketing would result. This was true for physical characteristics (age, height), other objective factors (income, religion, education), and variables that could be related to personality factors (politics, smoking). These findings have considerable significance for marketing management. Wherever possible, marketing personnel should be assigned to prospects whose characteristics are similar to their own, thus improving the change that successful dyadic relationships will result. However, pairing of marketing-persons with customers of similar backgrounds is more easily accomplished in industrial marketing, where there are fewer prospects about whom information is needed, than in consumer-goods marketing, where the number of prospects and customers per marketing-person is generally much larger.

In another interesting research project, Henry Tosi studied dyads made up of wholemarketing drug marketing-people and retail pharmacists, who made buying decisions. One apparent finding was that, when the buyer perceived the marketingperson's performance to be similar to his or her concept of 'ideal' performance, the number of sources from which purchases were made was low. Although this did not necessarily results in a larger percentage of purchases from the marketing-person, customer satisfaction with the marketing-person's behaviour did at least allow the marketing-person to get into the store. Tosi's suggested conclusion was that, in addition to the physical characteristics and objective factors cited by Evans, the customer's perception of how well the marketing-person's behaviour fits into the customer's conception of what the behaviour should be is a necessary condition for the continuation of dyadic interaction.

Another factor to be considered in these interactions among buyers and marketings is the buyer's initial conditioning with respect to marketing. Marketing-people have been maligned, and the butt of the nasty stories for generations. People are taught from childhood to beware of the tricky marketing-person. There are also definite indications that marketing-people, not as stereotyped, but as they actually carry out their jobs, leave much to desired in the impact they make on customers. Studies of the attitudes of buyers and purchasing agents reveal that they are heavily critical of the marketing-person's lack of product knowledge, failure to follow up, general unreliability, slavish adherence to 'canned' presentations, blatant use of flattery, bad manners, commercial dishonesty, and so forth.

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2.3 DEGREE OF DIFFICULTY IN MARKETING

The relative degree of difficulty encountered in making marketing varies considerable from one situation to another. In analysing this problem, it is helpful to distinguish between two kinds of marketing - service and developmental. In service marketing, the objective is to obtain marketing from people who are already customers and whose habits and patterns of thought are already conducive to such marketing.

The objective in developmental marketing is not so much the creation of marketing as the creation of customers out of people who do not at the moment view the marktingperon's company favourably, and who are undoubtedly resistant to change. McMurry points out that individual marketing positions require different amounts of service and developmental marketing, and he classified marketing positions according to their location on the spectrum involving degrees of developmental skill, from the very simple to the highly complex. McMurry identified seven main types of marketing positions:

1. Positions where the marketing-persons predominate to deliver the product, for example, milk, bread, fuel oil.
2. Positions where the marketing-person is predominantely an inside order taker, for example, the marketing clerk behind the counter in dry-goods store.
3. Positions where the marketing-person is also predominantly an order taker but works in the field, as the packing house, soap, or spice marketing-person does.
4. Positions where the marketing-person is not expected or permitted to take an order but is called on only to build goodwill or to educate the actual or potential user, e.g., the distiller's 'missionary man,' or the 'detail man' representing an ethical pharmaceutical house.
5. Positions where the major emphasis is placed on technical knowledge, for example the engineering marketing-person, who is primarily a consultant to the 'client' companies.
6. Positions that demand the creative marketing of tangible products, such as vacuum cleaners, refrigerators, siding, and encyclopaedias.

7.Positions requiring the creative marketing of intangible, such as insurance, advertising services, or education.

The more developmental marketing required in a particular marketing position, the more difficult it is to make marketing. The amount of developmental marketing required, jn turn, depends upon the natures of

the prospect (or customer) and the product. The easiest marketing is self-service marketing, which McMurry omits from his spectrum and rightly so; here the customers are aware of their needs, they know which products are capable of satisfying these needs, and they sell themselves. The most difficult marketings are those that involve intangibles - the customers usually are not fully aware of their needs; someone must explain the existence of these needs and how the intangible can satisfy them. Such marketing required effective explanations of the benefits to be derived from the intangible and the consequences of not buying it.

The level of difficulty of the majority of marketing falls between these two extremes. The prospects have some awareness of the need; but, before the purchase is made, the marketing-person must further define the nature of the need and explain the product and its benefits.

2.4 THEORETICAL ASPECTS OF MARKETING

There is considerable disagreement as to the extent to which marketing can be described as a science with basic concepts that can be easily taught, or as an art that can be learned only through experience. In a survey of 173 marketing executives, 46 per cent perceived marketing as an art, only 8 per cent perceived it as a science, and 46 per cent perceived it as an art that is evolving into a science. The fact that some consider marketing an art and others consider it a science has produced two theoretical approaches to explain how marketing is made.

The first source involves the distillation of marketing theories from the experiences of successful marketing-people and, to a lesser extent, advertising professionals. Many such persons, of course, have succeeded because of their grasp of practical, or learned through experience psychology and their almost intuitive ability to apply it in actual marketing situations. Thus, it is not too surprising that such marketing theories emphasise the 'what to do' and 'how to do' rather than explaining 'why,' It is important to recognise that these theories based on an experiential kind of knowledge that is accumulated from years of "living in the market" rather than on a systematic, fundamental body of knowledge, are subject to Howard's dictum, "Experiential knowledge can be unreliable."

The second source, which has been used only comparatively recently, includes the behavioural sciences, whose research finding, a growing number of marketing scholars have been attempting to apply to the problems of buying and marketing. The late E.K. Strong, Jr., Professor of Psychology at the Stanford Graduate School of Business, was one of

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the pioneers in this effort. John A. Howard of the Columbia Graduate School of Business has been in the forefront of this group of marketing scholars concerned with borrowing and adapting the findings of research in behavioural science to the analysis of buying behaviour; his 'behavioural equation' represents an attempt to develop a unified theory of buying and marketing.

2.5 AIDAS THEORY OF MARKETING

The first theory-popularly known as the AIDAS theory, after the initials of the five words used to express it-forms the basis for many marketing and advertising texts and is the skeleton around which many training programmes in marketing are organised. Although some support for this theory is found in the psychological writings of William James, there is little doubt that the construct is based mainly upon experiential knowledge and, in fact, was in existence as early as 1898. During successful marketing interview, according to this theory, the prospect's mind passes through five successive mental states; attention, interest, desire action, and satisfaction.

Implicit in this theory is the notion that the prospect who buys goes through these five stages consciously; thus, the marketing-person's presentation must lead the prospect through them in the right sequence if a marketing is to result.

Securing Attention

In this phase the marketing-person's goal is to put the prospect into a receptive state of mind so that the main body of the presentation may be stated. The first few minutes of the interview are often crucial. The marketing-person has to have a reason, or at least an excuse, for conducting the interview. If the marketing-person has made a previous appointment with the prospect, this phase should present no great problem; but experienced marketing-personnel say that even with such an appointment a marketing-person must possess considerable mental alertness, and be a skilled conversationalist, to survive the beginning of the interview. The prospect's guard is naturally up, since he or she realises that the caller is bent on marketing him or her something. So the marketing-person must establish good rapport at once.

The marketing-person needs an ample supply of 'conversation openers,' and must strive to make a favourable first impression. Favourable first impressions are assured by, among other things, proper attire, neatness, friendliness, and a genuine smile. Skilled marketing-personnel often decide upon conversation openers just before the interview so that the gambit chosen will be as timely as possible. Generally it is considered advantageous

if the opening remarks are about the prospect (people like to talk and hear about themselves), or if they are favourable comments about aspects of the prospect's business. A good conversation opener causes the prospect to relax his or her feeling of caution and sets the stage for succeeding phase of the marketing-person's presentation. Conversation openers that cannot be readily tied in with the remainder of the presentation should be avoided, for once the conversation starts to wander, great skill is required to return to the main thrust of the presentation.

Gaining Interest

The marketing-person's second goal is to intensify the prospect's attention so that it evolves into a state of strong interest. Many techniques are used for gainning interest. Some marketing-people develop a contagious enthusiasm for their product, becoming so inspired that the prospect's interest is built up almost automatically. Another technique is to let the prospect handle the product as sample. When the product is bulky or technical, marketing portfolios, flipcharts, or other visual aids serve the same purpose.

Through the interest phase, one of the marketing-person's main purposes is to search out the marketing appeal that is most likely to be effective. If the marketing person is fortunate, the prospect drops hints, which the marketing-person then uses in selecting the best approach. To encourage the prospect along this line, some marketing people devise stratagems to elicit revealing question. Other draw out the prospect by asking questions designed to clarify attitudes feeling toward the product.

The more experienced the marketing-person the more he or she can rely for possible clues on what has been learned from other interviews with similar prospects. But even experienced marketing-personnel often must resort to considerable probing, usually of the question and answer variety, before identifying in the strongest appeal. It should be mentioned, too, that prospects' interest is also affected by such factors as their basic motivations, the closeness of the interview subject to their current problems, the timeliness of the subject, and their mood - receptive, skeptical, or hostile - and the marketing-person must take all these into account in selecting the marketing appeal that he or she will emphasise.

Kindling Desire

The marketing-person's third goal is to kindle the prospect's desire to the ready-to buy point. The marketing-person must remain in control of the situation and must keep the conversation running along the main line toward the marketing. The development of marketing obstacles,

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the prospect's objections, external interruptions, and digressive remarks are some of the factors tending to sidetrack the presentation during this phase. Obstacles have to be faced and ways found to get around them.

Objections need answering to the prospect's satisfaction. Time frequently is saved, and the chance of making a marketing improves, if objections are anticipated and answered before the prospect has a chance to raise them. External interruptions cause breaks in the presentation; and when conversation resumes, good marketing-people normally summarise what has been said earlier before continuing. Digressive remakes should generally be disposed of tactfully, with finesse, but something distracting digression is best handled bluntly: for example, "Well that's all very interesting, but to get back to the Subject...."

Inducing Action

If the presentation has been perfect, the prospect is ready to order. However, this action is not usually automatic and, as rule, must be induced. Experienced marketing personnel rarely try for a close unit they are positive that the prospect is fully convinced of the merits of the proposition. Thus, it is necessary for the marketing-person to sense when the time is right to induce the prospect's buying action. Such devices as the *trial close*, the *close* on a minor point, and the *trick close* are used to test the prospect's reactions to the proposition. Some marketing-personnel never ask for a definite 'yes' or 'no' for fear of getting a 'no,' from which they think there is no retreat. But it is usually better to ask for the order being straightforward. Most prospects find it easier to slide away from hints than from frank requests for an order.

Building Satisfaction

After the customer has given the order, the marketing-person should reassure the customer that the decision was a correct one. The customer should be left with the impression that the marketing-person merely helped in making the decision. Building satisfaction means thanking the customer for the order, which. should always be done, and attending to such matters as making certain that the order is correct as written, and following up on any promises made. Because the order is the climax of the marketing situation, the possibility of an anticlimax should be avoided, customers sometimes unsell themselves, and the marketing-person should not linger too long.

Right Set of Circumstances, Theory of Marketing

Often a marketing-person comments, "Everything was right for the marketing to take place" and this sums up the popular version of the second theory. This theory;' sometime expressed by the term 'situation-respopse,' had

its psychological origin in experiments with animals, and holds that the particular circumstances prevailing in a given marketing situation cause the prospect to respond in a predictable way. More specifically stated - "If the marketing-person succeeds in securing the attention and gaining the interest of the prospect, and if the marketing-person presents the proper stimuli or appeals, the desired response (that is, the marketing), will result" Furthermore, according to the theory, the more highly skilled the marketing-person is in handling the total set of circumstances, the more predictable will be the response.

The relevant set of circumstances, which the theory suggests that the marketing person should try to control, includes factors external and internal to the prospect. To use a simplified example, suppose that the marketing-person says to the prospect, "Let's go out for a cup of coffee." The marketing-person and the remark represent external factors. But at least four internal factors related to the prospect affect the response. These are the presence or absence of desires: (1) to have a cup of coffee. (2) to have a cup of coffee now, (3) to go out for a cup of coffee, and (4) to go out with the marketing-person for a cup of coffee.

Proponents of this theory have been inclined to overstress the external factors and to neglect the importance of the internal factors. They have devoted their major efforts to seeking out marketing appeals that generally can be depended upon to evoke desired responses. Marketing-personnel who try to apply the theory commonly experience difficulties traceable to prospects' ingrained habits and instinctive behaviour. Although it is relatively easy to control the external factors in many marketing situations, the internal factors do not readily lend themselves to manipulation by marketing-people.

Thus, this is a marketing-oriented theory, and from that emphasis derives its chief drawbacks: it streses the importance of the marketing-persons controlling the situation, does not adequately handle the problem of influencing factors internal to the prospect, and fails to assign appropriate weight to the significance of the response side of the situation-response interaction.

2.6 'BUYING-FORMULA' THEORY OF MARKETING

In marked contrast to the two theories just discussed, the third theory places emphasis on the buyer's side of the buyer-marketing dyad. The buyer's needs or problems receive major attention, and the marketing-person's role is conceived as being one of helping the buyer find solution. This theory purports to answer the question: What thinking process

goes on in the prospect's mind that causes the decision to buy or not buy? The buying formula itself is a schematic representation of a group of responses, arranged formula in feasible psychological sequence. The buying-formula theory, in other words, emphasises the prospect's responses (which, of course, are strongly influenced by internal factors) and de-emphasises the external factors, on the assumption that the marketing-person, being naturally conscious of the external factors, will not overlook them. Since the marketing-person's normal inclination is to neglect the internal factors, the formula is a convenient way to help the marketing-persons remember. The origin of this theory is somewhat obscure, but recognisable versions appear in a number of early books on advertising and marketing by authors who evidently had experiential knowledge of marketingmanship. Several psychologists also advanced explanation substantially similar to that contained in the buying formula. The name 'buying formula' was given to this theory by the late E.K. Strong Jr., and the following step-by-pstep explanation is adapted from his teaching and writings. Reduced to their simplest elements, the mental process involved in a purchase are:

need (or problem) – solution – purchase

Because the outcome of a purchase effects the chance that a continuing relationship will develop between the buyers and the marketing, and because nearly all marketing organisations are interested in such continuing relationship, it is necessary to add a fourth element to our analysis of a purchase. The four elements, then, are:

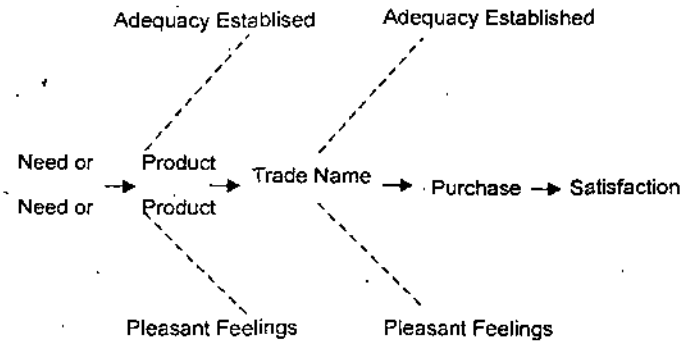
need (or problems) – solution – purchase – satisfaction

Whenever a need is felt, or a problem recognised, it means that the individual is confronted with a difficulty or is conscious of a deficiency of satisfaction. In the world of marketing and buying, the solution to such a difficulty will always be a product or service. And the product or service will belong to a potential marketing.

In purchasing, then, the element 'solution' involves two parts: (1) product (or service), and (2) trade name (name of manufacturer, company, or marketing-person). In buying anything, the purchase proceeds mentally from need or problem to product or service, to trade name, to purchase; and, upon using the product or service, He or she experiences satisfaction or dissatisfaction. Thus, when a definite buying habit has been established, the buying formula covering the elements involved in buying can be diagrammed as follows:

need or problem – product or service – trade name - purchase – satisfaction dissatisfaction

To ensure purchase, the product or service and the trade name (that is, the source of supply) must be considered adequate, and the buyer must experience a pleasant feeling of anticipated satisfaction when thinking of the product or service and the trade name. In a great many cases, a commodity viewed as adequate is also liked, and *vice versa,* but this is not always the case. Some products and services that have been found quite adequate are not liked, and some things are liked and bought that are admittedly not as good as competing items. Similar reasoning applies in the cases of trade names-some sources of supply are considered both adequate and liked; other are adequate but not liked; still others are liked but patronised in spite of the fact that they are inadequate compared to competing sources. When adequacy and pleasant feeling are included in the buying formula, the following diagram results:



2.7 'BEHAVIOURAL-EQUATION' THEORY

Using a stimulus-response model (which is a much refined and highly sophisticated version of the 'right set of circumstances' theory discussed earlier), and incorporating numerous findings from behavioural science research. J.A. Howard explains buying behaviour in terms of the purchasing decision process, viewed as phases of the learning process.

Four essential elements of the learning process included in the stimulus-response model are drive, cue, response, and reinforcement. These elements are described as follows:

(1) Drives are strong internal stimuli that impel the buyer's response

There are two kinds of drives:

1. Innate drives: The physiological needs, such as hunger, thirst, pain, cold, and sex.
2. Learned drives: Learned drives, such as striving for status or social approval, are acquired when paired with the satisfying

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or innate drives, and represent elaborations of the innate drives, serving as a facade behind which the functioning of the innate drives is hidden. Insofar as marketing is concerned, the learned drives are probably dominant in economically advanced societies.

(2) Cues are weak stimuli, as distinguished from the storing stimuli that underlie the drives

Cues determine when the buyer will respond:

1. Triggering cues serve as activators of the decision process for any given purchase.
2. Nontriggering cues influence the decision process but do not activate it, and may operate at any time even though the buyer is not contemplating a purchase at the moment.

There are two kinds:

1. Product cues are external stimuli received from the product directly, for example, colour of the package, weight, or price.
2. Informational cues refer to external stimuli that provide the buyer with information of a symbolic nature about the product. Such stimuli may come from advertising, conversations with other people (including marketing personnel), etc.
3. Specific product and information cues may sometimes also function as triggering cues. This may happen when price triggers the buyer's *decision.*

(3) Response is what the buyer does

(4) A reinforcement is an event that strengthens the *tendency for a buyer to make a particular response*

Howard incorporates these four essential elements into a behavioural equation, stated in its simplest form as follows:

$$B = P \times D \times K \times V$$

where

B = response or the internal response tendency, that is, the act of purchasing a brand or patronising a supplier.

P = predisposition or the inward response tendency, which is strength of habit.

D = present drive level (amount of motivation)

K = 'incentive potential,' that is, the value of the product to the buyer or its potential satisfaction to him or her

V = intensity of all cues: triggering, information, or product.

Notice that Howard believes the relation among the variables to be multiplicative rather than additive. Thus, if any independent variable has zero value, B will also be zero and there will be no response. No matter how much P there may be, for example, if the individual at the moment is totally unmotivated (D = 0), there will be no response. Furthermore, each time there is a response - a purchase - in which the satisfaction (K) received from the response is sufficient to yield a reward, predisposition (P) will increase in values as a result of the rewarded response. In other words, when the satisfaction received yields a reward, reinforcement occurs and, technically, what is reinforced is the tendency to make a response in the future to the cue that immediately preceded the rewarded response. After such reinforcement, the probability increases that the buyer will buy the product (or patronise the supplier) the next time the cue appears - in other words, the buyer has learned.

SUMMARY

- Marketingmanship is one of the skills used in personal marketing; as defined by T.P. Stroh, it is a *direct, face-to-face, marketing-to-buyer influence which can communicate the facts necessary for making a buying decision or it can utilise the psychology of persuasion to encourage the formation of a buying decision.*
- Sociologists use the term' dyad' to describe a situation in which two people interact with each other.
- The first theory-popularly known as the AIDAS theory, after the initials of the five words used to express it, forms the basis for many marketing and advertising texts and is the skeleton around which many training programmes in marketing are organised.
- Four essential elements of the learning process included in the stimulus-response model are drive, cue, response, and reinforcement.
- Learned drives, such as striving for status or social approval, are acquired when paired with the satisfying of innate drives, and represent elaborations of the innate drives, serving as a facade behind which the functioning of the innate drives is hidden.
- Product cues are external stimuli received from the product directly, for example, colour of the package, weight, or price.

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REVIEW QUESTIONS

1. What are the different theories of marketing?
2. Explain the short notes on
   (a) Buyer-marketing-dyads
   (b) Degree of difficulty in marketing
3. What are the various theoretical aspects of marketing?
4. Explain AIDAS theory of marketing.
5. Discuss the four essential elements of learning process included in the stimulus-response model.

CHAPTER 3 JOB ANALYSIS, RECRUITMENT AND SELECTION

★ STRUCTURE ★

3.0 LEARNING OBJECTIVES

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

- define selection.
- discuss the various characteristics of marketing job.
- describe the various activities involved in managing the marketing force.
- know about the basic responsibilities of a marketing man.
- explain the commonly used selection tools.

3.1 INTRODUCTION

Attracting and selecting new marketing personnel is an important aspect of the marketing manager's job. This unit on job analysis, recruitment and selection will tell you about the procedures used for obtaining marketing recruits with the potential capability of becoming good marketing people. Once this pool of talent has been generated, it becomes feasible to select the individuals who match the needs of the organisation.

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Selection is a step-by-step procedure that the marketing managers go through to staff the marketing organisation. Selection which follows recruitment, requires that the marketing manager must reverse the roles and become a buyer instead—a buyer of marketing talent and potential.

3.2 NATURE OF THE MARKETING JOB

All marketing related jobs, irrespective of the type of industry, have very distinctive characteristics. Some of the characteristics are as follows:

1. As marketing personnel work in the field, away from the head offices, they are responsible for managing their territories or accounts. Therefore, marketing personnel are expected to take their own decisions for planning and executing their individual activities.
2. Most marketing persons, while on their journey cycle, get fewer opportunities for interactions in person with their supervisors. Most of the time they provide feedback or receive instructions, telephonically or through fax in their hotel.
3. The third characteristics of the field marketing job is that the marketing personnel remain away from their home and family for days together. This is a regular feature. In some consumer product companies marketing people travel for as many as 21 days in a month.
4. Another important aspect of the marketing job is the job monotony. Each marketing person is doing the same work, repetitively with different customers. For example, a medical representative, makes the same presentation to all the medical doctors, day-after-day.
5. Lastly, success in a marketing call doesn't depend on an individual's effort. It may so happen that the customer doesn't need your product or the customer was not happy with his previous experience, on delivery or after marketing service or spares. All field marketing jobs create, therefore, a normal tendency to get disheartened or discouraged.

Each of the above characteristics have specific implications for recruitment and selection, and therefore, it is recommended while you are developing your recruitment and selection policies, you should not overlook the above points. Accordingly, job specifications should be decided.

3.3 MARKETING JOB ANALYSIS

The marketing force management is a personnel function in the marketing department of an organisation. The issues in marketing force management

are, therefore,, the same as that of the personnel management. However, these issues relate to only those personnel who work in the marketing department. The starting point of all marketing force management activities is the Job Analysis, as shown in figure 3.1.

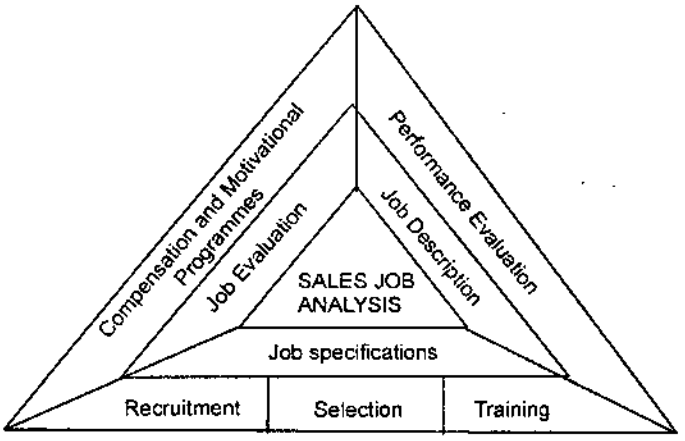

Figure 3.1: Activities involved in managing the marketing force

In fact, the job analysis relates to the identification of job objectives, duties and responsibilities, analysis of working conditions, performance norms and the position in the organisation hierarchy to identify the reporting relations.

Typically, a job analysis helps in three distinct ways. Most importantly, it helps in the Job Description, *i.e.,* in identifying various activities-major and trivial, to be performed under the job It also helps in identifying the qualifications, and individual characteristics, in relation to the job, which is called job specifications.

A good approach to developing job description is to use a checklist of various activities relating to a marketing personnel job. Some of these responsibilities are as follows:

Table 3.1: Basic responsibility of a marketing man

Sl. No.	*Sales Responsibilities*	*Specific Activities*
1.	Direct Selling	a. Locating Prospects b. Determining Prospects' needs c. Planning the selling strategy d. Interviewing e. Handling objectives f. Completing sales
2.	Customer Relations	a. Helping customers by solying their problems and providing spectial services

		b. Training the customers to use their purchases c. Arranging displays and promotions d. Keeping customers up-to-date on new developments e. Settling complaints f. Establishing and maintaming good personal relations with customers
3.	Product Knowledge	a. Knowing products and their applications b. Looking for new products c. Keeping up-to-date on merchandise style and price changes
4.	General Administration	a. Maintaining call records b. Carrying on routine correspondences c. Checking customer's credit d. Follow-up on inquiries e. Maintenance of expense-account records
5.	Management Relations	a. Making required reports b. Reporting competitors' activities c. Working with other departments

A detailed account of basic responsibilities of a marketing person helps in the identification of qualifications and individual characteristics, in relation to the job. The process by which qualifications and personality characteristics are identified, is called Job Specifications which the person may have at the time of joining or they are imparted to the marketing department, through training.

Once the job specifications are laid down, it becomes easier for a company to initiate the process of recruitment and selection. Also training can help a marketing person to fulfill job responsibilities more effectively. None the less, it is generally believed that recruitment and selection process should be such, that it should help you to handpick those marketing persons with 'just right' kind of personality, since it is difficult to develop personality through the training programmes. Job Analysis also helps in clearly identifying the job performance norms based on which the job evaluation can be done. Such an exercise provides a good base for compensation management.

3.4 RECRUITMENT

Once a company has determined the number and kind of marketing men it requires, the next step in the selection is to get the right applications, in sufficient number, for the positions. All the activities involved in securing the applications for the marketing positions are referred to as Recruitment. It does not include, but is followed by the selection process to evaluate and screen the applicants. The nature of recruitment effort for marketing personnel differs from one company to another, mainly with respect to their recruitment sources. The recruitment policy of a company is influenced by its selling style, products, customers, financial resources and marketing management policies. Different companies call for individuals with widely varying abilities, skills, education, training and experience. The scope of recruitment effort is influenced by the number of recruits desired, which in turn, is influenced by the size of marketing organisation, rate of turnover, the forecasted marketing volume, distribution channels and promotional strategy.

3.5 RECRUITMENT SOURCES

Frequently used sources of marketingmen are as follows.

Advertisements

Advertisements are both a source of recruits and a method of reaching them. Newspapers, magazines and trade journals are the most widely used media for advertisements. Advertisements ordinarily produce large number of applicants in a very short time and at a low cost. However, this factor may be offset by the increased expense of carefully screening the large number of prospects and the average quality of applicants may be of questionable character.

Recruitment advertisements usually include information about the company, nature of the job, specific qualifications required and compensation. The specific details in the advertisement vary with the company and its situation. The quality of prospects recruited by the advertisement may be increased by careful selection of media and by proper statements of information in the advertisement. For example, by advertising in a trade journal rather than in a daily newspaper, a firm is being more selective in its search. An advertisement in trade journal assures reponses from people who are already in the profession and would be interested in selling. The amount and type of information given in the advertisement affects the quality and quantity of the applicants. The more the information given in the advertisement, the more it serves as a qualitative screening

device. A firm, by stating minimum qualifications rather than optimum requirements can generate large number of applications, requiring more careful screening. There is no simple answer to the question of whether a company should place its name in its recruiting advertisement. The company name, if well-known, is prominently featured, whereas small companies often follow the policy of giving a 'box no.' in the advertisement. Further, on the mechanics of advertising, management must decide on such points as the day of the week to insert the advertisement, where to locate it in the medium and what size it should be. For instance, Sunday papers are read more leisurely and thoroughly, but-in a week-day edition, a company's advertisement stands out more because there are fewer such other advertisements.

Employment Agencies

Many companies use employment agencies to get the recruits for the marketing positions. To use this source effectively, marketing manager must ensure that the agency understands the company and its needs thoroughly. Whenever an agency is used, it should have a clear understanding of the job's objective, job specifications and the literature about the company. Also agencies need time to learn about an employing firm and its unique requirements-thus considerable gains accrue from continuing relationships with agencies that perform satisfactorily. If the agency is selected carefully and good long-term relations are established with it, the dividends can be satisfying.

Educational Institutions

This source includes colleges, universities, technical and vocational institutes. This source is, tapped for getting qualified people for entry level positions in marketing. Students from technical/ vocational institutes or with specific subjects like Physics, Biology, Hotel Management are recruited by the companies, where selling requires specialised knowledge and skills for that particular industry. College graduates are generally taken by the companies having formal marketing training programme or for simple selling jobs. Recruits from educational institutions are more easily adaptable than their more experienced counterparts. They have no developed loyalties for a firm or industry and they probably have not acquired any bad work habits. Usually, they have acquired certain social graces, are more poised and mature. They are supposed to have developed their ability to think, to reason logically and to express themselves reasonably well. Ordinarily, they do a good job of budgeting their time and managing their daily activities. Their main limitation is lack of selling experience. Men recruited from this source need training and thus take time for reaching the desired productivity level. To use this source effectively, it is important for the

company to develop and maintain good relations with suitable educational institutions.

Marketingmen of Non-competing Companies

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Individuals currently employed as marketingmen for non-competing companies are often the attractive recruiting prospects. Such people already have selling experience, some of which may be readily transferable. For those, who have worked for companies in related industries-there is additional attraction of knowing something about the product and the market. Recruits from this source presumably have some selling skills and thus reduce the amount of training required. A firm that hires marketingmen from other companies should be especially careful to determine, why the man is interested in changing jobs and why he wants to work for the hiring company. People hired from other companies may not have the same degree of loyalty, that recruits possess when promoted from within.

Marketingmen of Competing Companies

The question of whether to hire competitors' marketingmen is argued on ethical grounds and from an economic standpoint. It is considered unethical to recruit the competitors' marketingmen actively, after he has spent the money on hiring and training them. Furthermore, these marketingmen may be able to divulge company secrets to the competitors. It is also seen as an attempt to take away competitors' customers. From an economic point of view, there are mixed feelings regarding this source. On one hand, they know the product, customers and competitors. They also are experienced sellers and, therefore, no money is required to be spent for their training. On the other hand, it is a costly source as generally, higher pay must be offered to them to leave their organisations. Some marketing managers, as a matter of policy, refrain from hiring competitors' marketingpersons, as their loyalty towards the company is questionable. They feel that an individual hired away from one organisation for higher pay or other enticements may be similarly tempted in future.

In considering the recruitment of individuals currently working for competitors, a key question to answer is-why does this person want to leave his present position? When the new job will not improve the applicant's pay, status or future prospects, the desire to change the company may be traced to personality conflicts or instability. But the dissatisfaction with the present job does not always mean that the fault is that of an applicant. If the applicant has sound reasons for switching companies, the opportunity may be presented to obtain a promising person, who is ready for productive work almost immediately.

Internal Transfers

The persons working in other departments of the company may be transferred as marketingmen to the marketing department. This is generally used along with the other recruitment sources. Transfers are good prospects for marketing positions, whenever product knowledge makes up a substantial portion of marketing training. They are also familiar with company's objectives, policies and programmes. The accuracy of evaluating these men is more, as the management is able to observe their work and evaluate their potential as marketingperson before they are transferred to the marketing department. Factory and office employees may consider the transfer to marketing department as promotion, which helps in increasing their morale and loyalty.

Recommendations of Present Marketingmen

A company's marketing force is a good source of leads to new recruits. Marketingmen typically have wide circles of acquaintances, since both on and off the job, they continually meet new people and generally have many friends with similar interests. Their contacts may yield good marketing people because of their understanding of the job and the kind of marketingmen required by the company. However, management faces the risk that the marketingmen may recommend friends or business associates on the basis of personal feelings rather than on an impartial evaluation of prospects' qualifications. The firm should be able to weed them out through its selection process. When an applicant recommended by a marketingmen is to be turned down, management should explain clearly but diplomatically to the marketingman why his recruit is not being accepted. Marketing people are a valuable source of recommendations, when jobs must be filled in remote territories because marketing personnel in the same or adjacent areas may know considerably more about unique territorial requirements and local sources of personnel than the home-office executives.

3.6 SELECTION

After a company has determined the type and number of marketingmen it needs and the applications for the job have been received, the management is ready for the third and the final stage of the selection system, *i.e.* the selection process. It involves processing the applicants to select the individuals who best fit the needs of a particular company. The marketing force selection process refers to the steps, the marketing management goes through to staff the marketing organisation. Specifically the process involves

1. Critical analysis and evaluation of each tool and procedure.

2. Development of a system for measuring the applicants against the predetermined requirements.

The basic objectives of the selection process is to gather information about the applicants for marketing job, which is used for predicting their success/failure probabilities. A selection system can be visualised as a set of successive screens at any of which an applicant may be dropped from further consideration. It can range from simple one step system consisting perhaps of nothing more than an informal personal interview to a complex multiple step system. The following figure shows an example of a selection system consisting of seven steps.

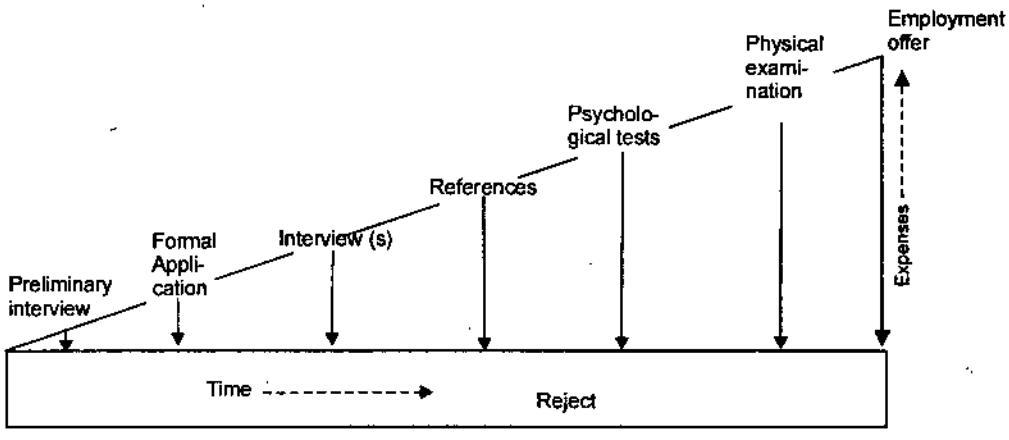

Figure 3.2: A seven step selection system

Selection Policy Decision

- Which tools should be used?
- In what order should the tools be used?

The type of selection tools and their order of arrangement varies from company to company. Each company must design its own selection system to fit its information needs and budgetary limitations. The factors like the size of company, type of industry, the type of selling job, the financial condition of the company, influence the selection policy decisions of the firm. Management must compare the cost of each tool with its ability to predict success/ failure probability (*i.e.* its helpfulness in hiring decisions) for deciding the type of tools to be used for the selection process. For sequencing the tools, the principle that is generally followed is to use inexpensive and brief tools like short application form, brief interview or a simple test, in the initial stages of the selection process. The purpose of initial screens is to eliminate, as soon as possible, the obviously unqualified/undesirable recruits at the least cost. The more expensive and time consuming tools are used in the later stages of the selection process.

3.7 SELECTION TOOLS

The commonly used tools for selecting the marketingmen are as follows.

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Application Form

It is one of the two most widely used selection tools (the other is the interview). Generally, the application forms used by most of the companies fall under two categories: Short Application Form and Detailed Application Form.

Short application form is ordinarily used as an initial screening device. It asks for the factual information about the candidate in brief, so as to serve its purpose of eliminating the obviously unqualified applicants at the least cost and quickly. It includes items such as personal background, education and experience. This form can either be provided by the company or in the alternate, the applicants are asked to apply by sending their bio-data in brief.

Detailed application form is more extensive and covers each topic in depth. It is designed by each company according to its own information requirements. It varies widely from one company to another, for the designing depends upon the detailed description of the marketing job. For example; a detailed application for marketing engineer will be quite different from the detailed application form for a medical representative. This form may be used as the only application form or alongwith the short application form. A longer form may be used as an initial screen if it is used to the exclusion of the short form. The facts stated on the form can be the basis for probing in an interview, for instance, by asking several questions related to the job experience as stated on the form. Also, if the applicant passes through the initial screens, management may need to refer many times to the information stated on the form. This form is also used as a source of information to study the backgrounds of its good and poor marketingmen and to establish scores and weights on specific requirements.

Objective scoring of application form: Each company, according to its job requirements, decides the ideal personal history requirements that would make the person successful on the marketing job. Individuals possessing all the personal history requirements are the ones most likely to succeed on the job. However, many potentially successful marketingpeople do not possess all the requirements. One company found that most of its best marketingpeople were of the age group of 30-35 years at the time of hiring, yet there were some as young as 17 and some as old as 48. Although the age group 30-35 years, may be the preferred age range, applicants outside this age range should still receive consideration, since other factors in their backgrounds may more than offset the fact that

they are outside the desired age range. One of the ways to determine the total value of a candidate is by using the application form, on which an objective score has been assigned to each item. The maximum possible score for each of the item depends upon its importance in marketing success. A higher score is allocated for the requirements which are more essential than those which are not so important. The points are assigned to an individual, for each of the item, according to its proximity to the ideal.

Information on the application form : Some of be factors that affect the type and amount of information requested on an application form, may be

1. The objective, the company has in using the application form-if it serves as an initial screen, it is shorter than one that will be used for complete personal history record.
2. The other selection tools and records used, often influence the design of the application form. Use of patterned interview, for instance, may enable a concern to shorten its form. On the other hand, a firm may want to duplicate its questions in order to check on a recruit's honesty, by seeing, if his answers on the form coincide with those obtained from other sources.
3. The nature of the job is another factor that influences the questions asked on the application form, because different marketing jobs call for different qualifications. A firm trying to hire men with 5-10 years of marketing experience, for example, is not so concerned about a recruit's activities in school and college. The information required on the application form., for hiring a person, for marketing engineer's job to sell the technical product will be different from the information for hiring a door-to-door marketingman for selling a low priced consumer product.
4. Another factor is the degree to which the selection function is decentralised. If home executives take part in the hiring of marketingmen, the application form, probably, is detailed. But if territorial managers do the hiring, the form may be short because the other tools, especially the interviews, can be used more extensively.

Ideally each company should prepare its own formal application form, since no two companies have precisely the same information requirements. But, if a company has only a small marketing force and recruits relatively few people, the time and cost of preparing its own application from may warrant the choice of a standard form. Certain items of information, which are almost always relevant to selection decisions, make the standard form. The information that is typically requested on standard

form includes personal background, education and employment record. A company using standard application form can obtain the additional information required, during the interview.

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Interview

The interview is the most widely used selection tool and in some companies, it comprises the entire selection system. This tool may be used as preliminary interview for initial screening of applicants and plays an important part in the subsequent stages of the hiring process as final interview. This is the most satisfactory tool to find out something about conversational ability, general appearance, personal impact on others and certain behavioural aspects. Personality traits like initiative, imagination, aggressiveness, tactfulness; enthusiasm can 'Come out, when an applicant is talking. Another purpose of interviewing is to verify and supplement the information obtained through other tools-Unusual cr omitted references on the application form can be discussed,or more details about personality, attitudes and previous work experience can be explored. For example, the applicant might have stated that he was a district marketing manager in some previous job. The prospective employer may ask: What were the man's responsibilities? How many employees did he supervise? What were his administrative duties? It is important that the interview serves as a two-way channel of communication. The interview is not only a means by which a company measures applicant's fitness for the job; it also offers the employer an opportunity to answer the recruit's questions about the company and the job. He can be told about such things as the nature of the job, the physical and social conditions involved, the compensation, the nature of training and supervision and the opportunities for the future. The nearer the firm is to hiring a man, the more information it gives to an interviewee.

Interviewing decisions: The following important decisions are arrived at, by the management regarding interviews:

Who and where: Persons to do the interviewing and place for interviewing depends upon the size and degree of decentralisation of marketing organisation. In large and highly decentralised organisations, it is done at local and regional level by district/branch/regional marketing managers *e.g.* New India Assurance Company. In medium size organisations with less degree of decentralisation initial interviewing is handled at the branch level and final interviewing at the head office. Interviewing is the responsibility of top personnel of marketing department in small and centralised organisations.

How many: Number of formal interviews vary with the selling style of the company. One large steel company which needs marketing people do the highly specialised selling to important customers, puts the applicants

through three interviews, involving regional marketing managers, the general marketing manager and marketing vice-president. An office supply manufacturer, which requires marketing personnel for routine trade selling, many hire applicants after two interviews. In another situation, where marketingmen are required for door-to-door selling of simple products, one interview is enough together the necessary information.

When: The interview may be used at the initial stage of screening process as preliminary interview and it also usually plays an important part in the subsequent stage of the hiring process, as final interview. At the initial stage, its main purpose is to quickly eliminate the applicants whose qualifications do not meet the job's basic requires, its. For example, a few of the company executives visit the college campus to do the initial screening of people, who have responded to the company's advertisement in the college. The detailed/depth interview is used at the later stage of the selection process. It is more time consuming and requires people with expert skills to probe the personality traits of the candidate in depth.

Techniques of Interviewing:

- ***Patterned/structured interview:*** It is totally guided and highly standardised technique of interviewing. The interviewers are given a specific list of questions or an outline of questions, designed to elicit a basic core of information. Each man interviewed is asked these questions and answers are recorded on standardised form. Since all the applicants are queried on the same points, different persons can do the interviewing at different places and the results will still be comparable. The reasons for using this technique of interviewing can be attributed to the situations, where the interviewing is to be done at different regions/ branches simultaneously or where the interviewers may not know in detail about what the job entails and what are the necessary qualifications, or, they may know what qualifications are necessary for the job but they may not know what questions will bring forth the information about the applicant's possession of these characteristics, or interviewers may be unable to interpret the answers in non-structured type of interviews.
- ***Non-directed/non-structured interview:*** This method does not follow a set format; instead it involves a relaxed discussion. The candidate is urged to talk freely about his business experiences, home life, school activities, future plans and on certain outwardly irrelevant topics. The interviewer asks few questions and says only enough to keep the conversation rolling along the desired line. The theory for this type of interview is that it produces

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truthful answers and thus draws out the real person. This technique yields maximum insight into an individual's attitudes, interests and personality traits. The interviewer is allowed maximum freedom in determining what will be discussed during the interview to probe an individual's personality in depth. Obviously, the major problem is that it requires skilled and experienced people for administering and interpreting it. Also the value of standardisation is lost in the non-structured type.

- ***Semi-structured interview:*** Most firms today use interview that falls somewhere between the two extremes discussed above. Usually the interviewer has in mind a prepared outline of topics to be covered during the interview and also has the freedom to deviate from the plan and to determine the depth to which a topic will be pursued for each candidate, at the time of interview itself.
- ***Stress interview:*** It is a more complex and sophisticated technique of interviewing. The interviewers create stressful environment for the candidate through interruptions, criticism, by asking him for solutions for tricky situations, by rapidly firing questions. While interviewing, the intervewer may hand the applicant an object and say, "Here, sell this to me," and may then raise unreasonable objections during his marketing presentation. This technique is used for selecting the marketing personnel who are supposed to work under stressful conditions in actual selling situations. The stress interview needs to be planned, administered and interpreted by well trained interviewers.
- ***Rating scales:*** One shortcoming of the interview is its tendency to lack objectivity, a defect that can be reduced through rating scales. These are so constructed that interviewer's ratings are channelled into limited choice of responses. For instance, in evaluating an applicant's general appearance, an interviewer is forced to choose one of the three answers nicely dressed, presentable, untidy. It results in more comparable ratings of the same individual by different interviewers. One drawback of the rating scale is the lack of precise description of many personal qualities. It is a good practice, therefore, to encourage interviewers to explain ratings in writing whenever they feel that the comments are needed. Examples:
  - **Enthusiasm:** Bored, somewhat indifferent, normal enthusiasm, sparkling effervescence.
  - **Judgement:** Jumps to conclusions, less than sound reasons for opinions; sound opinions and reasons, excellent judgement and uses reasons as problem solving device.

- ❑ **Marketing drive:** Low, normal, above average, pushes himself.
- ❑ **Attitude:** Negative and complaining, pessimistic, positive and healthy, strong loyalty.

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Guidelines for interviewing: Some general guidelines that will assist one in doing the effective interviewing are suggested below:

- ***Prepare for the interview:*** Effective interviewing requires adequate pie-planning to be done prior to the interview. This involves renewing the job description, the company's personnel policies and procedures and existing data about the candidate. The review will enable the interviewer to determine exactly what he wants to know about the candidate and prepare the topics for discussion.
- ***Established rapport:*** A pleasant relaxed atmosphere must be established during the interview. The interviewee must be made to feel at ease by asking general questions about his family, education, experience, that is the subjects about which most people feel free to talk about. A quick review of the interviewee's application form may suggest a suitable opening for it. A pleasant rapport between interviewer and applicant must be maintained throughout the interview.
- ***Listen and observe:*** It is important for a successful interviewer to be a good listener and good at observation. He begins to learn about the candidate, as soon as, he enters the room-Is the applicant dressed appropriately? Is he/she poised and confident? Alert? Observation provides many a clues about the personality of the applicant. For instance, clasping and unclasping of hands, fidgeting, not maintaining eye contact are sighs of nervousness, uncertainty and lack of confidence.
- ***Taking few notes:*** Most interviewers will need to refer to notes about the performance of the candidate at the time of the interview, for evaluating him, for selection decision. However, taking notes during an interview distracts the applicant and slows down the tempo of the interview. So, in most of the situations, candidate should be marked on the evaluation sheet after he/she has left the room.
- ***Select a suitable environment:*** The interviewer must make sure that the setting is appropriate and conducive for interviewing and there are no interruptions during the interview.

Psychological Tests

Use of psychological tests as selection tool, though still in its infancy, is increasing for the reasons like-greater importance being given to

selection as the marketing management is becoming more formalised, rising cost of selection and training, increased size of marketing force and increased knowledge of psychological tests and their applications. Psychological testing refers to having the recruit answer a series of written questions, the proper answers to which have been previously determined. The major purpose of testing is to identify and measure more accurately, the various aspects of person's behaviour such as intelligence, achievements, interests aptitude, personality traits, etc. It requires trained specialists for designing, administering and interpreting the psychological tests.

Factors conducive to successful testing: The existence of following conditions are conducive to, a successful testing programme:

- The firm hires a relatively large number of men and its cost of training per person is quite high.
- The firm is hiring young inexperienced men about whom little is known.
- The persons being selected are not likely to be test wise, *i.e.* danger of faking is minimised.
- The executives responsible for interviewing the recruits are not adept at discovering personality traits and selling aptitude.
- In companies, where the cost of a man's future development is high, the expense of testing may be a small insurance premium, just to be more accurate in judging a candidate.

Types of Psychological Tests

(*i*)	Tests of Ability:	Tests of Mental ability Tests of special abilities
(*ii*)	Tests of Habitual Characteristics	Attitute tests Personality tests Interest tests
(*iii*)	Achievement Tests	

(*i*) Tests of mental ability: Give the administrator some idea of the man's present abstract intelligence. These tests are designed to show how well a person reasons, thinks, and understands and thus measure the abilities like problem solving and learning. Beyond a minimum level, this type of intelligence is seldom of vital importance in selling. In the alternate, if the marketing job requires a man with higher than average intelligence, because of its being a complex job, then probably such intelligence tests should be made a part of the selection process.

Tests of special abilities: These tests measure the marketing aptitude and the special abilities required for a person to be successful in marketing position. Marketing aptitude tests are designed to find out the recruit's behaviour in certain common selling and social situations. One such test asks, "You are a marketing clerk. The best of your response to the customer's objection, 'It is not exactly what I want', would be:

- Do let me show you another style that is very popular this season.
- This is the latest style.
- I am song you didn't like what we have.
- We expect another shipment of articles next month.

Many marketing managers administer their own informal aptitude tests by way of a situation in which they give a product to the recruit and say, "Here, sell this to me." General marketing aptitude tests are used for measuring the basic qualities of a good marketingman and specially designed marketing aptitude tests are used for measuring special qualities required for a particular type of marketing job of a company.

(*ii*) Tests of habitual characteristics : These tests gauge how the prospective employee would normally act in his daily work, *i.e.* when he is not at his best behaviour.

Attitude tests: Are more appropriate as morale measuring techniques. They are used to ascertain employee's feelings towards working conditions, pay, advancement opportunities and like. Used as marketing personnel selection device, they make limited contribution by identifying abnormal attitudes on general subjects.

Personality tests: Success in selling depends mainly on the multitude of behaviour traits called personality. By adroitly asking many questions concerning what the test taker would do in certain situations, how he feels about certain things and what his attitudes are towards various occurrences, the test hopes to uncover specific personality traits. These tests attempt to identify and measure the traits like stability, tact and diplomacy, self-sufficiency, self-control, dominance, initiative, etc. The obvious difficulties in using these tests are first in stating precisely what aspects of personality are true job qualifications and then finding and designing tests which would measure these aspects correctly. These tests need to be administered and interpreted by skilled testers.

Interest tests: The basic assumption implicit in the use of interest tests is that a relationship exists between interest and motivation. Hence, if two persons have equal ability the one with greater interest in a particular job will be more successful marketingman. Interest tests measure the

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extent to which one's interests are similar to those of successful people in a given occupation: Probably, a person who scores low on an interest test will not make a good marketingman. These tests are relatively easy and inexpensive to administer.

***(iii)* Achievement tests:** Provide an assessment of expertise, an applicant possesses in such areas as customer relations, marketing channels. product, etc. These tests seek to determine how much an individual has learned from his education, training and his knowledge about certain subjects.

Evaluation of Psychological Tests

Tests to be used for selection of marketingmen are evaluated on the basis of following criteria.

- ***Validity:*** A test is valid if it actually measures what it is supposed to measure. Following are the three ways to check the validity of a test : (a) A test is given to the present marketing force and test score of successful marketingmen is compared with the score of unsuccessful marketingmen. If there is close correlation between the score and job performance, the test is a valid test. (b) A test is given to all the applicants, but the test scores are withheld from the persons matting the selection decision. After the new marketingman have begun work, their performance is compared with their test scores. Again the degree of correlation will reveal the validity of test. Another way to validate a test is through the use of control groups. One group of marketingmen is choosen by making, use of tests along with other tools in the selection process, additionally a control group is hired without the benefit of testing. The job performance of both the groups is compared, after a period of time to determine the validity of test.
- ***Test reliability:*** It refers to the consistency of test results. A test has reliability, if an individual gets approximately the same score on subsequent retesting in the same type of tests. Perfect reliability is given the maximum score of I. The tests having the reliability near one, are considered as reliable tests for use in selection process.
- ***Test objectivity:*** If the scorer's opinion does not affect the test score, it is an objective test. For a good test, it is important to have high objectivity.
- ***Time effort and cost:*** Of administering the tests must be compared with their benefits.

How the psychological tests should be used: Any test should be used only as an aid to judgement, and definitely should not be the deciding factor in determining who should be hired. It is a mistake to automatically accept or reject a given applicant on the basis of his test scores. They are a tool to assist the marketing executive in selecting the right kind of marketingmen, but they should not relied upon the exclusion of other tool. Test results may help in avoiding a serious error, but they must not make the selection decision for the manager. Marketing executives need to recognise the fact that psychological testing, although capable of making a valuable contribution, is but one step in the selection system. The marketing manager should not believe that the best score on a test means that the man is the best prospective employee. All that can be said is that a man does or does not fall within a range and all those" who do fall within that range should be judged as being equally qualified for the job. Test results should be used to probe deeper into any questionable areas.

SUMMARY

- Attracting and selecting new marketing personnel is an important aspect of the marketing manager's job.
- Selection is a step-by-step procedure that the marketing managers go through to staff the marketing organisation.
- The job analysis relates to the identification of job objectives, duties and responsibilities, analysis of working conditions, performance norms and the position in the organisation hierarchy to identify the reporting relations.
- Recruitment advertisements usually include information about the company, nature of the job, specific qualifications required and compensation.
- The basic objectives of the selection process is to gather information about the applicants for marketing job, which is used for predicting their success/failure probabilities.
- Short application form is ordinarily used as an initial screening device.
- The interview is the most widely used selection tool and in some companies, it comprises the entire selection system. This tool may be used as preliminary interview for initial screening of applicants and plays an important part in the subsequent stages of the hiring process as final interview.
- A test has reliability, if an individual gets approximately the same score on subsequent retesting in the same type of tests.

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REVIEW QUESTIONS

1. What is the nature of the marketing job?
2. What are the various activities involved in managing the marketing force?
3. What is the basic responsibility of a marketing man?
4. Explain the term recruitment.
5. What are the frequently used sources of marketing man?
6. What do you mean by selection?
7. Discuss some commonly used selection tools.
8. What are the various guidelines used in interviewing?
9. "Careful selection is important, but not essential, in building an effective marketingforce. Improper selection of marketing people can be overcome by a good training programme, sound supervision and an excellent compensation programme." Do you agree? Discuss.

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CHAPTER 4 TRAINING THE MARKETING FORCE

★ STRUCTURE ★

4.0 LEARNING OBJECTIVES

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

- understand the logic of training.
- explain the process of training.
- discuss about various areas of marketing training.
- describe the process of identifying needs.
- understand how to design and conduct the programme.
- discuss about training follow up.

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4.1 INTRODUCTION

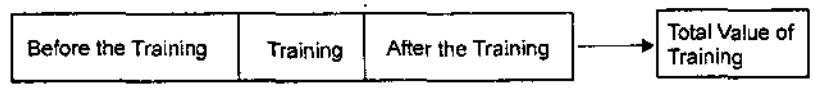
If you ask any marketing person or a marketing manager about how did they learn the selling skills, majority of them will answer, 'by experience'. The statement, however is really useful when we learn the correct things by experience and more importantly when we are able to use the lessons successfully. But what happens when we make mistakes? Next time we don't do the same mistake and we say, "I learned it all the hard way." It is suggested that, as training manager, you should be sure to check what he learnt the hard way.

There are marketingmen who have never learnt the art of closing their marketing. There are others who have talked too much for all the years they were in selling. In fact, there are still many more, who, never discovered the best way to sell or manage their time. Experience alone is perhaps never sufficient. We all have to learn from the knowledge and experience of the others. This is where the right training can make a difference. Training can help transform a below-average marketingman to an average marketingman, or the average marketingman to sell higher and the top marketingman to reach newer heights.

In a competitive market, marketing training can bridge the gap between success and failure. Customers generally evaluate a company's product based on the marketingman's performance, confidence or lack of confidence, inability to fully explain the product benefits, etc. When the market is competitive the customer may place the order with marketingman who performs better than the other in a marketing interview.

4.2 LOGIC OF TRAINING

It must be clearly understand that a training programme is just a small portion of the total learning experience of any participant. Before any participant attends a training programme, the trainer must identify specific area of knowledge, skills, or attitude in the participant that needs to be improved. After the training programme, it is expected that the participants have gained the required knowledge, skills or attitudinal change.



However, the more important part is when the participant uses this new knowledge, skills and attitude at his work place to get better results, than he was getting prior to training. These results will benefit the organization and will add more value to the organization. Thus to consider the total value of any training, it is important to consider the sequence

of training activity in its totality, *i.e.*, before the training, the training event and after the training.

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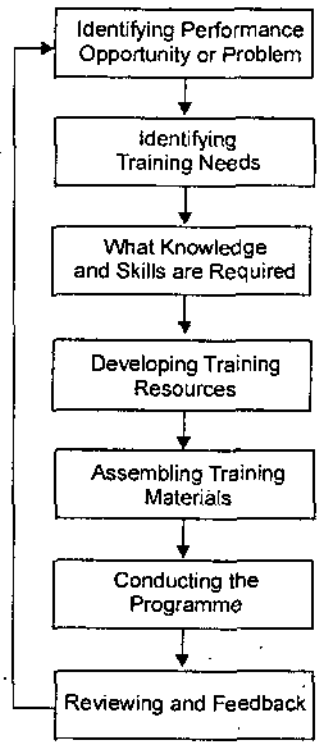
4.3 TRAINING PROCESS

Training can be defined as learning to change the performance of people, doing certain tasks. From this definition we observe that training revolves around helping people to learn so as to improve their performance. The training process can be broken down into four major steps, for easy understanding. These steps are, identifying training need ,designing the programme, conducting the programme, training follow up. Apart from the above distinctive steps, a trainer must have knowledge about adult learning styles, so that the programme can be tailored as per requirements. Diagrammatically, the training process can be represented in the following manner:



4.4 AREAS OF MARKETING TRAINING

The purpose of a marketing training programme is to impart training in the following broad areas mentioned below:

- Company's knowledge - nature of industry to which the organisation is related. The organisational place in its industry and industrial practices.

- Product knowledge and applications.
- Marketing techniques—the selling process, negotiation skills, marketing presentation, handling complaints, post marketing follow-ups, etc.
- Reporting systems"

Depending upon the contents of training programme the training methods or technique are selected.

4.5 PROCESS OF IDENTIFYING TIMING NEEDS

A training need can be defined as a gap between the desired level and the actual level of knowledge, skills or performance that can be bridged by training. The starting point for organising and conducting an effective training programme for the marketingmen is the careful and precise identification of training needs. Well intentioned, but general marketing training may not yield good results. To the marketingmen, it may not appear to be tailored to their needs, or it failed to take account of the special selling situations they generally face.

Thus, it is very important to perceive and identify the individual's training needs and then decide about the objectives and contents of the training programme. The identification the marketing training needs is a rational undertaking and it has to be done in proper sequence, which are as follows:

The first step in the identification of the training needs is to define the jobs, to be done, the specific tasks involved and the performance standards required. This involves writing of the jobs description.

Secondly, specifying what knowledge, skills and attitudes are needed to achieve the standards set for the job. Based on the job description, a training needs analysis can be done setting out the knowledge, skills and attitudes, Some examples of such an exercise are given below:

4.6 JOB DESCRIPTION/TASK/KNOWLEDGE SKILLS/ATTITUDES ANALYSIS

Job description: Keep Technically and Commercially Up-to-date

Task	*Knowledge*	*Skills*	*Attitudes*
(a) Read Journals (b) Attend relevant Meeting and events	What knowledge and skills are need as defined by the job and the company	Abillty to: self train, Iearn, interpret and apply, information and use initiaive	Training is not a classroom operation. Good training is self-inspired

(c) Assess own training needs with manager on a continuous basis			continuous and accumulative

Job Description: Liase with Companies and Organisations

Task	*Knowledge*	*Skills*	*Attitudes*
(a) Make contact with Representatives	Who they are where they operate who they know	Establish mutual respect, Sell one self,	We all need all the extra 'salesmen' we can get
(b) Maintain contact for mutual advantages	Who knows them	Establish mutual benefits	

Job Description: Sales Planning

Task	*Knowledge*	*Skills*	*Attitudes*
(a) Identify target	Number of unit sizes Location Present situation usage Future needs Finance	Ability to select priorities, good administration	Time, effort and thought Planning make the whole job easier, more enjoyable and more effective
(b) Draw up action plans	Company activities Competitor activities Distributor involvement timing Management assistance available Own time available	Good communication with managers and distributors Ability to set realistic objectives in a reasonable time scale	An agreed plan of action makes success more likely
(c) Plan with distributors	Distributor coverage Distributors representatives Credit problems Distributor needs	Motivation of distributor representatives	Liaison is essential for success

	Date of delivery and manufacture Interpretation of situation Recommendations for action	facts, people and circumstances Empathetic presentation of information	gain if the complaint is handled correctly
(c) Conclude Complaint satisfactorily	Laboratory report Interpretation of report Character of customer Relation between loss and views of Co.	Selling skills in Presenting information obtaining agreement without haggling Positive closing	The customer should feel that his complaint has been handled fairly, speedily and sympathetically

Job Description: Provide After Sales Service

Task	*Knowledge*	*Skills*	*Attitudes*
(a) Identify what is needed; (i) for personal action (ii) for distributor action (iii) for individual customers	Priorities Customer needs Customer attitude Distributor coverage Representative's abilities	Ability to select and priorities Ability to delegate	
(b) Keep personal involvement to a minimum	As above	Tactful delegation to distributor representatives training of representatives	
(c) Provide first-class personal services where necessary	Technical knowledge product knowledge Management of finance and economics	Ability to provide service effectively Use service as a sales aid	Service a tool to be used in goining and maintaining business not an end in itself

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Job Description: Support Promotional Activities and Participate in Meetings/Demonstrations

Task	*Knowledge*	*Skills*	*Attitudes*
(a) Apply Promotional plans in own district	Company plans Area plans District plans Distributor needs Consumer needs	Selling of promotion to: distributors representatives	Use Distributors and Distributors' Representatives to sell
(b) Take part in meetings and demonstrations	Suitable venues Meeting organizations press coverage Products/systems Company policy	Public speaking Discussion leading Chairmanship Report writing	We are professional

Job Description: Internal Communication

Task	*Knowledge*	*Skills*	*Attitudes*
Report competitor Activities to management	Competitors representatives Competitors customer	Accurate Report writing Objective interpretation	Effective action depends on accurate and balanced
Suitable speakers	Competitors products and policies	Communication with third parties	Reportage

Thirdly, define what knowledge, skills and attitudes each marketingman has, how and what performance standards each is achieving. The collection of this information requires the setting up and constant use of an effective marketingman performance appraisal system. It also involves agreement on measurement standards and techniques. Fourthly, identifying the training gaps in each areas of knowledge, skills and attitudes.

Fifthly, define what additional training needs arise as a result of changes external to the marketingman's past achievements and standards. This necessitates checking on a systematic and continuous basis the directions and future plans for the company's marketing planning, marketing planning and recruitment functions. For example; a decision to add a couple of products to the existing product line could involve every marketingman in revising his method of working, route planning and scheduling, thus giving rise to a new training need in the field. It is therefore, necessary to relate the company's future plans to its current marketing force needs.

Lastly, define the training priorities for the current period, *i.e.,* to identify what are the training needs in the immediate future, in the mid-term and in the long term, and accordingly prioritise the training activity.

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4.7 METHODS OF IDENTIFYING TRAINING NEED

For the success of any training it is of utmost importance that the training needs are identified, objectively and correctly. Training need analysis will help in identifying employees who need training and also you can set specific criteria's to measure the results of training. Some of the methods used for identifying training needs are:

(1) Self Observation

Observations can work only when a marketingman is observed doing his job, continuously for a specific period, by an observer.

Advantages: Observation gives you an idea about the actual working of a marketingman. It is a low cost technique with minimum disruption to the work. Also, in this technique you yourself observe the marketingman and thus the bias is avoided, in the observations.

Disadvantages: The major disadvantage of this technique is that the marketingperson may not act normally when someone is with him as lat feeis scrutinized. Also you may not observe all the attributes due to infrequency of occurrence of some attributes. Another disadvantage of this technique is that sometimes it is difficult to record the observation data.

(2) Reports

Any organization will have number of reports that record different aspects of job performance regularly, like, work records, marketing output, marketing trend, etc. A careful study of these reports can help in identifying training needs.

Advantages: You have a long track record of performance which can be used. The marketingman is not aware that you are watching him. In this method, you do not incur any additional cost.

Disadvantages: As the quantum of information available through the marketing reports is large, his method is time consuming.

(3) Surveys and Questionnaires

These are the written forms that are completed and returned either by the Marketingperson himself or by his manager, after filling them up.

Advantages: These forms bring out opinions and facts about a current situation by questioning the people involved. These are useful in getting information from a large or geographically dispersed people. The respondents can complete them at their convenience, without any distraction.

Disadvantages: If the questions are not framed in a simple language, the respondents may not understand the questions. Secondly, only those people who are interested, will generally send their reply to a survey.

(4) Face to Face Interviews

A face to face interview is the process of meeting a marketingperson individually to discuss issues that concerns him the most.

Advantages: These interviews are helpful when you are dealing with sensitive issues that require explanatory answers. Another advantage of this process is that you can clarify things by asking questions and also you can observe the non-verbal clues.

Disadvantages: The marketingperson may not like such interviews where you are making notes. Face to face interview is also a time consuming process.

(5) Focus Groups

In a focus group, 10-15 marketingpersons meet to discuss a topic and exchange views, attitudes to give suggestions. Such discussions are useful when handling an undefined issue.

Advantages: Focus groups offer valuable but general data. With the help of focus group discussions you can identify questions and issues that can be used to conduct specific surveys.

Disadvantages: A focus group has to be followed by other hypes of surveys for getting specific information. A focus group is time consuming and in such studies it is difficult to quantify results.

As you must have observed, you can use any or all of the above methods for identifying training needs. Once the data is collected, you need to analyze data for prioritizing different needs that may emerge. One important point that should be kept in mind is that during these surveys certain needs can emerge that cannot be handled by training. These may include pay increases, incentives, work conditions, etc. Therefore, the suggestion is that when you are analyzing data you must focus only on those needs that can be addressed by training.

4.8 LEARNING STYLES

When you are designing a training programme, you must keep in mind that different people, learn easily from different learning styles. Therefore,

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you should be able to identify the best learning style. Broadly speaking any person has one of the following as dominant learning style: Activist, Reflector, Theorist or Pragmatist. You must appreciate the fact that these are the learning styles and need not reflect the personality of any individual.

Activist: An activist involves himself fully and without bias in new experiences. He is open minded, riot skeptical and is enthusiastic about anything new. He is happy to take problems by brainstorming. Thus, if you are designing a programme for an activist, be sure to include situations of his participation's like, games, simulation exercises, etc.

Reflector: He likes to stand back to ponder experiences and observe them from varied perspectives. He will collect data, himself and from others, and prefer to think it thoroughly before coming to any conclusion. He prefers to take a back seat in meetings and discussions and enjoys observing other people in action. He tends to adopt a low profile. While designing a programme for a reflector, be sure to include actual case studies and experiences and guide him to make his own decisions.

Theorist: He integrates observations into complex but logically sound theories. He thinks problems through in a step by step way. He likes to analyze and synthesize. He tends to be detached, analytical and dedicated to rational objectives rather than anything subjective or ambiguous. His approach to problems is consistently logical.

Pragmatists: He is keen on trying out ideas, theories and techniques to see if they work in practice. He is the sort of person who will return from training brimming with new ideas that he wants to try out in practice.

4.9 DESIGNING AND CONDUCTING THE PROGRAMME

For training of marketing force, you can use one of the three major types of programmes. These methods are self study modules, class-room training, on the job training. However for all the programmes, the planning must be done comprehensively to ensure effectiveness of the training.

Self Learning Modules

In this programme, the participants are given the course material which they are required to study themselves. Written totes can be sent, and if needed audio and video cassettes can be used. This kind of training is useful when you want the participants' to revise some material or you want to send some pre-conference study material. The major disadvantage of this method is that you cannot be sure whether the participants have actually studied the material. Also, in this method, there is no feedback.

Class Room Training

Each training programme needs to be individually planned based on the pre-decided objectives decided for the programme. However, the following are the important areas that can be covered in a typical marketing related programme:

- Company knowledge - history and future plans
- Product information
- Marketing strategies for various products
- Learning the features, advantages, benefits of products
- How to obtain interview with prospective customers
- The marketing presentation
- Different ways of finding customer's needs
- Answering objections
- Closing the marketing presentation
- Planning geographical territory and planning each day
- Time management
- Administrative responsibilities
- Communication abilities
- Writing reports

The objective of a class room based refresher course is to reinforce some aspects in the marketingmen which they are likely to forget and also to add new knowledge and skills to the marketingmen. Thus, as the name suggests a refresher and development course must refresh the memory and develop the true potential of the marketingmen. To truly meet its objective, a refresher course must be based on factual information. Thus, complete information on marketingmen's behaviour, weaknesses and general morale must be available before designing any refresher course. So, one of the questions that need to be answered for running an effective refresher course are:

Planning	Does a salesman prepare and work his plan Does he keep up to date records Does he call regularly on his customers
Appearance	Is his appearance professional Does he keep his presentation material near and clean
Attitude	Does he have a positive or a negative attitude How is his response to official communication How much is he influenced by outside influences

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Selling Skills	How good is his product knowledge How updated are his selling skills Does he have knowledge of any special techniques

Once all the information is gathered, the trainer can plan different session of refresher course which can include case studies, role plays, syndicate presentations, simulations etc.

On-The-Job Training

One of the very important ways of teaching new skills to marketing people is through on the job field training. The important advantage of this method offers is that the skills are demonstrated to the marketingmen in the real life situation and thus the impact on the marketingmen is expected to be much stronger. Also the individual marketingman's needs can be identified and attended to. In on-the-job or field training, the trainer can either make a marketing call himself which the marketingman observes and learns. In the other method of on-the-job training the trainer gives feedback to the marketingman after observing him during his marketing call. The marketingman, thereafter, practices the recommendations in the future calls.

4.10 TRAINER'S ABILITIES

A successful trainer needs to posses various skills to do a good job of training. Some of the basic things without which a trainer cannot be successful are, thorough job knowledge and an ability to relate to the actual situations the marketingman experiences. The other main abilities which a trainer must posses are:

Analytical Ability

A good trainer is able to analyze the situations and identify the exact training needs for marketingpersons. The analytical ability will help the trainer to focus on issues of prime importance rather than touching superficial issues.

Basic Educational Abilities

A trainer needs to have the knowledge about the jobs the marketingpersons perform. He should also know the principles of communication. It would be still better if the trainer has some knowledge about the adult learning.

Training Techniques

A successful trainer needs to understand what makes people learn and accept new things. He should have clear knowledge about the different

techniques of training. He should be able to employ such techniques, for maximum results.

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Ensuring Participants' Participation

To ensure effective learning, the training session must be interactive where participants freely participate. Some of the methods employed for ensuring trainee participation are:

- Discussion Groups: Trainees are divided into groups and given various topics, issues etc. which they have to discuss amongst themselves and come up with probable solutions.
- Questions and answers period, after each session.
- Decision-making exercises, *e.g.* finding product benefits and converting them into marketing presentations for various types of customers.
- Demonstrations: These can be either trainees acting out certain role plays or video demonstrations or demonstrations by the trainer.
- Case studies: Participate attempt to find the best possible solution for a real life problem.

Course Organization

Once the total written material for a course is ready, the session can be put into practice. A good trainer will always keep in mind some basic rules of organizing a training session, like:

- Punctuality is essential.
- All material related to training like, slides, demonstration pieces, samples, etc. , must be carefully checked before the programme.
- The room where the: training is to be held must be checked for adequate lighting and seating arrangements.

4.11 TRANING FOLLOW UP

Training follow up refers to the time immediately following the training. This may vary from, the time when learners are still a captive audience, to possibly months or years after the training. What happens after training is vital to any training session. After any training session you must gather and analyze feedback to review training. Measure and analyze results specially in relation to job performance. Provide additional inputs, if these has been a shortfall, of similar training programmes are organised in future.

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SUMMARY

- Training can be defined as learning to change the performance of people, doing certain tasks.
- Observations can work only when a marketingman is observed doing his job, continuously for a specific period, by an observer.
- Surveys and questionnaires.
- These are the written forms that are completed and returned either by the Marketingperson himself or by his manager, after filling them up.
- In a focus group, 10-15 marketingpersons meet to discuss a topic and exchange views, attitudes to give suggestions.
- Training follow up refers to the time immediately following the training. This may vary from, the time when learners are still a captive audience, to possibly months or years after the training.

REVIEW QUESTIONS

1. How an applicant, before accepting a job, could appraise himself quality of training that will be provided to him?
2. Why is marketing training a continual managerial activity?
3. Why is product knowledge also considered to be a marketing related training need?
4. Why do marketing trainers rely so much on role-play in teaching marketing techniques. Discuss its advantages over other training methods?

UNIT II

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CHAPTER 5 ONLINE MARKETING: E-COMMERCE

★ STRUCTURE ★

5.0 LEARNING OBJECTIVIES

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

- define e-commerce and e-marketing.
- discuss about the contents of e-commerce and e-marketing.
- focus on analyzing the common characteristics and the inherent relationship between e-commerce and e-marketing.
- explain the concept of e-commerce e-marketing.
- describe the relationship between e-commerce e-marketing and e-commerce.

5.1 INTRODUCTION

In the 1970s, electronic data interchange (EDI) and electronic funds transfer (EFT) was as to e-commerce system prototype between businesses had emerged. Along of computer was extensively applied, network was popular and maturity, credit card was applied, e-commerce was

supported and promoted by government, the e-commerce has entered a period of rapid developing. At the same time, e-marketing was as to a developing product of network technology, it had become a major marketing tool in information economical era, and it had been widely used in every field. In this chapter, analyzed the basic content of e-commerce and e-marketing, and analyzed the same points and internal relationships of them, focused on the integration developing issues of them.

5.2 CONTENT OF E-COMMERCE

What's the e-commerce? Up to now, there is no united or standard definition. Now, according to the definitions of e-commerce given by researchers, the world authority organizations and institutions, enterprises and individuals etc., we give out the definition of e-commerce from our own comprehension below:

We think that the definition of e-commerce should emphasize three points. The first is that e-commerce has business background because it is a business model. The second is that e-commerce has internet characters because it is based on network background, especially internet to realize business activities. The third is that e-commerce has electronic (numerical) character because that the information in the e-commerce is transmitted by electronic form.

So, we think that the e-commerce means electronic business activities by using modern *communication technology, especially internet. It is not* only an electronic transactions based on browser/server(B/S) applications but also a promotion business model setting on modern information technology and information system, and so as to be electronic business activities. Simply, e-commerce means the whole business activities process using electronic tools, especially internet, to realize Commodity exchanging in high efficiency and low cost.

5.3 CONTENT OF E-MARKETING

What's the e-marketing? Up to now, there is no united or standard definition. But, from the very definitions given now, we find out that, e-marketing is not only including the professional works that the marketing department deal with in marketing operating, but also it needs the cooperation by the relation business department such as procurement departments, producing department, financial department, Human Resource department, Quality supervision management department, product developing and designing department etc., and according to the demand of marketing to redesign and recreate the enterprise business standard by using computer network,

so as to adapt to the demand of digital management and business in the network knowledge economy era.

So, e-marketing is the strategy that the agency or organization uses the modern communication technology methods to exchange the potential market into reality market. It is an important part of the whole marketing strategy, and it is a kind of marketing tactics to realize the marketing goals based on Internet. The network marketing is that we can use Internet making continuously services in the every step of products pre-selling, products selling and products after-selling. It runs in the whole process of business operations and includes the search for new customers, service for old customers. It is the process which is based on modern marketing theory and uses of Internet technology and its functions to meet needs of customers, in order to realize the goals of developing new marketing and increasing operating profit.

5.4 COMMON CHARACTERISTICS AND INTRINSICALLY RELATIONSHIP OF E-COMMERCE, E-MARKETING

Although, there are many clearly distinctions between e-commerce and e-marketing in concept content, purpose, work theory, aim, implementation environment, message type, degree of integrating (such as SCM, CRM, ERP) etc. But, they are a pair of closely relating concepts and have many similar characteristics. Following, we will focus on analyzing the common characteristics and the inherent relationship of them.

Common Characteristics of E-commerce and E-marketing

1. They have same basic theories such as computer science, management science, information system, economics, marketing, financial accounting, as well as sociology, linguistics (involving the translation of international trade), robotics, operation research/management science, statistics, public policy etc.

2. They have same basic technologies such as modern communication technology, computer network technology, especially the internet technology, Web technology, wireless network technology, database technology, electronic payment technology, security technology etc.

3. They have similar content of business activities because of having same function of promotion, such as displaying of e-commerce product, web site promotion, product marketing information transporting etc.

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4. They have same invisible characteristics because of the data expressing and transmitting are all electronically.
5. They have same across temporal and spatial characteristics. Scale of operation is not restricted by time and geographical.
6. They all can achieve low-cost. Both of them all have a "no inventory" feature, and very low cost advertising and operating.
7. They all can change the operation mode of enterprise, and will promote the enterprises to reform the model of business and management.
8. They all can well reflect the thinking of SCM, CRM, ERP and other modern management science. All of them can enhance the integration of multi-services such as product, supply, marketing, close customer relationship, understand and predict customer's demand, promote the management innovating.

The Intrinsically Relationship Between E-commerce and E-marketing

E-marketing is the integral part of e-commerce, and e-commerce includes e-marketing. E-marketing will be the entry point of small and medium enterprises to carry out the e-commerce when the overall environment of e-commerce is not yet very mature. Therefore, the e-marketing is as a method of the enterprise management to realize commodity exchange, obviously, it is the very important and basic internet business activities of enterprise e-commerce activities. We can say that e-marketing is an important means of implementing e-commerce, and the e-commerce is the advanced stage of e-marketing developing, so carrying out marketing e-commerce cannot separate from the e-marketing, but the e-marketing does not equal to the e-commerce. Figure 5.1 gives out relationship of e-commerce and e-marketing, and we can obtain from figure 5.1.

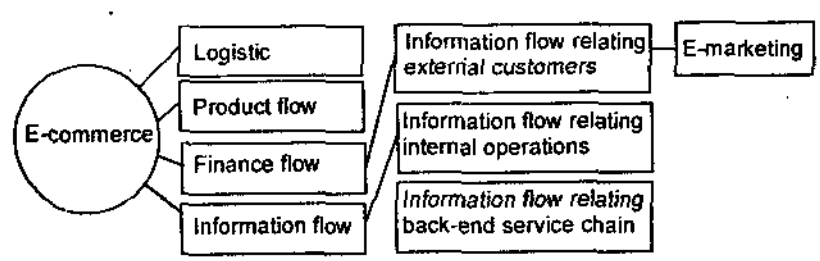

Figure 5.1. Relationship between e-commerce and e-marketing

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5.5 COMBINATION OF E-COMMERCE AND E-MARKETING

Concept of e-commerce e-marketing

Based on concepts of e-commerce and e-marketing, we believe that e-commerce e-marketing refers to new comprehensive marketing model which is based on e-commerce and uses every kind of e-marketing methods and means to achieve online business activities. So, the content of e-commerce e-marketing should include three aspects: First, e-commerce insists e-marketing.

Second, e-marketing is the core business activities of e-commerce. Third, the combination of e-commerce and e-marketing will give e-commerce new contents, expand e-commerce extension, accelerate the using of e-marketing methods, create integrated and comprehensive modern new marketing model which is e-commerce e-marketing.

Relationship Between E-commerce e-marketing and E-commerce

E-commerce e-marketing is different from a single e-commerce or e-marketing, but it is an integrated e-marketing method by integrating onling business managing and transactions activities. It not only has the functions of general e-marketing, but also should have the full functions of e-commerce. E-commerce e-marketing is the advanced form of e-commerce, it has more abundant content than e-commerce, but it belongs to e-commerce in extension. And, e-commerce e-marketing is different from e-commerce and other e-marketing. The relationship between them shows in figure 5.2.

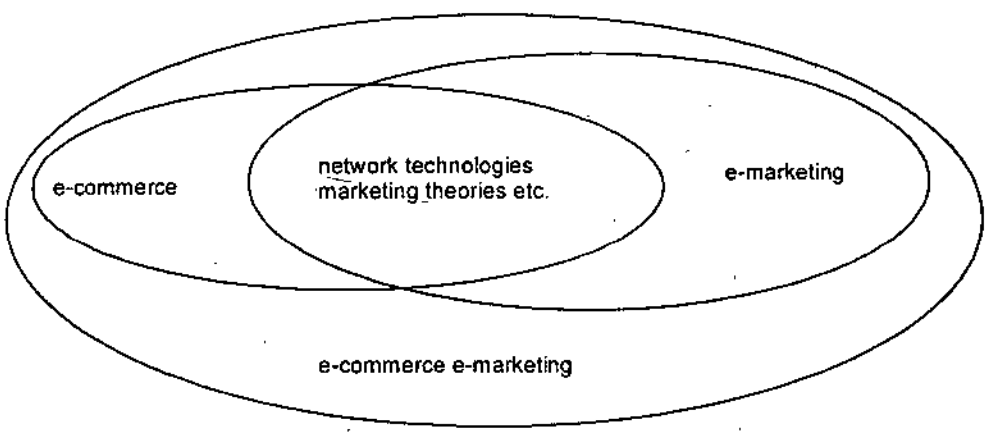

Figure 5.2. Relationship between e-commerce e-marketing and e-commerce, e-marketing

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Implementing Process of E-commerce E-marketing

E-commerce e-marketing is the e-marketing in the environment of e-commerce, its smooth developing requires supporting by e-commerce platforms, and requires supporting by external basic environment such as banks, trading centers, and laws and regulations, policies relating to e-commerce, a certain number of internet companies and the number of internet users, the necessary internet resources etc, and requires supporting by the internal basic conditions such as the concepts and strategies of operating and managing, information technology etc.

In theory, no matter what kinds of e-marketing to take, as long as they links to the internet, the enterprise has the basic conditions to develop e-marketing, and it can make initial marketing activities such as publishing some supply and demand information on internet, and exchanges with customers by e-mail, etc. However, an enterprise wants to carry out e-commerce e-marketing, in addition to build e-commerce platform firstly, but also needs to make a series of analysis and comparison, and needs to make e-marketing programs according to the enterprise demands and internal conditions. Generally, there are four programs on building e-commerce platforms to be adopted by enterprises, and the workflow of e-commerce e-marketing can be divided into three main stages, it shows in table 5.1.

Table 5.1: General workflow of e-commerce e-marketing

three stages	Market analysis and research	Constructing e-commerce platform	Implementing e-commerce e-marketing
content (work steps)	content of analysis and research 1. product characteristics 2. competing environment 3. fanancial condition 4. Humman resources	four plans to constructing e-commerce platform 1. e-commerce platform owned by the enterprise 2. third-party e-commerce platform 3. collaborative e-commerce platform 4. interncetional e-commerce platform	steps to implement e-commerce e-marketing 1. information collecting 2. information publishing 3. Web promoting 4. online negotiating and signing of contract 5. online transacting and paying 6. Commodities Transporting and after-sale service

5.6 DEVELOPING MODEL OF E-COMMERCE E-MARKETING

While the management philosophy is continuously improving, the method of modern management science is innovating, the information network technology (especially wireless network technology) is developing and is

being applied, e-commerce e-marketing will be developed toward the integrating direction, and it must gradually form an integration that the wire network and wireless network co-exists, internal management and external commodity trading and marketing activities coordinates, e-commerce and e-marketing gradually integrates. This shows in figure 5.3.

1. **Integration of every component.** The model is an organic integration of the various parts, the e-commerce, e-marketing, internal management and external customers is linked by wireless or wired network, to coordinate with each other and interrelated.

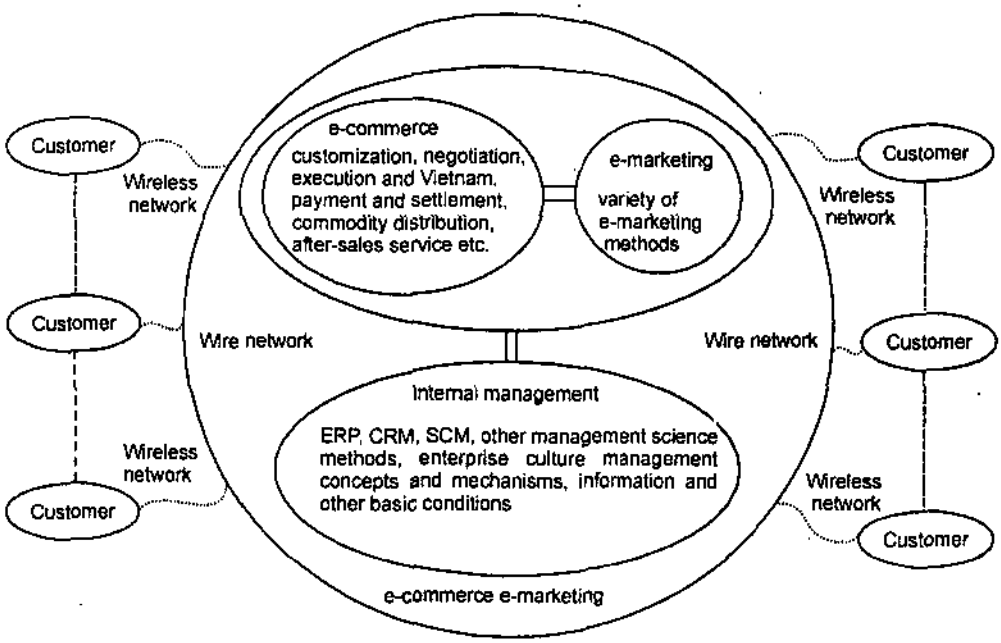

Figure 5.3. Developing model of e-commerce e-marketing

2. **Network.** It is mainly linked by wired network between internal departments (module), but it is mainly linked by wireless network between external customers, to realize trade activities, marketing activities, personalized services and negotiations.

3. **Functions of each part.** E-commerce module should have functions that meet customization needs of customers, business negotiating, online signing, online payment and settlement, commodities distributing and logistics services, after-sale service etc. E-marketing module should have functions such as search engine marketing, online advertising and other "wired" e-marketing, as well as short message marketing and other "wireless" e-marketing methods. A variety of online marketing methods are more flexible and integrated application. Internal management module should comprehensive use ERP, SCM, CRM and other advanced modern

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management science methods to make the internal enterprise management, and at the same time, it integrated with the corporate culture, management philosophy, management system, information technology infrastructure and other aspects.

E-commerce has closest internal relationship with e-marketing, to combining both of them, to make e-marketing based on e-commerce, is conducive to play the functions of each other and the overall advantages. This is not only useful to accelerate the development of e-commerce, to promote innovation of e-commerce application model, but also is useful to promote improving of e-marketing methods, and at last, ultimately to promote the new economy era coming quickly.

SUMMARY

- So, e-marketing is the strategy that the agency or organization uses the modern communication technology methods to exchange the potential market into reality market.
- Based on concepts of e-commerce and e-marketing, we believe that e-commerce e-marketing refers to new comprehensive marketing model which is based on e-commerce and uses every kind of e-marketing methods and means to achieve online business activities.
- E-commerce e-marketing is different from a single e-commerce or e-marketing, but it is an integrated emarketing method by integrating onling business managing and transactions activities.
- E-commerce has closest internal relationship with e-marketing, to combining both of them, to make e-marketing based on e-commerce, is conducive to play the functions of each other and the overall advantages.

REVIEW QUESTIONS

1. What is e-commerce?
2. What is e-marketing?
3. What is the importance of e-commerce in e-marketing?
4. What are the common characteristics of e-commerce and e-marketing?
5. What is the difference between e-commerce and e-marketing?

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CHAPTER 6 DIRECT MARKETING AND DISTRIBUTION

★ STRUCTURE ★

6.0 LEARNING OBJECTIVES

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

- define direct marketing.
- explain various examples of direct marketing like internet marketing. face-to-face selling direct mail and telemarketing.
- discuss the concept of channel marketing.
- discuss about the type of resources that marketing channel offers.

6.1 INTRODUCTION

This chapter deals with the study of direct marketing and distribution. Direct marketing occurs when the 'producer' connects with the end user. Direct marketing is not synonymous with mass marketing. Examples of direct marketing include internet marketing, face to-face selling direct mail, catalogs and kiosk marketing. Apart from this, you will come to know about the channel marketing. Channel resources and the way of enhancing the customer/direct experience.

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6.2 DIRECT MARKETING

Direct marketing occurs when the "producer" connects with the end user. The end user may be a consumer or a business. Direct marketing applies to product and service oriented businesses, and to nonprofit organizations. In all situations, there is no intermediary involved. Direct marketing describes this interactive communication with the end user. Direct marketing is not synonymous with mass marketing. The most effective direct marketing takes place when there is a clear connection to reach the target market.

Organizations may use several ways to leverage direct marketing as they communicate with and deliver products to their customers. This may include using a direct sales force, catalogs, websites, email, direct mail, telemarketing, seminars, trade shows, and other "one-to-one" techniques to communicate and sell to their customers and clients.

Some of these direct marketing methods have grown dramatically, especially with the growth of marketing over the Internet. There is evidence that other direct marketing approaches have diminished, such as reports that the response to direct mail is often below one percent compared to the five-plus percent response rate numbers more commonly experienced in the past. Companies may choose to leverage direct marketing exclusively. Examples include:

(1) Internet Marketing

The Internet has revolutionized direct marketing for promoting the sale of products and services to targeted audiences. Access to the Internet provides users with services in four basic areas: information, entertainment, shopping, and individual and group communication.

Online channels can eliminate geographic considerations. With this capability people around the world have the same access as the person across the street. Many businesses that can sell their products and services through downloading or can economically ship those products have discovered an entirely new way to market.

The Internet makes direct marketing easier, more targeted, more flexible, more responsive, more affordable, and potentially more profitable than ever. Virtually every business should seriously consider the Internet as a part of their marketing mix and determine if it is a viable fit for direct marketing.

(2) Face-to-Face Selling

The most traditional direct marketing involves the in-house sales force personally contacting potential and established consumers. Examples of

organizations that use face-to-face selling include Mary Kay, Avon and Amway.

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(3) Direct Mail

Direct mail is described as sending information about a special offer, product or sale announcement, service reminder, or other type of communication to a person at a particular street of electronic address. Historically direct mail has existed in the form of printed materials, but CDs, audio tapes, video tapes, fax mail, email and voice mail are also used in direct mail campaigns. For example, America Online experienced a highly successful campaign through mailing out CD-ROMs to prospective customers. Direct mail permits high target-market selectivity; it can be personalized, it is flexible, and it allows early testing and response measurement to take place. A highly selective and accurate mailing lists often determines the success of direct mail efforts to enhance response rates and control costs.

(4) Catalogs

Product catalogs are another version of direct mail where the catalogs are the communication tool. The most common use of this approach involves featuring a variety of products that target the needs of a specific audience who have shown a propensity to order from catalogs. An increasing number of business-to-business marketers are sending catalogs on CD-ROM to prospects and customers. The average U.S. household receives more than 50 catalogs each year ranging from general merchandise (Spiegel and J.C. Penny) to specialty goods (Pottery Barn and PC Connection).

(5) Telemarketing

The process of contacting people on a qualified list to sell services over the phone has grown in popularity to the point that the average household receives 19 telemarketing calls each year. Successful telemarketing campaigns depend on a good calling list, an effective script and contact structure, and well trained people that are compensated and rewarded for making calls that result in sales. The telecommunications industry including AT&T, MCI/WorldCom and Sprint has used telemarketing extensively to attempt to increase their market share.

(6) Direct-response Advertising

Direct-response advertising is communicating with potential buyers through television, radio, magazines, and newspapers. The prospective

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consumer watches, hears, or reads about the product or service and initiates a call to a toll-free number to place their order. Television, for example, offers a wide range of exposure, from a 30-second commercial to a 60-minute infomercial.

(7) Kiosk Marketing

Customer order machines, versus vending machines that actually provide products, are another form of direct marketing. Examples of kiosks range from computer terminals in Eddie Bauer stores so customers can order from the entire line of products not available in the retail store to Florsheim Shoe Company kiosks placed in airports for home or office delivery. Your bank's automatic teller machines (ATMs) placed in convenient and high traffic areas are another example of kiosk marketing. A combination of these direct marketing techniques may offer the optimal revenue generation solution.

6.3 ASSESSING THE CRITERIA

One of the first criteria for direct marketing is to have a consistent customer profile available describing the dominant target markets. This information must have sufficient detail to support a customer database.

The customer database quantitatively captures the key characteristics of prospects and customers who are most ready, willing, and able to purchase your product or service. It may offer demographic information about their age, income, education, gender, and previous mail order purchases. In concert with this information, this customer database identifies those customers that possess these characteristics:

- Have purchased recently.
- Have purchased most frequently.
- Spend the most at each transaction.

This database is used to accomplish the following:

- Identify prospects.
- Decide when a customer needs a specific offer.
- Enhance customer loyalty.
- Stimulate repeat purchases.

Access to a customer database is the first step. The next set of criteria includes enhancing customer value through one or more of the following factors:

- Customized product and service solutions.

- Personalized interaction before or during the actual transaction.
- The development of expertise within an industry or based on specific issues.
- Individualized distribution processes accompanied by customized marketing offerings.

When these criteria are met, the organization may be able to leverage areas of expertise, economies of scale, and have the potential to build customer loyalty. An organization may be able to achieve greater target market precision through direct marketing than it can experience through a mass marketing or channel marketing approach.

6.4 CHANNEL MARKETING

Many producers of products and services do not sell directly to their end users. They use a marketing channel. In its most simplistic form, a marketing channel performs the work of moving goods from producers to consumers.

A marketing channel includes one or more marketing intermediaries performing a variety of functions. Each channel member:

1. Provides value;
2. Performs a function; and,
3. Expects an economic return.

Channel marketing most often relates to the sale of products. However, it is not limited to the distribution of physical goods. Providers of services and ideas also benefit from channel marketing. For example, banks and credit unions depend on a network of ATMs to offer their services. Financial management and insurance organizations disseminate information through systems provided by other vendors. Health and medical organizations depend on a network of providers to offer their services. In the cases above, channel marketing offers better services at costs lower than offerings without the assistance of channel members.

Organizations can achieve differentiation through their distribution channels. Each of these channels may offer different coverage, expertise, and performance. They may also realize economies of scale that channels of distribution often offer. Marketing channel decisions are among the most critical decisions facing an organization. The chosen channels intimately affect all other marketing decisions. The organization's pricing depends on whether it uses mass merchandisers or high-quality boutiques. The firm's sales force and advertising decisions depend on how much training and motivation the dealers need.

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Channel Terminology

Channel Title	*Channel's Role*	*Do they carry inventory?*	*Do they offer financing?*
Broker	Brings buyers and sellers together	No	No
Distributor	Allocates goods to wholesalers or to retailers	Yes	Potentially
Facilitator	Assists in the distribution process	No	No
Manufacturer's representative	Represents and sells for several manufacturers to perform the same functions of an internal sales force	No	No
Merchant	Purchases inventory to resell	Yes	Potentially
OEM—Original Equipment Manufacturer	Initial producer of a product who agrees to allow another entity to include, remanufacture, or label	Yes	Potentially

6.5 THE VALUE OF CHANNEL MEMBERS

Channel intermediaries offer contacts, experience, specialization, and economies of scale to organizations that cannot offer these attributes on their own. Marketing channels allows producers to realize the benefits that only larger organizations may be able to support. Each of the intermediaries provides value. The marketing intermediaries offer value in the form of:

- **Information:** Collect and disseminate marketing information about potential and current customers, competitors, and other aspects in the marketing process.
- **Promotion:** Develop and share marketing communications designed to inform and attract customers.

- **Negotiation:** Reach final agreement on the price and other terms of the transaction.
- **Funding:** Acquiring access to funds to finance inventories at different levels of the marketing channel.
- **Risk taking:** Take on risks associated with performing the functions of the channel. Obsolete or damaged inventory, bad debt, and slow payment are a few examples of this risk.
- **Physical possession:** Store and move products from raw materials to the final customers.
- **Payment options:** The buyers' payment of their bills to the sellers through banks and other financial institutions.
- **Title:** Transfer title of ownership from one organization or person to another.

6.6 CHANNEL RESOURCES

In a functional sense, these are some examples of the types of resources that marketing channels offer. Each adds value to the promotion, the transaction, or the services associated with the purchase:

- Accounting services
- Advertising planning assistance
- Catalog services
- Co-op advertising programs
- Consumer advertising
- Data processing programs and systems
- Dealer shows and events
- Drop-ship programs
- Employee training
- Financing
- Forms and printing assistance
- Insurance programs
- Inventory control systems
- Management consultation services
- Merchandising assistance
- Ordering and processing systems
- Point-of-sale identification

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- Private-label merchandise
- Store planning and layout

Through their acquired expertise and economies of scale, channel members offer these activities more efficiently than many organizations, particularly smaller ones, could provide on their own. The marketing channel allows the producer and the channel members do what they each do best in higher volumes.

6.7 ENHANCING THE CUSTOMER/CLIENT EXPERIENCE

Channel marketing proves to be a "fit" if the process better responds to the desires of the target market than the organization could alone. An organization must answer the question: "Will our customers or clients be better served by channel members rather than having us perform these functions?"

- **Lot size:** How many "units" does the end user want per transaction? A household may purchase one personal computer per transaction. The customer service department of Eddie Bauer may purchase 20 personal computers at a time. Channel members may have systems designed to address the needs of both.
- **Waiting time:** The speed of providing faster service may be magnified through the systems that channel members offer.
- **Location:** Getting the product in the right place at the right time is important. Arranging for "authorized dealerships" throughout a wide geographic area allows products to be conveniently and affordably accessible to customers.
- **Product variety:** The ability to purchase other products from a retail store may enhance the sales and/or margins of all products offered by attracting customers who appreciate the variety of products.
- **Service support:** Channel members may be better equipped to offer add-on services. This may include advertising, credit, delivery, installation, and repair to enhance the overall value provided to the customer.

The first step is to select intermediaries that complement the product or service. These channel members should have the goal of offering attractive attributes to the end user.

Channel members also need to be motivated to continue to provide value. Motivation typically exists in the form of profitability through stimulating

sales. The overall goal is to build long-term and supportive relationships among channel members that are successful for all involved.

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SUMMARY

- This chapter deals with the study of direct marketing and distribution.
- The Internet has revolutionized direct marketing for promoting the sale of products and services to targeted audiences.
- The most traditional direct marketing involves the in-house sales force personally contacting potential and established consumers.
- Product catalogs are another version of direct mail where the catalogs are the communication tool.
- The process of contacting people on a qualified list to sell services over the phone has grown in popularity to the point that the average household receives 19 telemarketing calls each year.
- Many producers of products and services do not sell directly to their end users. They use a marketing channel. In its most simplistic form, a marketing channel performs the work of moving goods from producers to consumers.
- Channel marketing proves to be a "fit" if the process better responds to the desires of the target market than the organization could alone.

REVIEW QUESTIONS

1. What do you understand by direct marketing?
2. What do you understand Internet Marketing?
3. Write the short notes:
   (a) Face-to-Face Selling
   (b) Direct mail
   (c) Catalogs
   (d) Telemarketing
   (e) Direct-response Advertising
   (f) Kiosk Marketing
4. Write the short note on channel marketing.
5. Which type of resources does marketing channel offer?

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CHAPTER 7 ETHICS IN MARKETING AND CONSUMER PROTECTION

★ STRUCTURE ★

7.0 LEARNING OBJECTIVES

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

- define marketing.
- discuss about ethics in marketing.
- explain the concept of 4P's of marketing mix.
- discuss about the factors behind unethical practices.
- discuss about the important issues in marketing ethics.

7.1 INTRODUCTION

Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses. According to American Marketing Association "Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goods." Or Marketing is societal processes by which individual's group structure procures what they need or want freely exchanging goods and services value of it. A number of distinct functions come under it like—Product development, Distribution, Pricing, Promotion and Sales.

Now the question arises why should marketers worry about ethics? What role do the moral values play in an economic system? Is it the need of the hour to be ethical while marketing? Is it the competitive pressure/ legal laws, which force them to consider ethics in marketing, or they have realized that in the changing climate of consumerism, they have to adopt ethical view to understand and meet the need of 21st century customers.

Ethics in marketing is not all together a different concept or it is not performing marketing with a different concept/style but simply— "It is the function and process of marketing keeping to the standard norms of it and achieving the ends through a sound means."

As we know that the focal point of ethics is 'normative' ('what ought' to be) rather than 'what is'. Though the ideal situations may vary from group to group and from time to time. Therefore, the marketers who wish to avoid criticism from competitors, customers, Government, other stakeholders must follow some ethics.

.2 COMMON UNETHICAL PRACTICES

We will see these practices under 4 P's of marketing mix—

Product	***Price***	***Place***	***Promotion***
Quality	List Price	Channels	Sales promotion
Features	Discount	Locations	Advertising
Warranty	Credit terms	Inventory	Public relation
Brand name	Payment-period	Transportation	Direct Marketing
Size			
Packaging			
Design			

Therefore, the common unethical practices are:

1. Duplication of original brands.
2. Inadequacy and insufficiency in warranty offering time and service.
3. Not producing quality product.
4. Question mark on products safety.
5. Unauthorized manufacturing of hazardous products.
6. Production of non-bio-degenerate plastic products, which causes environmental pollution.
7. Discrimination in pricing.

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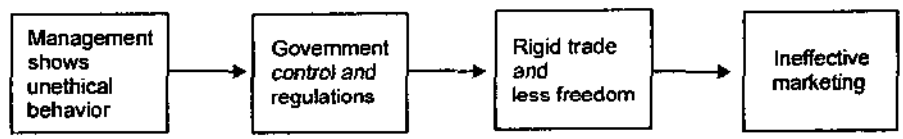
8. Differentiation in pricing.
9. Excessive mark up prices.
10. Misleading and deceptive advertisement.
11. False promises.
12. Lower the dignity of women.
13. No fairness, transparency in relations with suppliers and retailers.
14. Artificial scarcity.

This is an established fact that the right action is the one, which produces the good results for the most people in specific situation. This can be a useful guide to develop and form marketing ethics.

7.3 FACTORS BEHIND ETHICAL PRACTICES

If the marketers want to run their business successfully in the long term, they must behave ethically; there are some crucial and pragmatic reasons which give backing to the application of ethical standards in marketing area like.

1. **To collect the power by society:** Society gives the power to marketers, which they earn by their own efforts and influence so they should utilize their power in socially responsible and acceptable manner, otherwise they might lose it.
2. **Goodwill of the organization:** Nowadays image, goodwill, reputations is big asset for any organization. As marketing executives represent whole organization and on the basis of contacts with them, society builds up the image of such company so they should be highly ethical and carry out the business in a dignified manner.
3. **Government regulations:**



Therefore to avoid more government regulations they should become self-regulatory by living up to the ethical mark up.

4. **Build up transparency:** As unethical practices like misleading ads, low quality products, misleading package labels etc. are spreading rapidly, buyers become more suspicious while buying, therefore the big marketers and business leaders must take them into confidence by keeping high levels of transparency, convince the public that they are aware of their social responsibility and they will fulfill it because without society business cannot survive.

As it is absolutely clear from the above discussion that ethical behavior shown by the marketers is the need of the hour, still unethical practice are seen here and there and again there are some weighted reasons such as—

(a) People used to consider ethics and profits to be inconsistent and to some extent contradictory to each other. Though this concept is losing its effectiveness in 21st century scenario but still there is quite often little likelihood of immediate economic return to be more ethical than your competitor. All business men are bound to follow certain laws which we say the smallest part of ethics, now if we decide to be more ethical in the market than others whether we are going to get profit or loss?

(b) The existing environment in particular industry firms may sometimes be dominant and influence the executives to behave in that particular prevailing practice.

(c) Acute competition–To cope with acute competition in the market and survive, marketers may practice unethical marketing.

7.4 MARKETING ETHICS—IMPORTANT ISSUES

Marketing ethics can be best understood in the light of its all-marketing mix-product, price, place, promotion and people.

(1) Ethical Product

Product is the first and foremost important element of marketing mix. A product is anything that can be offered to a market to satisfy need or want. The producers know more about the product than the buyer, so he should be extra careful as not to break the trust of the buyer. Chonko (1995) has given some conditions, which should be considered while product development—

(a) ***Initiation of the Idea***—Whose creativity, is involved behind the idea to develop the product?

(b) ***Planning and Screening of Product Design***—Which criteria the firm follows—only profitability and not safety utility or keeping a balance between profitability and safety-welfare? This stage depends upon the status of the in-company investments. The moment when the economics of scale are achieved, the company shows more concern for utility and safety of the product.

(c) ***Development of the Product***—If little attention is paid to the way consumers would actually use the products, the marketers must be ready to bear the consequences of failure of the product

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so the crux of marketing ethics says that extra precautions are required in product development and evaluation.

(d) ***Marketing Strategy***—Which kind of marketing strategy should be adopted? How much strong is the product to face the competition? Are extra efforts needed in marketing strategy to compensate some of its weak points? Or do you think you should be honest about its weak points? As the very success of any product depends upon its marketing strategy so it is required to answer all the above questions before adopting any one.

(e) ***Introducing the Product in the Market***—Should the company go for test marketing? What should be the sample size then? Should the company be transparent about its policies and strategies? Are they aware of the risks?

(f) ***Decline Stage***—How the company should react in product decline stage? Should they go for some fair treatment try to overcome with decline stage? Do the companies follow pushing strategy to push the product by devious means, once a letter product is available in the market?

(2) Ethics in Pricing

Price is a critical element of marketing mix which produces revenue. It communicates to the market the company's intended value positioning of its product or brand. A firm must set a price for the first time when it develops a new product or when it introduces its regular product into new distribution channel. Companies generally do not go for a single price rather a price structure that has some variations according to purchase timing, order levels, geographical demands, and market segment requirement like—

- Price discounts
- Discriminatory pricing
- Geographical pricing

At this stage ethics comes into the picture. Here four major areas are most common in which unethical practices in pricing may occur—

(a) ***Price Discrimination:*** It occurs when a company sells a product service at two or more prices that do not reflect a proportional differences in costs but it becomes illegal when seller offers different price terms to different people within the same group.

(b) ***Predatory Pricing:*** Selling below the cost when just having the intention to destroy competition.

(c) ***Deceptive Pricing:*** Deceive the customers to show them the wrong picture about the prices either by—

- Low price offer
- Inflated price
- ***Price Fixation:*** Prices are fixed at certain levels by firms either by—
  - (i) Horizontal price fixing—To fix the prices at artificially high levels.
  - (ii) Vertical price fixing—Price fixing agreements between manufacturers and retailers or between manufactures and distributions. It says that product will be sold at the manufacturer's suggested price and will not be discounted by the retailer or wholesaler.

Here the concept of distributive justice given by John Rawl's can be applied as we say if unique universal pricing is established, then it would be against the distributive justice. On the other hand if a favourable price is providing towards the weaker section, though it would be a sort of discrimination but this would provide a desired justice to the weaker segment of society and this would be anywhere consider as ethical.

(3) Ethical Promotion

Promotion plays an important role in marketing of any product/service. It would come up with perfect outcomes only if the perfect means would have been adopted. Promotional mix consist of sales promotion, advertising, sales force, public relation, direct mail etc.

Promotional claims must be of such type that the reality of the company and its standard must match. Symmetry of information between the buyer and seller is an essential prerequisite for the ethicality of market system. Unethical promotions are those where the company's offer varies significantly from its claims.

(a) ***Ethical Issues in Advertising:*** Advertising is multi-dimensional. It is a form of mass communication, a powerful marketing tool, a component of the economic system, a social institution, an art form, an instrument of business management, a field of employment and a profession or advertising can be defined as any paid form of non-personal presentation of ideas, goods and services by an identified sponsor.

As earlier mentioned, Ethics is a choice between right and wrong, good or bad. It is governed by a set of principles of moralities at a given time, at a given place. Ethics is related to group

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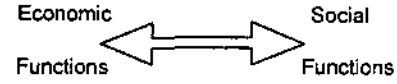
behavior in ultimate analysis. Advertising too has ethical values. Advertising communication is a mixed form of arts and facts. In order to be customer-oriented an advertisement will have to be truthful and ethical. It should not mislead the consumers. If so happens the credibility is lost. Advertisement's truth is to be judged and viewed from the consumer's point of view, not in the narrow legalistic framework. As we can say that in advertisement field, it is very difficult to establish a clear line of demarcation between what is true and what is untrue. Advertisement is judged by its impact, by its acceptance, by the consumers, what it promises to provide must be actually there in the performance of products.

As advertising is a social process, it must honor time-tested norms of social behavior and should not affront our moral sense. Advertising play two important functions:



(b) ***Economic Functions:*** The very basic function of all the advertisements is to promote any product/service by its unique strategies. So the advertisement agencies must accomplish all the ad's with:

- Communicating properly and effectively
- Communicating to right people
- Communicating right message
- Put across thru brilliant and persuasive language
- Not only marketing the products but introducing and spreading corporate ethos and corporate philosophy.

(c) ***Social Functions:*** Advertising must reflect the cultural values of that society as ads affect not only the core cultural values but successful advertisement is consistent with society cultural values. It can transfer some cultural values of one society to another at a given point of time.

(4) Ethics in Channel

How to place your products and services cannot be overlooked because until and unless the product is well placed, the desired outcome not be received. To reach a target market, the marketer used three kinds of marketing channels—

(a) ***Communication Channels:*** Deliver and receive messages from target buyers and these include newspapers, magazines, radio, T.V. etc.

(b) ***Distribution Channels:*** These are used to sell or deliver product services to the buyers or users. They include distribution, wholesalers, retailers and agents.

(c) ***Service Channels:*** These are used to carry out transaction with potential buyers like banks, insurance, transportation companies etc.

Marketers clearly face a design problem in choosing the best mix of communication, distribution and the service channels for their offerings and here the scope of unethical practices may occur. Channel decisions taken by companies are very much influenced by companies' systematic and unsystematic factors.

Once anyone supplier, wholesaler starts unethical practice, it would substantially reduce competition. Though it is hard to identify the unethical distribution strategies but when unethical means of expansion becomes the rule of the day it evaporates competition.

7.5 CONCLUSION

Marketing ethics is a sub-set of business ethics and examines the moral issues relating to marketing decisions made by organizations. Although its roots can be traced back to the 1960s, marketing age is believed to have come of age only in 1990s, thanks to extensive research on the subject carried out in the decade before.

SUMMARY

- Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses.
- Ethics in marketing is not all together a different concept or it is not performing marketing with a different concept/style but simply— "It is the function and process of marketing keeping to the standard norms of it and achieving the ends through a sound means."
- Society gives the power to marketers, which they earn by their own efforts and influence so they should utilize their power in socially responsible and acceptable manner, otherwise they might lose it.
- Marketing ethics can be best understood in the light of its all-marketing mix-product, price, place, promotion and people.
- Product is the first and foremost important element of marketing mix.

A product is any thing that can be offered to a market to satisfy need o
want.

- Price is a critical element of marketing mix which produces revenue. I
communicates to the market the company's intended value positioning o
its product or brand.
- Promotion plays an important role in marketing of any product/service. I
would come up with perfect outcomes only if the perfect means would hav
been adopted.
- Marketing ethics is a sub-set of business ethics and examines the mora
issues relating to marketing decisions made by organizations.

REVIEW QUESTIONS

1. What do you mean by marketing?
2. Explain the ethical issues in marketing in class.
3. What are general unethical issues in marketing?
4. Discuss some factors behind ethical practices
5. What do you mean by marketing ethics?

CHAPTER 8 SOCIAL ASPECTS OF MARKETING

★ STRUCTURE ★

8.0 LEARNING OBJECTIVES

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

- discuss about unfavourable views of marketing.
- discuss about advertising and promotions.
- explain guidelines offered by Federal Trade Commission (FTC):
- discuss about marketing activity.

8.1 INTRODUCTION

Sometimes criticized for its impact on personal economic and social well-being, marketing has been said to affect not only individual consumers but also society as a whole. This section briefly examines some of the criticisms raised and how governments, individuals, and marketers have addressed them.

8.2 MARKETING AND INDIVIDUAL WELFARE

Criticisms have been leveled against marketers, claiming that some of their practices may damage individual welfare. While this may be true in certain circumstances, it is important to recognize that, if a business damages individual welfare, it cannot hope to continue in the marketplace for long. As a consequence, most unfavourable views of marketing are criticisms of poor marketing, not of strategically sound marketing practices.

Others have raised concerns about marketing by saying that it increases prices by encouraging excessive markups. Marketers recognize that consumers may be willing to pay more for a product—such as a necklace from Tiffany and Co.—simply because of the associated prestige. This not only results in greater costs for promotion and distribution, but it allows marketers to earn profit margins that may be significantly higher than industry norms. Marketers counter these concerns by pointing out that products provide not only functional benefits but symbolic ones as well. By creating a symbol of prestige and luxury, Tiffany's offers a symbolic benefit that, according to some consumers, justifies the price. In addition, brands may symbolize not only prestige but also quality and functionality, which gives consumers greater confidence when they purchase a branded product. Finally, advertising and promotions are often very cost-effective methods of informing the general public about items and services that are available in the marketplace.

A few marketers have been accused of using deceptive practices, such as misleading promotional activities or high-pressure selling. These deceptive practices have given rise to legislative and administrative remedies, including guidelines offered by the Federal Trade Commission (FTC) regarding advertising practices, automatic 30-day guarantee policies by some manufacturers, and "cooling off" periods during which a consumer may cancel any contract signed. In addition, professional marketing associations, such as the Direct Marketing Association, have promulgated a set of professional standards for their industry.

8.3 MARKETING AND SOCIETAL WELFARE

Concern also has been raised that some marketing practices may encourage excessive interest in material possessions, create "false wants," or promote the purchase of nonessential goods. For example, in the United States, children's Saturday morning television programming came under fire for promoting materialistic values. The Federal Communications Commission (FCC) responded in the early 1990s by regulating the amount of commercial time per hour. In many of these cases, however, the criticisms overstate the power of marketing communications to influence individuals and portray members of the public as individuals unable to distinguish between a good decision and a bad one. In addition, such charges cast marketing as a cause of social problems when often the problems have much deeper societal roots.

Marketing activity also has been sometimes criticized because of its control by strong private interests and its neglect of social and public concern. While companies in the cigarette, oil, and alcohol industries may have significant influence on legislation, media, and individual behaviour,

organizations that focus on environmental, health, or education concerns are not able to wield such influence and often fail to receive appropriate recognition for their efforts. While there is clearly an imbalance of power between private interests and public ones, in the late 20th century, private companies have received more praise for their marketing efforts for social causes.

SUMMARY

- Criticisms have been leveled against marketers, claiming that some of their practices may damage individual welfare.
- Marketers recognize that consumers may be willing to pay more for a product—such as a necklace from Tiffany and Co.—simply because of the associated prestige.
- Concern also has been raised that some marketing practices may encourage excessive interest in material possessions, create "false wants," or promote the purchase of nonessential goods.
- Marketing activity also has been sometimes criticized because of its control by strong private interests and its neglect of social and public concern.

REVIEW QUESTIONS

1. Discuss the social aspects of marketing.
2. What does marketers recognize about customers.

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CHAPTER 9 ETHICS AND LEGAL ASPECTS OF MARKETING

★ STRUCTURE ★

9.0 LEARNING OBJECTIVES

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

- discuss about marketing promotions.
- discuss about the goal of commercial promotions.
- describe the harms caused by marketing promotions.
- discuss about the impact of commercial promotions on consumer value.
- describe consumer protection.

9.1 INTRODUCTION

Marketing promotions—namely commercial advertising and public relations—have a negative impact on our environment, on our society and on our personal lives. There is a common assumption that these negative results of promotional marketing are a necessary evil that is part of any advanced

capitalist society, but this assumption does not hold true. Capitalism does not require aggressive and harmful commercial promotions in order to succeed at maintaining a competitive market. Promotional marketing is an unnecessary negative force that should be replaced with a system of consumer education based on independently produced consumer reports.

9.2 CONTEMPORARY MARKETING PROMOTIONS ARE UNETHICAL

There is a joke that "marketing" and "ethics" are antonyms. Even if such comments are popularly accepted, it is not fair to assume that the practice of promotional marketing is unethical without a critical examination of the current industry. To begin, we need to understand some specific realities about the promotions industry.

Commercial Promotions

1. **Are extremely expensive:** Although the cost of marketing promotions may vary in different industries and business, the amount of money spent on promotions within an economy is substantial. Because promotions are competitive and a profitable investment, spending on promotions has steadily increased over the past four decades and will most likely continue to increase in the near future. This massive amount of spending is a large part of what makes promotions so powerful.

2. **Effectively persuade people to modify their behaviour:** The goal of commercial promotions is to change the perceptions of consumers; so many businesses would not invest so much money on something that did not achieve its goal. The historical success of the promotions industry is a simple proof that promotions work at effectively modifying people's behavior as planned. Because promotions can enter consumer's long-term memory and subconscious, the affects of promotions on consumers may not seem obvious, but the prescribed changes in buying habits—such as switching brands, trying new products or increasing quantity of purchases —prove their success. Although people do have self-control and freewill to make their own choices, the techniques for persuasion used by the promotions industry do effect how consumers practice their free-will. By applying scientific research, well-proven theories, and extensive strategy development, promotions can increase "brand equity", which is a mythical 'added value' to a product. Irrational brand associations and brand loyalty demonstrate that

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promotions have a psychological impact on consumers' minds, persuading them to see 'added value' where no perceivable value exists. Promotions modify how consumers perceive the world, which in turn, affects how they choose to behave.

3. **Persuade people to do things that may not be in their best interest:** Promotions are often based on scientific market research and persuasion theories from psychology. According to mainstream persuasion theory, there are two main types of persuasion, central route and peripheral route. Central route persuasion uses reason to argue its point while peripheral persuasion uses emotion, superficial judgement and assumption. For example, a central route argument would be "Our burger contains less grams of fat than theirs" and a peripheral route argument would be "The Backstreet Boys think our burger is awesome!" While many promotions will use some central route persuasion messages, the majority of the messages present in a promotion, (including visuals, music, style, and other subtle forms of communication) use peripheral route persuasion. These techniques are scientifically researched and proven to convince a consumer by accessing their unconscious mind and avoiding rational thought or analysis. Since the decisions a consumer may make based on peripheral route persuasion do not require reason, the consumer may make decisions that are in conflict with their own best interests. Examples of such self-inflicted harm include: purchasing goods that do not actually serve ones' needs, spending more then one can afford, and choosing foods that are of poor nutritional value.

4. **Promote consumerism and materialism:** As Sergio Zyman, former chief Marketing Officer of the Coca-cola company suggests that "The only thing... that any marketing person should care about is real consumption". In order for commercial promotions to work, thay must convince the consumer to sooner or later purchase something, thus every promotion must promote consumerism. There is nothing inherently wrong with consumption; every person needs to consume to stay alive and support his or her basic needs. The issue here is that consumerism encourages shopping for its own sake, rather than as a means to an end. Consumerism is the assumption that purchasing things is good, whether or not the product or service satisfies any practical need. Consumerism is the mentality that drives recreational shopping and unnecessary purchasing. Effective product promotions must also give high value to a material good to succeed in persuading a consumer that it is worth purchasing,

thus promotions must promote materialism. Again, the importance here is that commercial promotions encourage the valuing of material things for their own sake, whether or not they serve any practical purpose. Materialism is the belief that goods are valuable as symbols of success and that other subjective and personal definitions of success are less valuable because they cannot be measured.

5. **Are very inefficient at informing consumers:** Commercial marketers do not want consumers to be critical of their product or service, they just want consumers to buy it. If we compare the amount of useful consumer information presented in a consumer report to the information present in the average advertisement or press release, it is very obvious that marketers are not in the business of informing consumers. In many cases, promotions provide little or no useful information and actually distract consumers from critical thinking and knowledge. Promotions use peripheral route persuasion to train us to make decisions not based on research and knowledge, but on recommendation and reaction, (e.g., The celebrity endorsement, the questionable "professional" recommendation, a model's looks, a "feel good" idea, etc). Promotions work best when consumers are not critical, therefore promotions generally encourage ignorance.

6. **Use their power for commercial interests first:** Commercial advertising and public relations are services paid for by businesses to help the businesses make more profit in a competitive market. The goal of making profit must come first before social benefits or a company may lose sales to another competitor that is solely profit driven. Commercial promotions are always for the benefit of business—positive social goals are secondary at best a goal, never primary. As one former PR representative explained "The job had one goal: make you care about the things my clients cared about, even if they were inconsequential to your life."

7. **Will continue to become more intrusive and pervasive:** Promotions compete for consumer attention and acceptance. To gain an advantage over competitors, marketers search out new methods and spaces where they can reach consumers with their commercial message. The continual process of finding new places to advertise is called "Ad Creep". Any space that can be purchased that gives one marketer and advantage over another marketer, will be sought out and appropriated. For example: ads and PR can now be found in school text books, hospitals, religious events,

and even tattoos. Without some form of government regulation, there is no reason why marketers should ever stop seeking out new spaces to promote their clients interests.

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9.3 HARM CAUSED BY MARKETING PROMOTIONS

With the above six facts in mind, we can now discuss ethical issues raised by contemporary marketing promotions. Personal Impacts of Commercial Promotions:

- **Poor Mental health**—Unrealistic ideals created by glamour ads perpetuate personal disappointment, ("I don't look like that, I am ugly. I don't have that, I'm poor".)
- **Poor nutrition**—Consumerism perpetuates unhealthy eating habits. The aggressive marketing of high quantity "junk" food attracts attention away from the fundamentals of healthy eating. (Candy instead of fruit. "Super size it" Order in or takeout, no suggestions for healthy quantities).
- **Exhaustion and stress**—Consumers are often over-work to support their shopping habits and material desires. The more consumers want, the more they must work, the less time they have for themselves.
- **Poor money management**—Consumerism and lack of fiscal education leads to over spending ('Buying things will make you happy so keep buying').
- **Reduction of happiness**—Materialism and consumerism are encouraged over proven methods for personal happiness [Psychology study needed] (*e.g.*, Shopping rather then picnics, shows and movies rather than talking conversations).
- **Personal experiences are devalued**—Moments and events with family and friends are made less personally meaningful because of fabricated associations to a brand, product or service (*e.g.*, "Miller time","a Kodak moment").
- **Loss of childhood innocence**—Ads manipulate and exploit children before they can learn to defend themselves against promotional tactics. Children are influenced by persuasive messages that are not in their best interest.
- **Invasion of privacy and mental concentration**—Ads are often unwelcome messages that cannot be avoided. (*e.g.*, Animated billboards on busy highways, pop-up ads on websites, pages of ads in magazines, commercials in the middle of movies, etc).

9.4 ECOLOGICAL IMPACTS OF COMMERCIAL PROMOTIONS

- **Depletion of natural resources at unsustainable rates:** Consumerism is best served with disposable items rather then reusable ones. Throwaway products are cheaper to produce, more convenient and do not require the expense of reuse processing. Disposable products create an end to the cycle of natural resource replenishment. As well, the manufacturing of goods also requires immense amount of energy, which often come from depleting fossil fuels. The promotion of consumerism is the promotion of environmental destruction. Beyond consumerism, advertisements and PR events themselves waste natural resources. For example: print ads, flyers, and direct mail ads all waste paper and product give-away are usually in non-recyclable containers.
- **Increases pollution from manufacturing and transportation of goods:** The process and energy of production and distribution create many hazardous by-products, such as CO_2, ...

9.5 IMPACTS OF COMMERCIAL PROMOTIONS ON CONSUMER VALUE

- **Corruption of the Free Market:** Marketing promotions persuade using tactics that avoid critical comparisons of value thus allowing inferior products to win in the marketplace. Consumers compare campaigns rather than products, which means the better promotion may win in the market, rather then the better product. Competition of promotion rather than product causes the free market to fail in providing the consumer with the best value.
- **Decreased product value:** Companies invest capital into their marketing that could be used to improve or discount the product. In effect, when consumers buy, they are spending money on promotions that they do not need and most likely do not desire.

9.6 IMPACTS OF COMMERCIAL PROMOTIONS ON COMMERCIAL NEWS

- **Commercial news communicate spectacle rather then knowledge**: Commercial publishers and broadcasters tailor news and magazines for advertising potential rather then public value. Editors choose content that will get the most ratings, rather

than what is most important or useful to a diversity of people. This is why commercial news content often concentrates on simple spectacular stories about scandal, disasters, sex, violence and dramatic events with compelling imagery that consistently attract attention, but which actually have little importance or use to most readers and viewers. As, Tom Brokaw of NBC News said, today's media is "not about news, its about filling up air time". This is why stories are often formulaic and lack balance and sophistication which might turn off some audiences or advertisers but would increase diversity of thinking and perspectives to help a society flourish with insight and knowledge.

- **Commercials force broadcast news to be overly concise:** The high number of advertisements in broadcast media take up space and time that force restrictions on the real content and fragment the flow of discussion. Complex concepts, new ideas and important context cannot be developed in the short time available between frequent commercials.
- **News is biased towards the interests of the advertisers:** Many news editors modify and select stories to make sure they do not offend their major advertisers.
- **Poor journalistic integrity:** PR professionals use their expertise and extensive resources to provide large quantities of news content to the press. These unannounced commercial messages (*i.e.*, "advertorials") unfairly manipulate readers who grant the commercial messages with trust they would reserve for journalistic content.
- **Ads distract attention from news content:** The dramatic design and prominent placement of ads can distract audiences from articles they would have otherwise been interested in.

9.7 SOCIAL IMPACTS OF COMMERCIAL PROMOTIONS

- **Disintegration of community:** Marketing emphasizes individual materialism over community values and causes people to ignore their common public interests. The private is given much more attention then the public. (E.g., bottled water rather then tap water, cars rather than public transit, bookstores rather then libraries, etc).
- **Injustice:** Marketing promotions use public media to promote trivialities while serious social concerns are ignored. As a former PR man states: ". if the most important news actually made it

into the paper, everyday the front-page headline would read, "The developing world still isn't using condoms, the industrial world is living beyond the planet's means, and none of us will care how our stocks are doing when we're on our death beds."

- **Loss of human values:** Promotions drown out the voices that speak of human values, such as empathy and solidarity, which are the basis for a wise and humane society. Marketing teaches us values that serve business and ignore values that serve humans. They teach us to ignore the needs of our peers and to compete for material status. Consumerism and materialism are short sighted, inhuman and unwise values to base a culture on and will not help us solve global issues such as overpopulation, violent conflict, disease, malnutrition and global warming.
- **Promotion of stereotypes:** Large-scale promotions usually aim for the largest and/or most profitable target groups. To effectively convince these mass groups marketers must present ideas with which consumers are already familiar with. This often means the supporting of common assumptions even if they are negative and/or inaccurate. (E.g. woman do the house cleaning, men are callous and insensitive, male Caucasians are the boss, etc.)
- **The objectification of people, (especially women):** Advertising often portray woman as submissive sex objects with little to know reference to their personality, skills or intelligence. The heavy use of models teaches consumers to appreciate people more for their appearance then the inner qualities. Such superficiality is unfair to those without natural idealistic looks and does not encourage the development of pleasant social personalities.
- **Degradation of culture:** Public social events are degraded by fabricated associations to a brand, product or service. Rather then just remembering an event or activity for its social, personal, cultural and/or intrinsic values, corporate messages, whether consciously or not, are forced into our mental scheme, tainting the memory, (*e.g.,* Demaurier Jazz, Nike sports, Miller time, a Kodak moment).

9.8 CONSUMER PROTECTION

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider on our business; he is a part of it. We are not doing a favour by serving him.

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He is doing a favour by giving us an opportunity to do so." —Mahatma Gandhi.

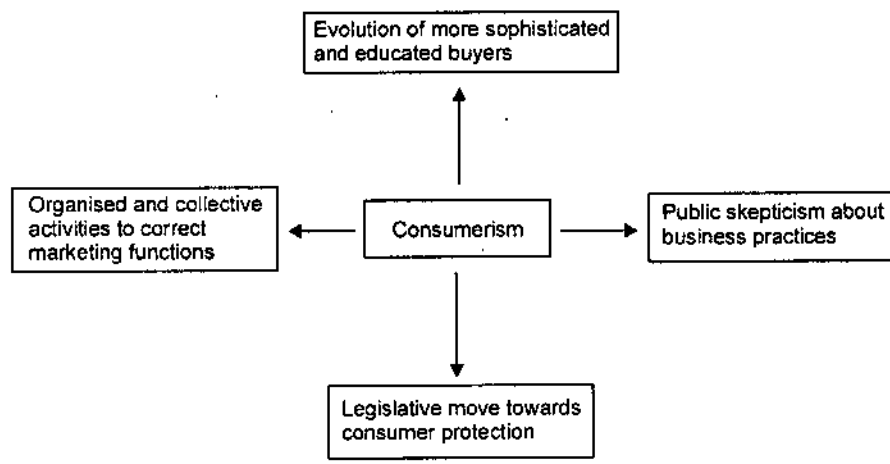
"Consumer is God" Philip Kotler has realized the most important fact about marketing that even the best marketing department in the world cannot compensate for other departments lacking a customer orientation.

If we compare the consumer of 21st century and earlier days, we find today, the consumers are very much aware of their rights, they are organized as well as educated. In today's globalisation era, the consumers have a lot of choices to make decisions and select the product and services of their own choices.

As mentioned earlier about the various unethical practices by marketers and the exploitation of consumers have led to the creation of the consumer movement or is named as " Consumerism."

Philip Kotler says, *"Consumerism is an organized movement of citizens and government and to enhance the rights and power of the buyer in relation to seller."* Peter F. Drucker, *"Consumerism is the shame of total marketing concept. Consumerism should be, must be and I hope will be an opportunity of marketing, this is what we in marketing have been waiting for."* Consumerism is the range of activities, a catchword to describe a variety of distinct phenomena which are designed to protect the consumer from the unlawful practices of the business that infringe upon their rights as consumers.

Consumerism describe the kind of phenomenon in which buyers try to attain a marketing system which guarantees to consumer the right to safety, the right to be informed, the right to choose, the right to be heard etc.



Now-a-days business firms are changing their attitudes towards consumerism. They are taking it more positively and trying to improve the situations by following the consumer's need, requirements, demands etc.

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9.9 CONSUMER RIGHTS

In the present scenario, the consumer policy issue, consumer protection is no longer confined to local or national boundaries. As consumer is exposed to global product and services, therefore consumer issues too need to be studied and understood in the global context.

In this regard, the United Nations has been guiding all the member nations since very long. It has adopted a set of general guidelines for consumer's protection which are-

1. Physical safety.
2. Promotion and protection of consumer's economic interest.
3. Standards for safety and quality of consumer's goods.
4. Distribution facilities for essential consumer goods and services.
5. Education and information programme.
6. Measures relating to specific areas (food, water, harmful drugs etc.).

In 1983, the UN General Secretary had described the purpose of these guidelines. The UN has also declared eight rights of consumers and requested all member nations to enact a special act for the protection of the same—

1. The Right to Protection of Health and Safety
2. Right to Get Information
3. Right to Choose
4. Right to be heard and Right to Redress
5. The Right to Consumer Education
6. The Right to Basic Needs
7. The Right to a Healthy Environment
8. The Right to Representation.

The Right to Protection of Health and Safety

Consumers must be protected against products, processes and services that are hazardous to their health/life for *e.g.*,- there are many household items available to consumers containing potentially harmful substances. With the advancement of technology, consumer products have become very complex and intricate for *e.g.*,-toys, flammable, fabrics and appliances etc., for all these sophisticated products considerable safety is required.

Right to Get Information

Consumers must have accurate, adequate, up-to date and factual information on the quality, performance and the related characteristics of products. Until and unless full information is not available to consumers, they won't be able to exercise intelligently their decisions of buying. A consumer should be enabled to make an informed choice. The misleading and inadequate information, deceptive advertising, deceptive packaging, labeling and scanty information on product content etc. make consumers confuse and mostly they buy goods they do not wish to buy. They generally buy these goods at prices, they cannot afford and on terms they cannot meet. Therefore, all the consumers must enjoy the right to information to make informed choices.

Right to Choose

Consumers must be served from the widest possible variety of products and services at fair prices for a wise selection. Consumers want to buy a product on their free will, they dislike monopoly, they want to exercise their opinion to choose a particular brand decide about quality, price etc. In today's competitive world, competition provides wider choices of goods and services. Seeing the increasing demands and expectation of consumers, healthy competition assures consumers the right to choose.

Right to be Heard and Right to Redress

The right to be heard implies the existence of a legal framework and government intervention to safeguard consumer interest. Consumer has a right to register his complaints, dissatisfaction regarding any unethical practice. In fact the above-mentioned three rights would be ineffective if this right to be heard were denied to consumers. Right to redress implies that the consumers have a right of redressal (to set right or rectify) against un-fair trade practice or unscrupulous exploitation of consumers. In the new customer relationship marketing concepts, it is advised to business that they should have consumer affairs departments to receive customer complains and resolve them amicably. The standing grievances machinery for listening to the complain of consumers and for the settlement of their grievances will help to build up cordial and harmonious relationship between customer and business firms.

The Right to Consumer Education

The consumer must be educated about his rights if we expect the consumer to enjoy all the rights and facilities given to him, therefore the first and foremost responsibility of business firms, government and other organizations is to educate the consumers, make them aware of all the rights otherwise the ignorance of consumers may be harmful for themselves.

The Right to Basic Needs

Consumers must have the full access of the articles, which are the basic needs of every consumer. For example—pure drinking water, pure air, good food, adequate transport, health services, education services, electricity etc.

The Right to a Healthy Environment

All citizens and living beings must have protection against environmental damages like air pollution, water pollution, noise pollution etc. This right has been very recently added in the list of rights, which implies the organized expression of consumers for an improved quality of life.

The Right to Representation

This right is a part of the UN Guidelines for Consumer Protection 1989, according to which the consumer organisation in the country must have the right to represent their grievances and complaints, act as consumer advocate to safeguard consumer interest.

9.10 LEGISLATION FOR CONSUMER PROTECTION

1. The Agricultural Product (Grading and Marketing) Act, 1937.
2. The Drugs and Cosmetics Act, 1940.
3. The ISI Act, 1952.
4. The Drug and Magic Remedies (Objectionable Advertisements) Act, 1954.
5. Prevention of Food Adulteration Act, 1954.
6. The Essential Commodities Act, 1955.
7. The Trade and Merchandise Marks Act, 1958.
8. The MRTP Act, 1969.
9. The Hire Purchase Act, 1972.
10. The Water (Pollution and Prevention) Act, 1974.
11. The Cigarette (Regulation, Production, Supply and Distribution) Act, 1975.
12. The Standards of Weights and Measures Act, 1976.
13. The Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980.

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14. The Bureau of Indian Standards Act, 1986.
15. The Consumer Protection Act, 1986—This Act provides a legal umbrella for better protection of the rights and interest of consumers. Enactment of this act is one of the most significant steps to safeguard and protect the interest and rights of consumers and promoting a strong and broad based consumer movement in the country. It is quasi-judicial machinery, which works at 3 levels—
    - Consumer Disputes Redressal Forum at the District level.
    - Consumer Disputes Redressal Commission at the State level.
    - Consumer Disputes Redressal Commission at the National level.

HOW CAN WE PROVIDE CONSUMER PROTECTION?

There are large number of laws, rules/regulation prevailing in our country to protect the interest of consumers but unfortunately, we hardly find proper implementation and enforcement of laws which is further followed by very poor business and management response and weak consumer movement.

Therefore, we can say many of the above pitfalls can be removed or reduced if the following three agencies take active participation for ensuring consumer protection.

A. Business: *Kotler says—*

1. Consumerism was inevitable
2. Consumerism will be enduring
3. Consumerism will be beneficial
4. Consumerism is pro-marketing
5. Consumerism can be profitable
6. Consumerism can achieve customerised market.

As now consumerism is well established and organized force in the marketplace. It demands accountability from business towards consumers and if business ignores them then government interference in the free market mechanism would be much more than now. Therefore, business through self-regulation can ensure consumer protection. Self-regulatory policies are far better than any govt. controls or restriction through legislative action. There would be no substitute foe voluntary regulations. Therefore it can be said that the failure of business to adopt customer oriental marketing approach gave birth to consumerism. So, the business comprising of all manufacturers, intermediaries must take up the responsibilities to ensure efficiency in production and quality of the

output, qualitative goods and services reach the ultimate consume in time and at reasonable prices.

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B. Government

This agency would ensure consumers protection by passing special acts, certain legislation and enforcing implementation strictly and speedily. Mere legislation is not sufficient. Government must take active participation present themselves in that manner, so that business firms before indulging in any unethical practice or exploiting consumers think twice.

C. Consumers

Self-help is the best help. Consumers should themselves assert their rights and protect themselves from business malpractices. Since very long Indian consumers have been exploited and cheated but now the time has come to demand greater accountability of all business firms and to force the government to satisfactorily fulfill its function as the watchdog for the consumers. Consumers of India must unite, accept consumerism, and take active part in consumer movement and work towards making the business and government more responsible and accountable for consumer protection.

SUMMARY

- Marketing promotions—namely commercial advertising and public relations, have a negative impact on our environment, on our society and on our personal lives.
- There is a joke that "marketing" and "ethics" are antonyms. Even if such comments are popularly accepted, it is not fair to assume that the practice of promotional marketing is unethical without a critical examination of the current industry.
- The goal of commercial promotions is to change the perceptions of consumers; so many businesses would not invest so much money on something that did not achieve its goal.
- Commercial marketers do not want consumers to be critical of their product or service, they just want consumers to buy it.
- Commercial advertising and public relations are services paid for by businesses to help the businesses make more profit in a competitive market.
- Commercial advertising and public relations are services paid for by businesses to help the businesses make more profit in a competitive market.

- Consumerism is best served with disposable items rather then reusable ones.
- Marketing emphasizes individual materialism over community values and causes people to ignore their common public interests.
- As now consumerism is well established and organized force in the marketplace. It demands accountability from business towards consumers and if business ignores them then government interference in the free market mechanism would be much more than now.

REVIEW QUESTIONS

1. Some marketers assume that marketing and ethics cannot be combined. Explain your views.
2. What do you mean by ethical product? How ethics is involved in its development stages?
3. What are the basic major reasons for which marketers follow marketing ethics?
4. Throw light on ethical advertising and ethical issues in promotional strategies.
5. Discuss the concept of Consumerism and throw light on consumer protection in India.

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CHAPTER 10 THE MARKETING RESEARCH PROCESS

★ STRUCTURE ★

10.0 LEARNING OBJECTIVES

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

- discuss about why should we do research.
- understand how should the research be designed to achieve the research objectives.
- discuss the process of marketing research.
- discuss about the problems or opportunities to be studied.

10.1 INTRODUCTION

Research studies evolve through a series of steps, each representing the answer to a key question.

1. *Why should we do research:* This establishes the research purpose as seen by the management team that will be using the results. This step requires understanding the decisions to be made and the problems or opportunities to be diagnosed.
2. *What research should be done:* Here the management purpose is translated into objectives that tell the managers exactly what questions need to be answered by the research study or project.
3. *Is it worth doing the research:* The decision has to be made here

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about whether the value of the information that will likely be obtained is going to be greater than the cost of collecting it.

4. *How should the research be designed to achieve the research objectives:* Design issues include the choice of research approach—reliance on secondary data versus conducting a survey or experiment—and the specifics of how to collect the data.

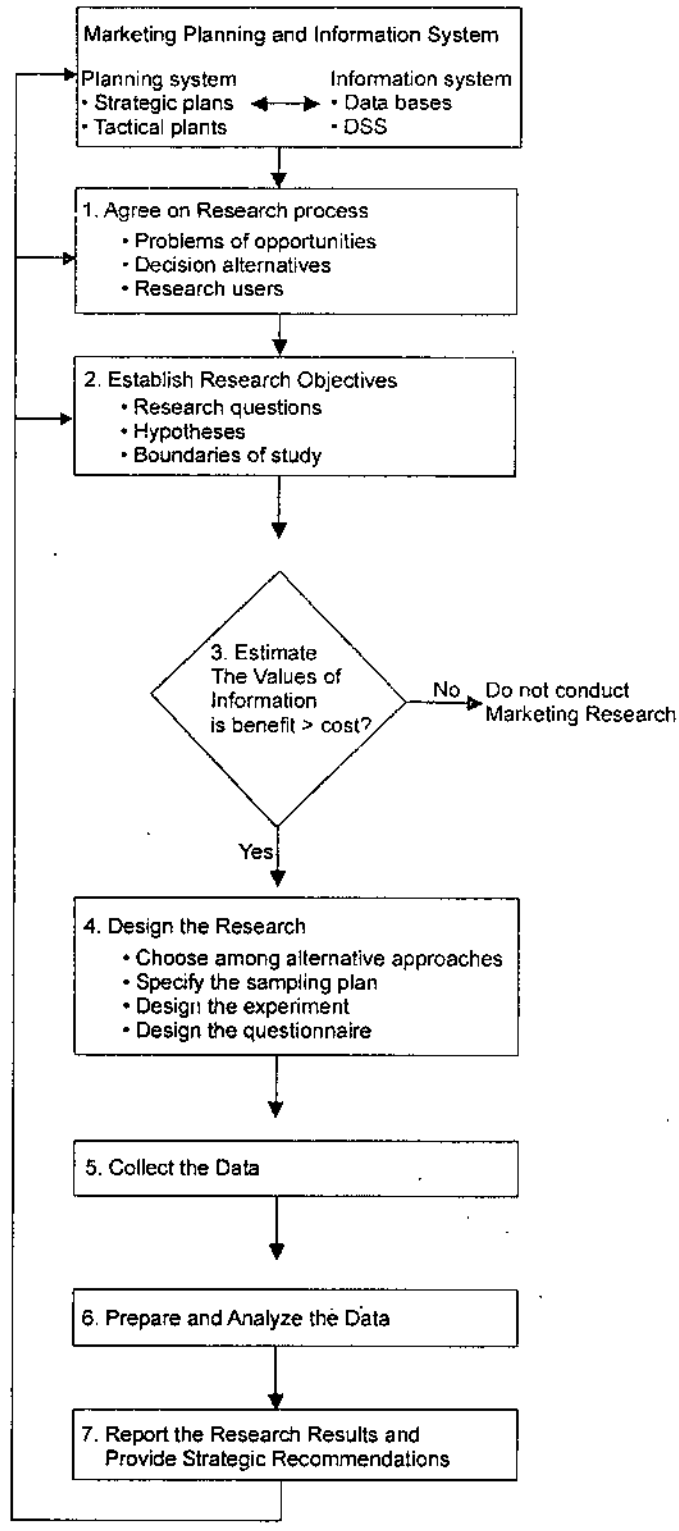

Figure 10.1: The marketing research process

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5. *What will we do with the research:* Once the data have been collected, how will it be analyzed, interpreted, and used to make recommendations for action? The necessary steps are linked in a sequential process (see Figure 10.1).

Although the steps usually occur in this general order, we must emphasize that "early" decisions are always made by looking ahead to "later" decisions. The early decisions are constantly being modified to account for new insights and possibilities presented by later decisions. Also, the steps do not function in isolation.

Rather, they are embedded in the ongoing planning process of the business, which culminates in the development of strategies, programs, and action. This planning process provides the purposes of the research. In turn, planning is supported by the information system, which (1) anticipates the type of information required by decision-makers and (2) organizes data that have been collected to ensure their availability when needed.

The development of a research purpose that links the research to decision-making, and the formulation of research objectives that serve to guide the research, are unquestionably the most important steps in the research process. If they are correct, the research stands a good chance of being both useful and appropriate. If they are bypassed or wrong, the research almost surely will be wasteful and irrelevant.

10.2 THE PRELIMINARY STAGES OF THE MARKETING RESEARCH PROCESS

Step 1—Research Purpose

Research problems are more likely to be poorly defined, only partially understood, and missing possible decision alternatives that should be analyzed. Defining problems accurately is a combination of data and judgement that demands real thought and effort. Problems, opportunities, and "nonproblem" situations are closely related to structure. Together they make up a family of gaps. The concept of analyzing the gaps as problems is based on:

1. *Recognizing/understanding a problem.* A problem is a gap between what was supposed to happen and what did happen between our objective and our accomplishment. Three elements are required to recognize a problem:
   - Something must be expected to happen.
   - Feedback must be received on what actually happens.
   - Expectations and feedback must be compared.

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2. *Knowing where and when the gap or problem occurred.* Once a problem is defined, it is easier to approach the cause and solution to the gap(s), in accordance with the level of detail of the analysis. In the end, problem definition is and will always be a creative act, a balance between thorough research and intuition. Problem definition is best thought of as a solution definition—the selection of a domain is likely to be rich in ideas to solve the problem. Problem definition is a creative act. The payoff from good marketing definition is enormous—nothing else we do has so much leverage on profit.

Seldom will research problems come neatly packaged with obvious information requirements, clear-cut boundaries, and pure motives on the part of the decision-makers. Launching a research study with such shaky inputs is a recipe for producing unusable findings and unhappy clients. It is in the best interest of both the researcher and the managers paying for the research to be sure that the research purpose is fully understood. One of the hallmarks of a competent researcher is the ability to get to the heart of the management problem.

Consider the seemingly straightforward request by the chairperson of an association of community merchants for a research project. The objective of this project was to help reduce the propensity of residents in the community to do their shopping in two nearby communities. Clearly, the purpose of the research was to identify and evaluate various ways to increase the local merchants' share of shopping by residents.

Further probing, however, revealed that the statement of the problem was at least partially inaccurate. Only late in the research process was it learned by the researcher that the chairperson was having real difficulty convincing the other local merchants that there was a serious enough outflow of local trade to warrant joint action to reverse the flow. This certainly changed the purpose of the research. Now the researcher would have to measure the level of retail trade outflow, in addition to finding the reasons for the outflow. This required a major change in the research design, but had the change not been made the results would have been of little value to the client.

The **research purpose** comprises a shared understanding between the manager and the researcher of:

1. Problems or opportunities to be studied
   - Which problems or opportunities are anticipated?
   - What is the scope of the problems and the possible reasons?
2. Decision alternatives to be evaluated
   - What are the alternatives being studied?

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- What are the criteria for choosing among the alternatives?
- What is the timing or importance of the decision?

3. Users of the research results
   - Who are the decision-makers?
   - Are there any covert purposes?

Step 2—Research Objective

The research objective is a statement, in as precise terminology as possible, of what information is needed. The research objective should be framed so that obtaining the information will ensure that the research purpose is satisfied.

Research objectives have three components. The first is the *research question.* It specifies the information the decision-maker needs. The second and third elements help the researcher make the research question as specific and precise as possible.

The second element is the *development of hypotheses* that are basically alternative answers to the research question. The research determines which of these alternative answers is correct. It is not always possible to develop hypotheses, but the effort should be made. The third is the *scope* or boundaries of the research. For example, is the interest in current customers only or in all potential customers?

Step 3—Estimating the Value of Information

Before a research approach can be selected, it is necessary to have an estimate of the value of the information—that is, the value of obtaining answers to the research questions. Such an estimate will help determine how much, if anything, should be spent on the research.

The value will depend on the importance of the decision as noted in the research purpose, the uncertainty that surrounds it, and the influence of the research information on the decision. If the decision is highly significant in terms of the investment required or in terms of its effect on the long-run success of the organization, then information may have a high value. However, uncertainty that is meaningful to the decision also must exist if the information is to have value. If the outcomes are already known with certainty, or if the decision will not be affected by the research information, the information will have no value.

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SUMMARY

- We must emphasize that "early" decisions are always made by looking ahead to "later" decisions.
- The development of a research purpose that links the research to decision-making, and the formulation of research objectives that serve to guide the research, are unquestionably the most important steps in the research process.
- Research problems are more likely to be poorly defined, only partially understood, and missing possible decision alternatives that should be analyzed.
- Problems, opportunities, and "non-problem" situations are closely related to structure. Together they make up a family of gaps.
- Seldom will research problems come neatly packaged with obvious information requirements, clear-cut boundaries, and pure motives on the part of the decision-makers.

REVIEW QUESTIONS

1. What do you understand by marketing research?
2. Explain the process of marketing research
3. What are the different steps of marketing research?
4. What do you mean by research problems?

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CHAPTER 11 MARKETING RESEARCH IN PRACTICE

★ STRUCTURE ★

11.0 LEARNING OBJECTIVES

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

- define programmatic, selective research and evaluative research.
- describe the concept of information system.
- describe the various characteristics of marketing decision support system.
- define database and four components of a MDSS.

11.1 INTRODUCTION

In practice, a marketing research department's goal can be grouped into three major categories: programmatic, selective, or evaluative. **Programmatic research** is performed to develop marketing options through market segmentation, market opportunity analysis, or consumer attitude and product usage studies. **Selective research** is done to test different decision alternatives such as new product concept testing, advertising copy testing, pretest marketing, and test marketing. **Evaluative research** is carried out to evaluate performance of programs, including tracking advertising recall, corporate and brand image studies, and measuring customer satisfaction with the quality of the product and service. As the number of products and types of services introduced

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into the market increase, the need for marketing research explodes an the future of marketing research appears to be both promising and challenging

Unquestionably, marketing research is a growth industry. In the las decade, real expenditures on marketing research (that is, after adjustin for inflation) more than doubled. This is largely a consequence of economi and social changes that have made better marketing an imperative. Wit marketing the new priority, marketing research is the rallying cry. Companie are frantically trying to get their hands on information that identifie and explains the needs of powerful new consumer segments now bein formed. Kroger Co., for example, holds more than 250,000 consumer interview a year to define consumer wants more precisely. Some companies ar pinning their futures on product innovations, others are rejuvenatin time-worn but proven brands, and still others are doing both.

Not only are the companies that always did marketing research doing great deal more, the breadth of research activities also continues t expand.

- Senior management is looking for more support for its strategi decisions; therefore, researchers are doing more acquisition an competitor studies, segmentation and market structure analyses and basic strategic position assessments.
- Other functions, such as the legal department, now use marketin research evidence routinely. Corporate Affairs wants to kno shareholders', bankers', analysts', and employees' attitudes towar the company. The service department continuously audits servic delivery capability and customer satisfaction.
- Entire industries that used to be protected from the vagaries competition and changing customer needs by regulatory statute are learning to cope with a deregulated environment. Airline banks, and financial-services groups are looking for ways to overcom product proliferation, advertising clutter, and high marketing cost brought on by more sophisticated customers and aggressive competitor

11.2 INFORMATION SYSTEMS, DECISION SUPPORT SYSTEMS, AND MARKETING RESEARCH

An **Information System** (IS) is a continuing and interacting structur of people, equipment, and procedures designed to gather, sort, analyz evaluate, and distribute pertinent, timely, and accurate information decision-makers. While marketing research is concerned mainly wit the actual content of the information and how it is to be generated, th

nformation system is concerned with managing the flow of data from nany different projects and secondary sources to the managers who vill use it. This requires databases to organize and store the information and a **decision support system** (DSS) to retrieve data, transform it nto usable information, and disseminate it to users.

Databases

nformation systems contain three types of information. The first is ecurring day-to-day information, for example, the market and accounting lata that flow into the organization as a result of market analysis esearch and accounting activities. Automobile firms use government ources for monthly data on new-car sales by brand and geographic rea. In addition, surveys are conducted yearly to determine the ages nd types of automobiles currently being driven, the lifestyles of the rivers (their activity and interest patterns), their media habits, and heir intentions to replace their cars. The accounting department submits ales and inventory data for each of its dealers on a continuing basis, o update and supplement the information system.

A second type of information is intelligence relevant to the future trategy of the business. Automobile firms, for example, collect reports bout new sources of fuel to power automobiles. This information might ome from scientific meetings, trade organizations, or perhaps from overnment reports. It also might include information from salespersons r dealers about new-product tests being conducted by competitive irms. Intelligence is difficult to develop, because it usually involves iverse and changing sets of topic and information sources and is rarely ollected systematically.

A third input to the information system is research studies that are ot of a recurring nature. The potential usefulness of a marketing esearch study can be multiplied manifold if the information is accessible nstead of filed and forgotten.

Decision Support Systems

Databases have no value if the insights they contain cannot be retrieved. A decision support system not only allows the manager to interact irectly with the database to retrieve what is wanted, it also provides a modeling function to help make sense of what has been retrieved.

A common example of a DSS in action is that used by many industrial alespeople—especially those selling products that require significant ustomization. The salesperson frequently will be asked whether or ot the price and delivery time of a unique product configuration will neet or exceed a competitor's promises. Without leaving the customer's

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office, the salesperson can plug a laptop computer into a phone jack and begin communicating with a database stored in the company's main computer memory. The salesperson types in the product configuration and desired delivery data, and these requirements are compared to the costs, inventory, and assembly time contained in the databank. In a matter of minutes, the salesperson can propose a price and delivery date—and perhaps close the sale.

Each firm has to develop or adapt models to support its own decision problems. For example, Avon Products, Inc., the door-to-door cosmetics firm, has unique problems as the result of a part-time sales force of almost 400,000 representatives theoretically covering half of the 80 million households in North America. This sales force carries a large product line that each year adds 1,600 new or reformulated products. The following computer models were added to their DSS to help cope with these problems:

- A sales force turnover model, which revealed that the most significant variable influencing the turnover rate was the level of the appointment fee that representatives pay for initial materials.
- An order model that explains the components of the average order and isolates the actionable variables, such as the size and timing of the catalog and the gift incentives.
- A procurement model that helps determine how much of a new product to buy, when to purchase it, and the risks involved.

Applying Information Systems to Marketing Research

Often the process of developing and using models and information systems reveals gaps in the databank that have to be closed. These emergent needs for information become a marketing research problem; for example, Performance (sales, market share, contributions, patronage) may be unsatisfactory relative to objectives. Perhaps the condition can be traced to a specific geographic area, but the underlying reasons still must be sought before action can be taken.

- A competitor may launch a new product or employ a new advertising appeal, with unknown consequences for the firm's competitive position.
- An unavoidable increase in costs puts pressures on profitability (or, in the case of a transit system, for example, increases subsidy requirements to an unacceptable level). Various possible increases in prices (or fares) must be evaluated.
- An upsurge in interest in health and nutrition may suggest to a snack company a new product line directed toward responding to this interest. Concept testing might be a first step in exploring this opportunity.

Given the sometimes chaotic and usually uncertain nature of most market environments, a large number of problems and some opportunities can emerge. Few will ever be given formal consideration. There may be no further need for clarification, the implications may not appear serious, or the response may appear evident in the judgement of the decision maker. Our interest is in those problems or opportunities that need to be clarified, whose consequences are uncertain, or that involve the development of new programs, products, or services.

11.3 MARKETING DECISION SUPPORT SYSTEMS

A typical marketing manager regularly receives some or all of the following data: factory shipments or orders; syndicated aggregate (industry) data services; sales reports from the field sales force; consumer panel data; scanner data; demographic data; and internal cost and budget data. These data may also come in various levels of detail and aggregation. Often they use different reporting periods and incompatible computer languages. Add to this sales estimates about competing brands and advertising, promotion, and pricing activity, and there is a data explosion.

Managers don't want data. They want, and need, decision-relevant information in accessible and preferably graphical form for (1) routine comparisons of current performance against past trends on each of the key measures of effectiveness, (2) periodic exception reports to assess which sales territories or accounts have not matched previous years' purchases, and (3) special analyses to evaluate the sales impact of particular marketing programs, and to predict what would happen if changes were made. In addition, different divisions would like to be linked to enable product managers, sales planners, market researchers, financial analysts, and production schedulers to share information.

The purpose of a **Marketing Decision Support System** (MDSS) is to combine marketing data from diverse sources into a single database which line managers can enter interactively to quickly identify problems and obtain standard, periodic reports, as well as answers to analytical questions.

Characteristics of a MDSS

A good MDSS should have the following characteristics.

1. *Interactive:* The process of interaction with the MDSS should be simple and direct. With just a few commands the user should be able to obtain the results immediately. There should be no need for a programmer in between.

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2. *Flexible:* A good MDSS should be flexible. It should be able to present the available data in either discrete or aggregate form. It should satisfy the information needs of the managers in different hierarchical levels and functions.

3. *Discovery oriented:* The MDSS should not only assist managers in solving the existing problems but should also help them to probe for trends and ask new questions. The managers should be able to discover new patterns and be able to act on them using the MDSS.

4. *User friendly:* The MDSS should be user friendly. It should be easy for the managers to learn and use the system. It should not take hours just to figure out what is going on. Most MDSS packages are menu driven and are easy to operate.

A typical MDSS is assembled from four components (see Figure 11.1).

Database

The database contains data from all sources, stored in a sufficiently disaggregated way so that it can be analyzed by product item, sales district, trade account, or time period. The best systems have databases that can be easily updated with new information and have sufficient flexibility that data can be readily analyzed in new ways. Since most analyses deal with a subset of a larger database, the supporting software should permit random access to any and all data to create appropriate subsets.

Reports and Displays

The capabilities of a MDSS range from simple *ad hoc* tables and reports to complex plots, charts, and other graphic displays. Any report or display can include calculations such as variances and running totals, or the results of statistical procedures found in the system. Typical reports produced with a MDSS include status reports that track current trends, exception reports on troubled brands and markets, and variance reports showing budget and actuals for sales and profits.

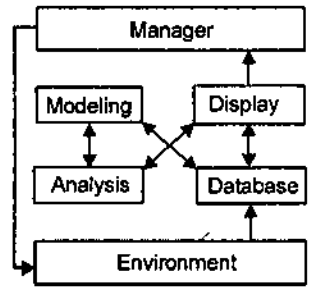

Figure 11.1: The four components of a MDSS

Analysis Capabilities

Analysis capabilities are used to relate the data to the models, as well as to clarify relationships, identify exceptions, and suggest courses of action. These capabilities should include the ability to make calculations such as averages, lags, and percentage changes versus a previous period, and to conduct seasonal analyses, and standard statistical procedures such as regression, correlation, and factor analysis.

11.4 SUPPLIERS OF INFORMATION

In general, managers can acquire the necessary information for decision-making from two basic types of sources:

1. The corporate or in-house marketing research department
2. External suppliers

Usually, managers use a mix of in-house and external approaches to solve a certain problem. Both can feed information directly to their clients, who are users with decision-making needs. More often, the outside suppliers get their direction and provide information to an inside research group. These inside suppliers translate the problems of their clients into specific information requirements, decide how the information will be collected and by whom, and then interpret the findings. Figure 11.2 shows the interaction among the participants in a marketing research activity.

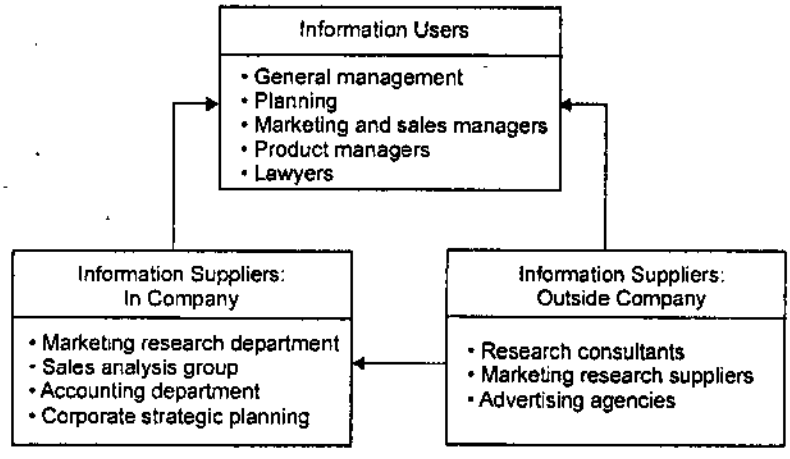

Figure 11.2: Participants in marketing research activities

The purpose of this section is to discuss briefly the nature and attributes of the providers of marketing research services, the types of services they provide, and the factors that influence the choice of a suitable supplier for a given situation. Figure 11.3 gives a concise summary of

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the different types of information suppliers within the marketing research industry.

Corporate/In-House Marketing Research

The location of the marketing research department within an organization and the strength of the department vary from firm to firm and to a very great extent depend on the requirements for information and the organizational structure of the firm. Some firms have a single centralized research department, housed in the corporate headquarters, which provides the information required to the various business units scattered geographically and/or functionally.

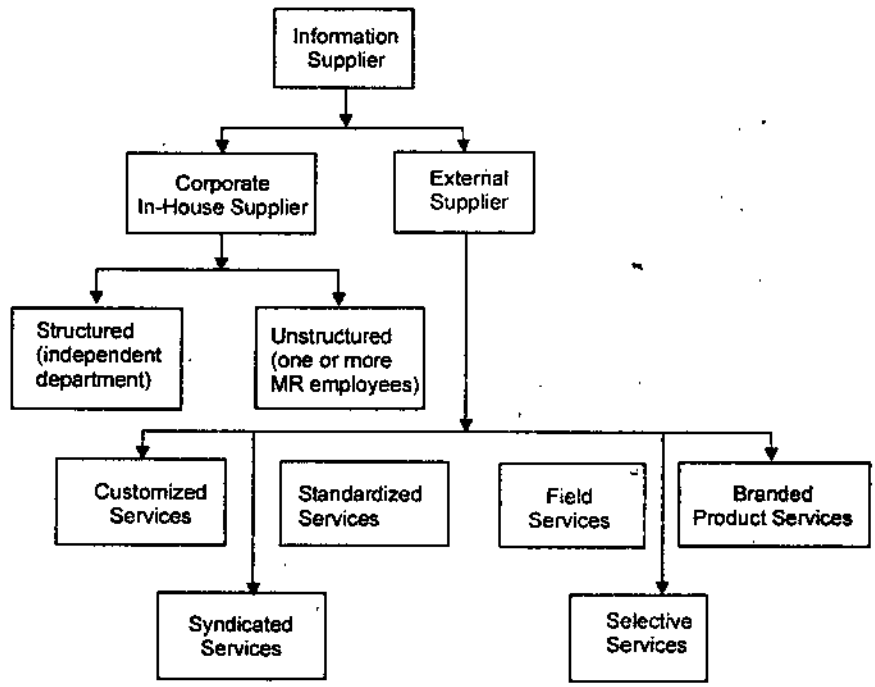

Figure 11.3 : Information suppliers and services

The other extreme is the completely decentralized operation, wherein each business unit or geographic unit has its own research department. The type of structure adopted depends on the amount of information required, the frequency with which it is required, the uniqueness of the information, and the time available to collect it. In most major organizations, especially in multinational corporations, a mix of both these structures can be found.

Not all organizations (regardless of size) have an in-house research establishment. Even among those that have an in-house research department, it is not unusual to seek the assistance of external suppliers. Virtually all research users at some time use the services of outside research specialists. Their role may be limited to raw-data collection, depending

on the research approach, questionnaire, and sampling method provided by the client. At the other extreme, the client may assign the entire problem to an outside consultant who is responsible for every step to the completed report and action recommendations. Other possibilities are to bring in outside specialists for special problems (such as a sampling expert to draw a complex sample), or to employ services that have special facilities or data.

Many related considerations influence the decision to go outside:

1. Internal personnel may not have the skills or experience. Few but the largest companies have specialists in all areas, from psychologists able to conduct focus group interviewing to electronics engineers with MBAs who have studied the telecommunications equipment market.

2. Outside help may be called in to boost internal capacity in response to an urgent deadline.

3. It may be cheaper to go outside. Specialists who have encountered similar problems with other clients probably are more efficient in dealing with the problem, and because they are not on the staff there is no risk of underutilization of their time.

4. Shared cost and multiclient studies coordinated by an outside supplier offer considerable savings possibilities. Multiclient studies are feasible when several organizations have related needs for information about a major topic, such as the future of electronic funds transfer systems. Each client pays an agreed share of the total cost. The ultimate in shared-cost studies are the large standardized data collection services, such as store audits of product sales activity or omnibus surveys, which combine questions from several clients.

5. Often, outside suppliers have special facilities or competencies (an established national interviewing field force, conference rooms with one-way mirrors, banks of telephone lines, or test kitchens) that would be costly to duplicate for a single study.

6. Political considerations may dictate the use of an outside research specialist whose credentials are acceptable to all parties in an internal policy dispute. Research people within the organization may be well advised to avoid being on one side or the other of a sensitive issue.

7. Marketing research is used increasingly in litigation or in proceedings before regulatory or legislative bodies. The credibility of the findings generally will be enhanced if the study is conducted by

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a respected outsider. Also, this kind of research often is subjected to critical questioning or cross examination and is likely to stand up only if designed to high standards, which may exceed those used within the organization for routine decision-making purposes.

External Suppliers of the Research Industry

The marketing research industry consists of several hundred research firms, ranging from small, one-person operations to large corporations having operations in multiple countries.

Once the decision has been made to go outside, there remains the question of which consultant or supplier to retain. What criteria should a firm adopt in selecting an external research supplier? Several academic scholars have conducted research studies to identify the factors that are important in the selection of external suppliers. A crucial factor in the choice is the judgement as to whether the supplier or consultant actually can deliver the promised data, advice, or conclusions. This judgement should be made only after the following steps have been followed:

1. A thorough search for names of people and companies who have acknowledged expertise in the area of the study
2. Selection of a small number of bidders on the basis of recommendations of colleagues or others who have had similar needs
3. Personal interviews with the person who would be responsible for the project, asking for examples of work on similar problems, their procedures for working with clients, and the names of previous clients who could provide references
4. A check of the references of each potential supplier, with special attention to comments on their depth of competence and expertise, their creativity in dealing with problems, and the quality and adequacy of resources available Selection is made on the basis of how well the problem and objectives have been understood, comments by the references, and whether the quoted price or fee is a good value in light of the research approach that is proposed. Seldom is the lowest quotation the best value. To minimize the problem of comparability, all bidders should respond to the same study specifications.

SUMMARY

- Programmatic research is performed to develop marketing options through market segmentation, market opportunity analysis, or consumer attitude and product usage studies.

- Evaluative research is carried out to evaluate performance of programs, including tracking advertising recall, corporate and brand image studies, and measuring customer satisfaction with the quality of the product and service.
- An information system (IS) is a continuing and interacting structure of people, equipment, and procedures designed to gather, sort, analyze, evaluate, and distribute pertinent, timely, and accurate information to decision-makers.
- Databases have no value if the insights they contain cannot be retrieved.
- A typical marketing manager regularly receives some or all of the following data: factory shipments or orders; syndicated aggregate (industry) data services; sales reports from the field sales force; consumer panel data; scanner data; demographic data; and internal cost and budget data.
- The purpose of a marketing decision support system (MDSS) is to combine marketing data from diverse sources into a single database which line managers can enter interactively to quickly identify problems and obtain standard, periodic reports, as well as answers to analytical questions.
- The database contains data from all sources, stored in a sufficiently d isaggregated way so that it can be analyzed by product item, sales district, trade account, or time period.
- In general, managers can acquire the necessary information for decision-making from two basic types of sources:
  1. The corporate or in-house marketing research department
  2. External suppliers

REVIEW QUESTIONS

1. Write the short notes on:
   (a) Information systems
   (b) Decision support systems, and
   (c) Marketing research.
2. Explain marketing decision support systems.
3. What are different characteristics of a MDSS?
4. Discuss various participants in marketing research activities.
5. What do you understand by external supplier of recearch industry?

CHAPTER 12 CUSTOMER ANALYSIS

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★ STRUCTURE ★

12.0 LEARNING OBJECTIVES

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

- discuss the concept of market segment action.
- understand the process of market analysis.
- describe the methods of segmenting markets.
- define research-based segmentation.

12.1 INTRODUCTION TO MARKET SEGMENTATION

Our discussion of market segmentation begins with the following somewhat surprising bits of due diligence:

- Nobody makes money by segmenting a market (except for marketing research suppliers). You make money by establishing profitable, long-term, highly satisfying exchange relationships with brand-loyal customers. Market segmentation is merely a device created by marketers to more efficiently and effectively generate such relationships.
- Market segments do not actually exist. Or perhaps it is more accurate to say that marketers try to impose their approach to structuring a market upon a market that has no universal, naturally occurring structure to it. Markets are not like the animal kingdom with its universally understood natural "segments" of genus, subgenus, and species. If segments exist in a market, they are there because a marketer has constructed them, hopefully by tapping into marketplace realities.

The truthfulness of this second point is supported by your own experience as a consumer: You have been classified by domestic and foreign marketers into hundreds, if not thousands, of market segments, yet you do not define yourself in any way by these segment memberships. For example, you are simultaneously a member of the heavy use ice-cream-eating segment, the price-shopper clothing segment, the outdoor-sports-activist segment, and hundreds of other segments because marketers have found it useful to categorize you in such a way for marketing planning purposes. Sometimes you are grouped in the same segment as your peers or neighbours; sometimes you are put in different segments. In every case, marketers understand how to better think about a market's structure in ways that reflect the realities of how consumers can be grouped together so that a marketing appeal can connect with the people in the targeted segment.

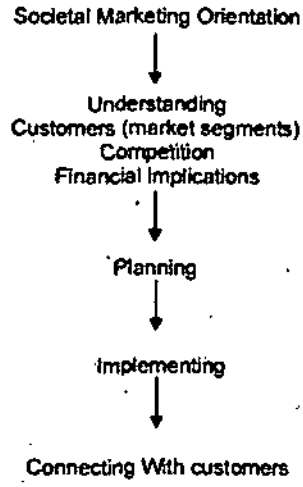

Figure 12.1. The Effective Marketing Management Process

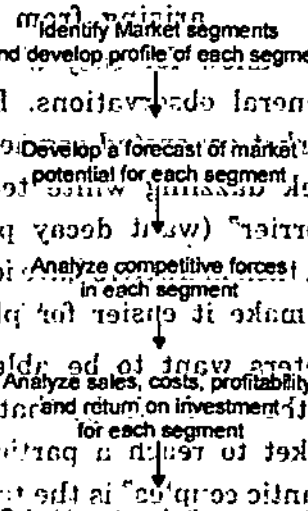

Figure 12.2. Market Analysis Process

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The rationale for segmenting a market as a prerequisite for marketing planning is therefore based on the following assumptions:

1. Not everyone in the market is looking for the same things from the product or service. That is, a specific marketing appeal will not connect equally well with all consumers in a market.
2. It is better to establish very successful connections with a portion of the people in a market than to only marginally connect with everyone.
3. To be very successful with your portion of the market you must be able to identify them, understand them in-depth, and then use that understanding to develop highly satisfying goods and services
4. People prefer to give their business to companies who seek to understand the consumers who occupy the market segments, and then develop satisfying marketing offerings upon that understanding If any of these four assumptions is invalid, market segmentation may not prove as profitable as mass marketing appeals (*i.e.*, treating all consumers as the same and marketing the same product to everyone). However, these assumptions hold true for the vast majority of markets, whether business to consumer (B2C) or business to business (B2B) in nature.

In addition to these assumptions, marketers also use a set of criteria to determine whether segmentation, targeting, and positioning are worthwhile exercises in developing marketing programs.

1. *Sizable*—Any segmentation of a market must generate segments of a size (sales revenues) sufficient to be of interest to the marketer If the resulting sizes are too small, segmentation may not beworthwhile
2. *Identifiable*—Segments arising from this process should have characteristics that allow for easy description and correspond to the marketers' general observations. For example, if a study of the toothpaste market generated segments that could be described as "cosmetic" (seek dazzling white teeth), "economy" (look for lowest price), "worrier" (want decay prevention), and "sociables (want fresh breath), then marketers have identified those characteristic of segments that make it easier for planning purposes.
3. *Reachable*—Marketers want to be able to identify the segment but also to reach them *selectively*, that is, without having to talk to the entire market to reach a particular segment's consumers Therefore, if "romantic couples" is the target segment, the marketer would look for media patterns that these couples have in common within the segment. This allows for a promotional campaign that could speak to them without wasting resources on people who have no interest in the market offering.

4. *Respond differently*—Marketers want to develop a segmentation scheme for the market that results in different "sweet spots." In other words, what appeals to the members of one segment will be common within that segment but different from what consumers in another segment find appealing.

5. *Coherent*—Ideally, members within a particular segment are homogeneous along several attitudinal, behavioural, and other dimensions, which are useful in developing marketing programs, but they are heterogeneous with respect to other segments. In this way a marketer can maximize effectiveness by choosing a customized appeal for each segment that is uniquely capable of connecting with its members.

6. *Stable*—Although this criterion is not absolute (no segment will remain perfectly stable forever), hopefully, the formation of the segments and the resulting marketing programs will have a lifetime sufficiently long to allow for profitable connections over a reasonable length of time.

If, by segmenting a market, the marketer is correctly assuming that the four assumptions hold true, and he or she finds that the resulting segments pass these six criteria, then segmentation can lead to several benefits:

1. *Effectiveness*—Marketers can better connect with a group of consumers whose common needs are better understood and are not highly diffuse.

2. *Efficiency*—Marketers get more "bang for the buck" when they can concentrate on smaller, more responsive segments instead of larger diverse markets.

3. *Loyalty*—Developing marketing programs that communicate to the consumer that the marketer really understands them and has used that understanding to deliver highly satisfying offerings leads to loyal consumers seeking to maintain long-term relationships.

Now that we have established a strong theoretical support for the value of segmenting a market, the natural question is, "Does segmentation really work in the real world? Are companies that segment markets actually better off from having done it?" Consider the following case of Mobil Oil (prior to its merger with Exxon), a company selling gasoline, a product that is best described as an undifferentiated commodity.

Mobil Oil Company had always assumed it was marketing gasoline and related services to a mass market of consumers whose sole motivation for choosing where to fill up was finding the lowest price. Losses in its retailing business forced Mobil to challenge this conventional wisdom

for explaining marketplace behaviour, and led it to conduct a survey of 2,000 motorists.

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12.2 METHODS OF SEGMENTING MARKETS

Segmentation uses one of three methods:

1. *Research-based segmentation*—The Mobil case was an example of this approach. Consumers are screened to ensure they are members of the market under study, then surveyed to determine their attitudes, behaviours, motives, preferences, etc. Multivariate statistical analysis of the research results is conducted to then reveal the number and characteristics of market segments.
2. *Existing segmentation services*—In this approach, the marketer uses an existing segmentation service or system to identify market segments that can be evaluated for making targeting decisions. These systems may either be commercial systems, such as the geodemographic systems, or governmental, such as the North American Industry Classification Systems (NAICS). In either case, the segments are already established before the marketer buys the information, so this approach lacks the customization of the research-based method.
3. *Managerial judgement*—In this approach, the marketer uses his or her knowledge of the market and industry to identify segments. The marketer's insight and skill at using existing information are key in generating good results from this approach. Each of these approaches is successfully used by firms in a variety of industries for segmentation purposes. Although each has its advantages and disadvantages, no single approach can be said to be best under all circumstances.

SUMMARY

- Nobody makes money by segmenting a market (except for marketing research suppliers).
- Market segments do not actually exist. Or perhaps it is more accurate to say that marketers try to impose their approach to structuring a market upon a market that has no universal, naturally occurring structure to it.
- Not everyone in the market is looking for the same things from the product or service.

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- It is better to establish very successful connections with a portion of the people in a market than to only marginally connect with everyone.
- Marketers want to be able to identify the segments but also to reach them *selectively,* that is, without having to talk to the entire market to reach a particular segment's consumers.
- Segmentation uses one of three methods:
  - ❒ Research-based segmentation
  - ❒ Existing segmentation services
  - ❒ Managerial judgement

REVIEW QUESTIONS

1. What do you understand by market segmentation?
2. What are the different assumptions of marketing segmentation?
3. What are different methods of segmenting markets?
4. What are the benefits of segmentation?
5. Does segmentation really work in the real world?

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CHAPTER 13 FINANCIAL ANALYSIS FOR MARKETING DECISIONS

★ STRUCTURE ★

13.0 LEARNING OBJECTIVES

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

- describe the various areas covered by financial assessment.
- understand the concept of revenue analysis.
- define cost and its various types.
- discuss the concept of capital budgeting.
- describe the various steps taken in financial analysis process.

13.1 INTRODUCTION

In this chapter, we address the third element of what marketing managers must understand: the financial implications of marketing decisions (see Figure 4.1).

13.2 FINANCIAL ASSESSMENT

After the analyses described in the previous chapters have been completed, financial assessment should be undertaken. The financial assessment usually covers at least four different areas: (1) revenue analysis, (2) cost

analysis, (3) cash-flow analysis, and (4) analysis of return on investment (ROI).

One of the most beneficial ways to combine these four types of analyses is to utilize a *pro forma* income statement. It is the basic document to be generated by the financial analyses. A *pro forma* income statement is a projected income statement for a specific future time period using estimates of the revenues and costs associated with that time period. It provides an estimate of future cash flows to be produced by a given market segment which can be discounted to determine the present value of these cash flows. This, in turn, is used in calculating the rate of return anticipated as achievable from a given segment.

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The approach used for this venture was to develop three alternate *pro forma* statements, each based on a different assumption about revenues generated by the new venture. This approach permits identifying the "optimistic," "pessimistic," and "most likely" scenarios of a given situation. It is also in line with a more realistic approach to demand forecasting which produces a range of sales volume for new products. When products or services have already been on the market for several years, industry sales history is available to use in projecting sales.

Revenue and costs can change radically over the course of a product's life cycle. For example, high investments in promotion and building a distribution network produce losses in early years; while, on the other hand, reduced variable costs achieved by increasing production efficiency and technological improvement may produce high profit levels in later years. Consequently, any realistic financial analysis must take into consideration an adequate time frame and associated changes in cost structures.

Since the financial analysis of a given opportunity is usually long run in nature, either the *pro forma* must be estimated for each year for some assumed length of time, or an "average" year can be used which represents three to five years into the future. Then the discounted cash flow from this year is used as an average for the venture's anticipated life to calculate the ROI or break-even point of the project.

If subjective probabilities are assigned to each alternative, then decision tree analysis can be used to calculate an expected value for the cash flow from the project. Subjective probabilities are assigned by the analyst based on judgement rather than chance processes. When the alternatives are evaluated in a "tree" diagram, a schematic chart of the decision problem showing each alternative and the likelihood of each alternative is developed. Otherwise, the ROI can be calculated for each alternative and then compared with a predetermined rate to evaluate the financial impact of each alternative.

Developing a *pro forma* income statement requires a forecast of both expected revenues and operating expenses. Thus, the revenue analysis produces an estimate of revenues, the cost analysis produces an estimate of the costs associated with those revenues, and the analysis of ROI or break-even point relates those returns to the investment to be made in the venture. This, in turn, provides the answer to the basic question posed in financial analysis: What is the projected financial impact of pursuing this particular market opportunity?

Not-for-Profit Financial Analysis

Many not-for-profit organizations fail to apply opportunity assessment to their decision-making. A large hospital, for example, decided to build a new wing for geriatric outpatients to provide rehabilitation services for those suffering from major traumas such as strokes or heart attacks. The facility was built to accommodate twenty-five patients. However, when it opened, only two patients showed up to take advantage of the new facility. An analysis of demand for such services prior to their provision would have avoided such a costly mistake.

Although the analysis of returns from a decision made by a not for profit organization uses different criteria, such an evaluation should be made nonetheless. This type of analysis is simply an application of a basic management concept—evaluate the impact of a decision before you make it. This principle applies to not-for-profit as well as for-profit organizations. One type of analysis especially suited for not-for-profit organizations is benefit-cost analysis.

13.3 REVENUE ANALYSIS

Once the size of the total market has been estimated and the competition analyzed, the next step in the market opportunity assessment process is to estimate the sales revenue the opportunity can be expected to generate on an annual basis. The point is not trying to determine how many consumers will buy a product or service, but how many will buy your offering of that product or service.

Forecasting Market Share

For established markets, forecasting involves estimating market share. The question is, "What share of total sales can we reasonably expect to attain?" The percent is then converted to a dollar amount—the sales revenue expected in a given time period. The key element in the estimate at this point is judgement. (If a test market is used later in the development process, this estimate can be reevaluated for soundness.)

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This judgement is based on an analysis of your offering versus competitive offerings. If four competitors are in the market and your product is expected to compete on an equal footing with other offerings, then a 20 percent market share should be used as an initial estimate of market share. This basic estimate would then be raised or lowered to reflect competitive strengths and weaknesses in the market. For new products and services not currently on the market, an acceptance rate must be estimated. The acceptance rate is the proportion of the segment that will buy your product or use your service. Two approaches can be used to estimate the acceptance rate. These are described next.

Judgement Estimates

One way to estimate the acceptance rate is to use judgement. After careful analysis of the market, the person preparing the feasibility study sets the rate, in conjunction with other people who are knowledgeable about the market. Such an "educated guess" can be effective if people who are knowledgeable about a market—retailers, wholesalers, industrial users—are consulted. This estimate also reflects what the company can bring to the market in terms of marketing skills and innovation, brand equity, and the like.

Consumer Surveys

Another approach to estimating the proportion of consumers who would buy a new offering is a survey of potential consumers. Data obtained in this way have been referred to as "iffy" data, *e.g.*," I would buy your product if it were offered on the market and if I were in the market at that time, and if." Although purchase intent statements in survey research cannot be taken completely at face value, various methods of discounting stated purchase intent are available to reflect realistic estimates of actual purchase behaviour that can be expected in the marketplace. For industrial users, however, surveys with purchase decision-makers can be highly effective since they are in a position to evaluate the use of a product in a more judicious manner than many individual consumers. These two approaches are often combined to provide a sales forecast. A set of assumptions—about market acceptance, competitive reactions, economic conditions, degree of distribution, and promotion— must also be developed as a basis for the forecast. These assumptions must precede the actual dollar forecast used in the *pro forma* income statement.

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13.4 COST ANALYSIS

The bottom line of any operation or project is significantly affected by the underlying cost structure. Consequently, cost analysis is closely allied with revenue analysis. Once revenue estimates have been made, cost analysis must be carefully considered.

Cost Concepts

Accounting for the costs of conducting business operations is complex. This is also true of analyzing costs for market opportunity assessment. As a business functions, assets lose their original identity. The business operation converts the assets into some other form. For example, raw materials of many kinds may go into a final manufactured product and many of these raw materials may be unrecognizable in the end product. Costs, however, are traced through the business operations as the assets and resources are converted into goods and services. Since the profits and losses of a business are measured as the difference between the *revenue* received from customers and the *costs* associated with the delivery of the products or services, a project cannot be judged as feasible or profitable without dependable cost estimates.

Types of Costs

Because there are many different types of costs, they must be selectively chosen to match the purpose for which they are used. Care must be taken to understand the specific application of a cost under consideration. Costs can be divided into several major categories.

Period costs. Period costs are associated with and measured according to time intervals rather than goods or services. For example, equipment rental may be at the rate of $1,200 a month. Regardless of the amount of business or product supported by the equipment, the rental cost of the equipment remains $1,200 each month. This expense amount is allocated against revenue according to the time interval without regard to the amount of business transacted. Equipment expense for the year will show $ 14,400 on the income statement. Generally speaking, selling and administrative costs are designated as period costs.

Product costs. In some cases it is inappropriate to classify costs as period costs. Some situations in the income determination process call for costs to be offset as expenses against the activity, good, or service that produced the revenue. Under this concept of income determination, the period in which the benefit is received is the period in which the costs should be expressed and deducted as expenses. Following our equipment

rental example, the equipment rental for a certain period should not be charged off as rent expense for that period if the goods produced by the equipment are not sold until a later period. If costs of this type are handled as product costs, they are matched against the revenue generated from their sale in the period of that sale. In most cases, manufacturing costs are treated as product costs rather than period costs and are included in the cost of goods sold.

Fixed costs. Costs that can be expected to remain constant over a period of time regardless of activity levels are called *fixed costs*. Examples of this type of cost are executive salaries, interest charges, rent, insurance, equipment leases, depreciation, engineering and technical support, and product development expense. Obviously, a fixed cost, like any other cost, can be increased or decreased, particularly in an inflationary period. These variations, however, are caused by other external factors and not caused by the firm's output or activity. Fixed costs can be broken down further as committed fixed costs and discretionary fixed costs. Various management decisions may commit the company to a course of action that will require the company to conform to a certain payment schedule for a number of years in the future. Costs incurred in this way are committed fixed costs. The costs related to acquiring a new building are examples of committed costs. On the other hand, discretionary fixed costs are established as a part of a budget that can be altered by management action on a monthly, quarterly, or yearly basis. These costs are much more easily altered, and have a high degree of flexibility. Examples of discretionary fixed costs are the research and development budget or supervisory salaries that are set by management action.

Variable and semivariable costs. Costs that vary closely with production are considered variable costs. In the strictest sense of the term, variable costs should vary in direct proportion to changes in production levels. Direct material cost and direct labor costs are good examples of variable costs. Most costs, however, are semivariable. Semivariable costs tend to fluctuate with volume, but not in a direct relationship to production. Market research expense, advertising and sales promotion expense, supplies expense, and maintenance expenses are all examples of semivariable expenses. In some cases, semivariable costs can be broken down into fixed and variable components to make application for decision making possible.

Direct and indirect costs. Direct costs are those identifiable with a particular product, activity, or department. Indirect costs are not directly identifiable with any particular product, activity, or department. Often, the distinction between direct and indirect costs depends upon the

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unit under consideration. A cost of specific supplies used may be identified directly as a cost of a particular department but may not be a direct cost of the product manufactured. When a cost can be directly identified to the unit under consideration, it is considered a direct cost relative to that unit. When a cost is associated with a unit only through allocation, it is an indirect cost.

Controllable and noncontrollable costs. Like direct and indirect costs, a reference point is required to classify costs as controllable or noncontrollable. Obviously, at some point in the organizational structure, all costs are controllable. Top management can dispose of property, eliminate personnel, terminate research projects, or whatever is necessary to control costs. At middle and lower levels of management, however, costs can be termed as noncontrollable. If a specific level of management can authorize certain costs, then these costs are considered controllable at that level. A plant manager, for example, may have control over the supplies used by his or plant, but he or she may have no control of promotional costs established by central headquarters.

Sunk costs. A sunk cost is usually a cost that was spent in the past and is irrelevant to a decision under consideration. Sunk costs may be variable or fixed.

Differential costs. The purpose of cost analysis is to provide management with the data necessary to compare alternatives and make a choice. In order to simplify the comparison of alternatives, any costs that remain the same regardless of the alternative will be disregarded in the analysis. A difference in cost between one course of action and another is referred to as a differential cost. In most cases, the decision will result in an increased cost. This increased differential cost is often specifically referred to as an incremental cost. Differential costs are often referred to as marginal costs when the differential cost is the additional cost required to produce one more unit of a product.

Opportunity costs. Ordinarily, costs are viewed as outlays or expenditures that must be made to obtain goods and services. The concept of opportunity costs extends this to include sacrifices that are made by foregoing benefits or returns. An opportunity cost takes into consideration the fact that choosing one of several alternatives precludes receiving the benefits of the rejected alternatives. The sacrifice of a return from a rejected alternative is referred to as the opportunity cost of the chosen alternative. Many of the costs mentioned are overlapping in nature. Thus, fixed cost may also be a sunk cost, noncontrollable cost, or a period cost. Judgement must be used in identifying specific costs in the development of cost estimates for a specific opportunity or business venture.

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13.5 FINANCIAL ANALYSIS PROCESS

Financial analysis and capital budgeting consist of the process of selecting among alternative investments in land, buildings, productive equipment, or other assets for future gain. Since decisions of this type usually commit the firm to a long-term course of action, careful analysis is required to identify the potential return.

Capital budgeting is conceptually very simple. Simply list all the investment opportunities available, rank them according to profitability, and accept all investments up to the point at which marginal benefits equal marginal costs. However, in reality, the complexity of revolving planning horizons makes the choice of capital outlays more difficult. Different project length, start-up time, and payout time make meaningful comparisons among investment alternatives problematic. The depth of the economic analysis needed depends on the type of project, its urgency, and the objectives of the firm. For example, a burned-out generator in a power plant must be replaced. The decision is not replacement versus nonreplacement; the decision concerns only which particular generator is most productive, least costly, or most readily available. Before discussing in detail the analytical techniques for determining profitability and for making capital decisions, a framework for the decision process should be established.

1. Step one: Define problem. Step two: Identify alternatives.
2. Step three: Identify relevant costs and revenues that will change because of the action taken.
3. Step four: Determine the alternative that has the most beneficial result.

Step One: Define Problem

The first step appears obvious; however, even though it is elementary, it is often overlooked. Many times a statement of a problem such as "We need more trucks" is not a problem statement at all but, rather, a suggested alternative solution. Too often, decision-makers jump prematurely to step two without clearly articulating the problem. The importance of proper problem definition cannot be overemphasized. Replacement of a worn-out piece of equipment, development of a new product, and the construction of a new plant all create uniquely complex problems to overcome. Each of these examples generally produces several alternatives, which must be clearly identified and evaluated.

Step Two: Identify Alternatives

Alternative actions can range from doing nothing to going out of business to replacing with the same type of equipment, replacing with different equipment, replacing with larger or smaller equipment, and so on. From this wide range of alternatives, only the appropriate alternatives should be selected for further analysis.

Step Three: Identify Relevant Costs and Revenues

The next step is to identify the relevant costs and revenues that will change as a result of the action taken. Many aspects of technical analysis and cost forecasting also apply to this step in the capital budgeting process. Do not assume that past operating costs will apply to new ventures. Although it is tempting simply to project historical costs into the future, it is very hazardous to do so. Methods of dealing with the uncertainty surrounding the cost and revenue flows involved in capital budgeting must be incorporated to realistically identify and estimate costs and revenues. These methods will be discussed later.

The basic question asked in step three is, "What are the changes in costs and revenues that will occur because of an action taken?" Other questions to be addressed follow:

1. What additional revenues will be generated?
2. What revenues will be lost?
3. What is the net impact of the action on revenue?
4. What additional costs will be generated?
5. What costs will be eliminated?
6. What is the net impact of the action on costs?

The preceding questions lead to the economic principle of incremental changes in cash flow. Once an after-tax cash flow change has been determined, we are ready for step four.

Step Four: Determine the Alternative with the most Beneficial Result

The capital budgeting decision alternative with the most positive return on investment is generally considered the superior one. The specific method of analysis used to calculate which alternative has the most sufficient economic returns over the life of the investment must in some way take into account the trade-off of current cash outlay and future cash inflow.

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SUMMARY

- The financial assessment usually covers at least four different areas: (1) revenue analysis, (2) cost analysis, (3) cash-flow analysis, and (4) analysis of return on investment (ROI).
- Revenue and costs can change radically over the course of a product's life cycle.
- Costs that can be expected to remain constant over a period of time regardless of activity levels are called fixed costs.
- Costs that vary closely with production are considered variable costs.
- Direct costs are those identifiable with a particular product, activity, or department.
- The purpose of cost analysis is to provide management with the data necessary to compare alternatives and make a choice.
- Financial analysis and capital budgeting consist of the process of selecting among alternative investments in land, buildings, productive equipment, or other assets for future gain.

REVIEW QUESTIONS

1. What do you understand by financial analysis of marketing?
2. Explain Not-for-Profit Financial Analysis.
3. Explain revenue analysis.
4. Write short notes on:
   a. Forecasting Market Share
   b. Judgement Estimates
   c. Consumer Surveys
   d. Cost analysis
5. Discuss the various steps of financial analysis.

UNIT IV

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CHAPTER 14 INTEGRATED CUSTOMER MARKETING

★ STRUCTURE ★

14.0 LEARNING OBJECTIVES

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

- define marketing and obstacles that have prevented a customer-centric focus.
- discuss why integration is crucial today.
- define integrated customer marketing.
- discuss about the benefits offered by ICM.
- define ICM currencies.

14.1 INTRODUCTION

Twenty years ago, Philip Kotler defined marketing's role as setting the strategic direction for the organization and its interaction with customers for the purpose of satisfying needs of a target market at a profit. Importantly, Kotler advised that marketing activities should be manifest in all the activities of an organization to create customer value. He suggested that this customer-focused, integrated approach to marketing would bring the strongest short- and long-term results.

Despite the strong desire of marketers and business leaders to become more customer centric, the tools, capabilities, and support needed to implement an integrated approach simply weren't available. Instead, the concept of marketing integration was applied and tested within marketing campaigns, business units, and channels as a tactic for improving short-term results.

Still, marketers remained eager to apply the concept as a strategy across the entire organization. They took steps toward that goal by embracing concepts such as customer relationship marketing, 1-to-1 marketing, integrated marketing communications, and others. But organizations have yet to fully integrate the marketing function by engaging the *entire enterprise* in building customer lifetime value. None of these approaches achieved full, customer-centric integration because they did not take into account the activities of the customer.

In 2007, Forrester Research found that just 9% of marketers at or above director level at major companies said their customer communications were "very integrated" across channels. Two years later, the numbers haven't moved much. Preliminary results of a new Forrester study commissioned by Merkle indicate only 17% of senior marketers and managers say their companies' customer and prospect communication activities are "very integrated" across marketing, sales, and service (Figure 14.1).

Some – but by no means all – of the major obstacles that have prevented a customer-centric focus include:

- A lack of executive support
- Organizational designs
- Compensation and incentive systems
- Measurement constraints
- Business models
- Data capture capabilities
- Analytic capabilities
- Perceived high cost
- Focus on short-term results

Today, virtually all these obstacles can and must be overcome. Twenty-first century business realities, talent, and tools have converged, making customer-centric marketing both practical and urgent. Marketing integration's perfect storm has arrived.

This paper, the first in a series, discusses the opportunity offered by fully integrating the marketing function across the enterprise and the

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obstacles that have prevented marketers from implementing this strategy. The paper introduces a systematic – and most importantly, customer-centric – approach that makes integration both practical and realistic to implement. Merkle calls this new approach Integrated Customer Marketing.

14.2 WHY INTEGRATION IS CRUCIAL TODAY

Despite pouring billions into customer acquisition and loyalty programs, many initiatives fall short because marketers are unable to draw a direct, measurable connection between a customer's interaction and the resulting behaviour. This disconnect arises from a lack of enterprise-wide integration and a continued myopic focus on product marketing rather than customer marketing. "When business units are named after products, it's hard to be customer focused," says Penn State's Gary Lilien.

Little has changed since the nineties, when the term integrated marketing typically described public relations, advertising, direct marketing, and promotions working together to deliver a consistent message to a target audience across multiple communications channels. The modern definition of "fully integrated marketing" is far more expansive and emphasizes structured collaboration among most, if not all, other departments. With shared language, metrics, and strategy, the entire enterprise is able to work together toward the common goal of achieving maximum customer value from each relationship.

- Optimizing value is a tiered process, built by nurturing lasting relationships over time:
- Increased relevance creates increased engagement
- Increased engagement creates increased satisfaction
- Increased satisfaction creates increased behaviour
- Increased behaviour creates increased value
- Increased value creates increased returns

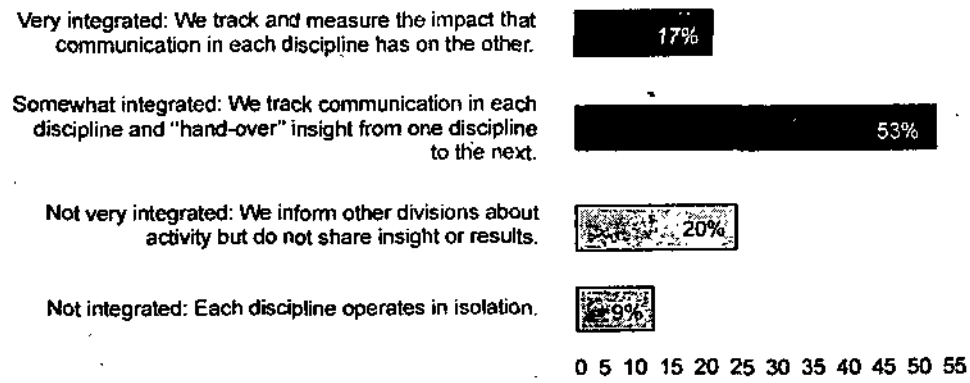

Figure 14.1 : How integrated are your customer and prospect communication activities throughout marketing, sales and service?

In a fully integrated, customer-focused organization, marketers play multiple, vital roles across the enterprise and at the highest organizational level—often working with top executives to establish company-wide strategy as well as financial and operational goals. Deploying fully integrated, customer-based marketing—and seizing the accompanying opportunities—has become an increasingly urgent need.

14.3 WHY IS INTEGRATION SO DIFFICULT TO ACCOMPLISH?

Historically, most organizations have struggled in their attempts to implement a systematic approach to delivering customer interactions that drive value. The reasons are complex and numerous.

A lack of a coordinated, enterprise-wide approach has clouded the ability to view customers across the organization. Without an approach that involves enterprise management, it's been impossible for most companies to develop a common customer segmentation strategy that makes sense to all departments, all the time – rather than in response to fluctuating departmental goals or a single campaign's objectives.

Basics, such as routine customer data collection sharing and accessibility, have been long-standing issues in many organizations. In reporting the results of its April 2009 Data Management Survey, reported that only 31% of respondents – 253 top company and marketing executives, directors, and managers from across the US– said their companies integrate data collection channels. When it is already difficult or impossible for one department to access customer data collected by another department, for instance, the prospect of successfully implementing a strategy involving enterprise-wide sharing and collaboration is often viewed with great skepticism. A lack of a coordinated, enterprise-wide approach has clouded the ability to view customers across the organization.

Top company executives aren't typically involved in marketing strategy and that's problematic, too. Without C-suite leadership and active involvement in the development of universal metrics, including the relative value of different customer segments to the organization as a whole, the opportunity to integrate in a way that builds long-term value becomes increasingly difficult.

Launching an initiative to accomplish full integration across a vast and complex organization is also understandably daunting, which is why so few companies attempt it. Those who initiate enterprise-wide implementation as a single work "project" rarely succeed. Day-to-day demands usually place the effort as a low priority and the complexities involved make integration seem impossible and impractical, especially

when undertaken without a framework that provides a clear pathway. But the short- and long-term benefits outweigh the obstacles. The organizations that use a systematic framework and view integration as a multi-step journey, rather than a marketing project, are best positioned for success. Organizations that implement integrated marketing stand to achieve both incremental and sustainable advantages.

14.4 WHAT IS INTEGRATED CUSTOMER MARKETING?

Integrated Customer Marketing™ is an optimization framework that maximizes customer portfolio value through targeted management of customer interactions across marketing, sales, and service throughout the customer lifecycle. The ICM Framework enables companies to transition from campaign to customer lifetime value management, migrating the entire enterprise through an integrated customer journey (Figure 14.2).

Figure 14.2 : Integrated Customer Marketing Framework

Drawing upon more than 20 years of knowledge, data, and experience working with top-tier marketing operations, Merkle examined the obstacles that have prevented organizations from implementing fully integrated, customer-centric marketing and the various intermediary approaches that have emerged over the past two decades. Surprisingly, one of the missing links is an organizational focus on the customer. Integrated Customer Marketing™ (ICM) was so named in recognition of its customer centricity.

ICM is both a systematic pathway to integration and a business philosophy. It puts customers at the center of a company's business strategy in a way that trumps the old brand- and product-centric approaches. Merkle's proprietary ICM framework fully integrates the marketing function across

the entire enterprise in a customer-centric fashion. When ICM is implemented, customers and companies win.

ICM informs and integrates the total customer experience – from strategic lifecycle management and marketing mix optimization to comprehensive program development and campaign execution. In traditional marketing operations models, business units are engaged in campaign-focused interactions that are driven by product objectives. In the ICM model, the enterprise engages in customer-focused interactions designed to heighten and maximize customer experience and lifetime value through a series of well-defined and properly executed campaigns. ICM strives to integrate the customer experience by shifting the organization's orientation to the customer.

Designed to overcome organizational, operational, and technological constraints that typically hinder organizations from maximizing value, the ICM framework incorporates strategy and planning, change management, technology infrastructure, and data and analytics. Enterprise segmentation and enterprise measurement frame four major areas of integration, each of which is implemented as a gradual, planned "journey" via a clearly defined, multi-step process.

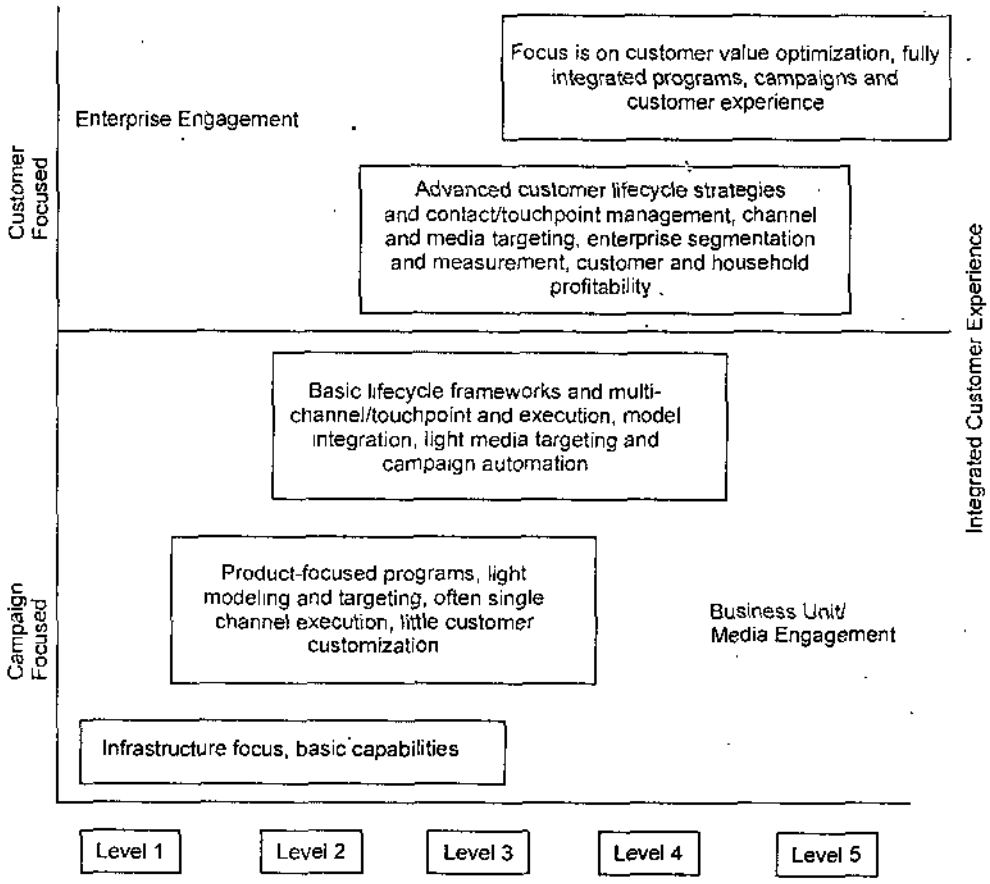

Figure 14.3 : Integrated Customer Marketing Journey

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Merkle works with the organization to first establish a customer-centric foundation by building upon basic infrastructure and capabilities, such as campaign-based modeling and targeting. Later, enterprise engagement begins with advanced lifecycle strategies. Then, the organization implements customer touch point management, enterprise segmentation and measurement (see Figure 14.3).

Ultimately, ICM's systematic approach reengineers the organization's customer marketing strategy and business processes by integrating sales, marketing, and service functions throughout the enterprise. The result is an enterprise that uses measurable, data-driven methods to actively manage every customer interaction across the organization.

ICM offers many benefits, among them:

- Improved short- and long-term profitability by optimizing the value of the entire customer portfolio.
- Informed customer-centric, strategic planning.
- The flexibility and organizational processes to quickly adapt to change and seize every opportunity, including those that arise from fluctuations in the economy or changes in the marketplace.

14.5 BUILDING ICM CURRENCIES

The marketing discipline is at a pivotal moment in its evolution. It's not enough to simply say, "Let's be more customer focused." To achieve fully integrated customer marketing, organizations need to transition from a campaign-focused approach to a customer-focused approach. Instead of optimizing an email campaign, they should be looking at the next 40 campaigns, to see how these are influencing the value of a customer over time.

Internally focused, *ad hoc* arbitration and committee-based consensus on marketing philosophies and practices have often prevented companies from managing their customer portfolios to create a competitive advantage. The ICM approach systematically addresses and builds three non-negotiable currencies within organizations to create a "this is the one way we always operate" protocol. These three currencies will enable companies to achieve fully integrated, customer-centric marketing and realize the accompanying financial benefits (Figure 14.4). The three ICM currencies include the following:

1. **Segmentation based on attitudes, values, and behaviours.** Companies need a universal segmentation language to ensure that all departments within a company are talking about customers in the very same way.In most companies, brand marketing discusses-

the customer from an attitudinal standpoint, while the finance department views the customer from a risk perspective, while the direct marketing department focuses on behaviour. Once an organization has more than 100 customers, it must develop a universal language to discuss the different wants and needs of customers. Segmentation is that language.

2. **Incremental measurement**. Everyone knows measurement is important. But the most crucial measurement is incremental. The average cost to acquire a customer is a moving target. In reality, marketers need to examine not the average cost, but the *incremental* cost of the next dollar spent. In some companies, this seemingly innocuous distinction can mean quite literally thousands of dollars on a single customer. Companies must understand the impact that sales, marketing, and service have on customer behaviour, so that sound, fact-based decisions can be made regarding how the next dollar spent will impact customers over a specific period of time.

3. ***Universal customer value metric.*** *Many organizations* have value metrics or proxies of some kind. But few have a universal methodology or metric across the organization. Chaos reigns if each department determines the value of a customer as a point-in-time metric with different scoring criteria. For instance, the customer who makes many purchases but calls to ask a lot of questions is routinely valued one way—high value—by the marketing department and another way—high cost, low value—by the call center. Companies must take a wider lifetime view of each customer—while taking into account the total impact they have on the organization (see Figure 14.4).

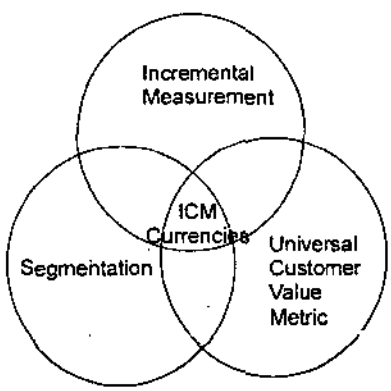

Figure 14.4 : The Three ICM currencies

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SUMMARY

- Launching an initiative to accomplish full integration across a vast and complex organization is also understandably daunting, which is why so few companies attempt it.
- Integrated Customer Marketing™ is an optimization framework that maximizes customer portfolio value through targeted management of customer interactions across marketing, sales, and service throughout the customer lifecycle.
- ICM offers many benefits, among them:
- Improved short- and long-term profitability by optimizing the value of the entire customer portfolio.
- Informed customer-centric, strategic planning.
- To achieve fully integrated customer marketing, organizations need to transition from a campaign-focused approach to a customer-focused approach.

REVIEW QUESTIONS

1. What do you understand by integrated marketing?
2. What are the major obstacles that have prevented a customer-centric focus include?
3. Why is integration so difficult to accomplish?
4. What is integrated customer marketing?
5. What do you understand by three ICM currencies?

CHAPTER 15 OVERVIEW OF IMC

NOTES

★ STRUCTURE ★

15.0 LEARNING OBJECTIVES

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

- understand the concept of IMC.
- explain more recent definitions of IMC.
- understand how to manage IMC.
- discuss the role of advertising and promotions in IMC.
- know about the barriers to effective IMC.

15.1 INTRODUCTION

In the world of marketing, there is no question that certain areas that have been practiced in one way or another over the years are suddenly dressed up in new clothes and touted as 'the' new thing. Relationship marketing comes quickly to mind. Marketers always understood (or certainly should have) the importance of sound relationships with their customers, but the mid-1990s saw an inundation of articles in the business press, 'airport books', and even academic work, in the area of ' relationship' marketing. Today, it seems to have morphed into customer relationship marketing, or CRM, and as we shall later see this idea is even informing definitions of IMC.

Why do we bring this up at the beginning of a book on integrated marketing communication? It is to make the point that unlike many fads in marketing, the idea of IMC really was something new in marketing; at least IMC correctly implemented. In fact, in the twenty or so years since the emergence of the idea of IMC in the mid- to late 1980s, few companies have yet been able to truly implement effective IMC. We shall touch on several of the key reasons why later in this chapter. First, however, we need to understand just what is meant by integrated marketing communication or IMC.

15.2 WHAT IS IMC?

We might briefly define IMC as the planning and execution of all types of advertising-like and promotion-like messages selected for a brand, service, or company, in order to meet a common set of communication objectives, or more particularly, to support a single 'positioning'. We believe strongly that the key to IMC is *planning*, and the ability is to deliver a consistent message.

15.3 ORIGINAL DEFINITIONS OF IMC

In 1989, the American Association of Advertising Agencies (known as the Four A's) formed a task force on integration that was to define IMC from the viewpoint of the Four A's agencies. The task force came up with this definition of IMC: 'A concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines (*e.g.*, general advertising, direct response, sales promotion, and public relations) and combines these disciplines to provide clarity, consistency, and maximum communication impact.'

In the same year, the investment firm Shearson-Lehman Hutton (1989) issued a detailed report on consumer advertising, with special emphasis on diversification into areas that would lead to integration. They concluded that a number of changes at work in the marketplace would force traditional packaged goods marketers to take a much more integrated approach to marketing. They noted that high-involvement non-service products (*e.g.*, automobiles or cruise vacations) where the selling task is more complicated were at that time more apt to use integrated strategies.

In general, the report concluded that the dynamics were in place for a surge in demand for integrated communications from all kinds of advertisers. In their 1993 book *Integrated Marketing Communication* (perhaps the first book to really deal with the subject), Don Schultz and his colleagues talked about IMCs as a new way of looking at the whole where once we

only saw parts such as advertising, public relations, sales promotions, purchasing, employee communications and so forth (Schultz et al., 1993). They saw IMC as realigning communications to look at it in the way the consumer sees it, as a flow of information from indistinguishable sources.

They observed that professional communicators have always been condescendingly amused that consumers call everything advertising or public relations. Now they recognize with concern, if not chagrin, that that is exactly the point. It is all one 'thing' to the consumer who sees or hears it. They go on to say that IMC means talking to people who buy or don't buy based on what *they* see, hear, feel, and so on, and not just about a product or service. It also means delivering a return on investment, not just spending a budget. This definition 'looks back' at the goals of IMC. We will be looking at IMC largely from a strategic perspective for *planning* and *implementing* IMC.

At Northwestern University' s Medill School in the USA (where Schultz was teaching) the curriculum was in fact changed to focus on this new idea of IMC rather than the more traditional programs in advertising. At the time, they offered their own working definition (Schultz, 1993):.

"Integrated marketing communications is the process of developing and implementing various forms of persuasive communication programs with customers and prospects over time. The goal of IMC is to influence or directly affect the behaviour of the selected communications audience. IMC considers all sources of brand or company contacts that a customer or prospect has with the product or service as potential delivery channels for future messages. Further, IMC makes use of all forms of communication which are relevant to the customers and prospects, and to which they might be receptive. In sum the IMC process starts with the customer or prospect and then works back to determine and define the forms and methods through which persuasive communications programs should be developed."

This definition, while more elaborate than ours, is still basically addressing the need for overall communication planning. It is critical to consider IMC as a *process*, not a 'thing'.

15.4 MORE RECENT DEFINITION OF IMC

The emphasis in those early days was certainly on *planning*, and to our mind this must remain at the heart of any definition of IMC. But today IMC is more likely to be talked about in terms of 'customer relationships'. In fact, Kotler (2003) has put it in just those terms. He now defines IMC as 'a way of looking at the whole marketing process

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from the viewpoint of the customer'. Yet only a few years earlier (Kotler et al., 1999) he was defining IMC as 'the concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear, consistent and compelling message about the organization and its products'.

Others have taken this idea of IMC from a customer relationship view a great deal further. Tom Duncan, at the University of Colorado, who like Dan Schultz and his colleagues at Northwestern, was one of the early academics to restructure their advertising programs in terms of IMC, today sees it as *simply put* (our emphasis) a 'process for managing customer relationships that drive brand value' (Duncan, 2002). Nothing 'simple' at all we would argue. In fact, he goes on to say that what this means is that IMC is a 'cross-functional process for creating and nourishing profitable relationships with customers and other stakeholders by strategically controlling or influencing all messages sent to these groups and encouraging data-driven, purposeful dialogue with them'.

There is a lot here in this definition. Of course, marketing is (or should be) about satisfying consumer demand. But we would suggest that the real key here, in terms of IMC, is 'strategically controlling or influencing all messages sent', and to do that requires strategic planning. Duncan goes on to 'define' the major elements within his definition. The idea of a cross-functional process refers to a need for all parts of a company and vendors working on a particular brand to work together to 'plan and merge all messages a company sends to its target audiences'. We totally agree, but as we shall see, getting everyone involved in a brand's marketing communication to cooperate is very difficult. Creating and nourishing stakeholder relationships and profitable customer relationships refers to IMC identifying those target audiences most likely to contribute to long-term profit, including both consumers and others with links to a brand (*e.g.,* Government regulatory agencies and investors).

Strategically controlling or influencing all messages means that every contact with the market must be consistent, and encouraging purposeful dialogue implies that people want the ability to interact with a company. As we said, there is a lot here in this definition. But in the end, IMC is really all about *planning* in order to deliver a *consistent message.* Effective IMC should certainly encourage strong customer relationships, but it does that through effective planning in order to develop an integrated communication program that will optimize specific communication objectives that lead to a desired behaviour on the part of a target audience. Actually, after Duncan explains his detailed definition of IMC (as we have reviewed), even he reminds us that *communication* is the foundation of brand relationships and the basic principle of IMC.

Strategies for building strong profitable relationships with customers and other stakeholders is part of the marketing plan, and effective marketing communication should support that plan. We shall leave it to others to discuss IMC in this broader marketing-oriented way. A *strategic* understanding of IMC must be based upon a rigorous planning process that will identify appropriate target audiences, set specific communication objectives for these target audiences, develop marketing communication that will accomplish those objectives in a consistent way, and find the best ways of delivering the message. That is what IMC, and this book, is all about.

15.5 MANAGING IMC

In the early years of IMC thinking, despite the feelings of many marketing managers that advertising agencies may not have been the best planning catalyst for IMC, they did play a major role in providing and managing these initial attempts at integrating marketing communications. A number of very large advertising agencies and agency groups were quite active in this new area of IMC. Such agencies as (then) Saatchi and Saatchi, Young and Rubicam, The Interpublic Group of Companies, WPP Group, Ogilvy and Mather, Leo Burnett Company, and DDB Needham, while all primarily advertising agencies, nevertheless delivered other marketing communication services either from specific divisions, subsidiaries of the groups, or through alliances or joint ventures. They were all selling themselves as able to provide all the services and disciplines a marketer could want for marketing communication.

But even at the time, what they were offering as IMC was not what their clients either wanted or for which they were willing to pay. While 85% of advertisers said they wanted IMC services, only a fraction felt their advertising agency would provide it. Major agencies tried to deal with this issue in different ways. Many agencies set up programs to educate their executives in IMCs. Prior to its break-up in 1995, Lintas Campbell-Ewald, a division of The Interpublic Group of Companies, had for several years offered an extensive training program in IMCs for their middle and upper level managers. Y & R launched a worldwide IMCs training program in the early 1990s aimed at educating top executives, with a goal to extend the training program to all agency managers. Leo Burnett, one of the early leaders in the IMCs arena, implemented a new integrated planning and communications program. Their goal was for all of the Burnett's then 2000 plus US employees to attend the 6-day seminars. Major advertising agencies may have gotten off to a slow or even wrong start, but there is no doubt that they seemed committed to delivering IMCs for their clients.

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Even though the marketing communications industry has always been made up of a variety of specialty groups, almost by default traditional advertising agencies took the lead in the IMCs planning for their clients' brands. The reason was simple. The vast majority of a company's communication budget was usually with an advertising agency. But today, there has been a virtual explosion in the number of new agencies devoted to some aspect of marketing communication, fueled in a large part by the (unfortunate) trend toward an ever increasing emphasis on promotion, as well as alternative ways of delivering messages such as 'new media'.

Unfortunately, this only complicates the ability to develop and manage sound strategies for IMC. Let us consider for a moment just some of the many groups that could play a role in the creation and delivery of marketing communications. To begin with, there are all of the traditional sources of marketing communication messages such as advertising agencies (everything from full-service agencies to boutiques), sales promotion or collateral agencies, public relations firms, and specialty agencies (*e.g.*, those that deal with trade shows or with event marketing). Add to them corporate identity groups, packaging specialists, branding companies, the increasing number of direct response agencies, and telemarketers. Then there are Internet agencies, new media, and media buying groups (who themselves are playing a greater role in overall communication strategy).

Distribution channels can also have an impact, and not only with trade communications. Retailers certainly play an influencing role via co-op programs or through channels marketing. All franchise organizations have participation from franchises in their marketing communications. Soft drink and beer companies have bottlers and distributor networks that frequently have a strong voice in the direction of their brand's marketing communication.

Then there is the company's organization itself, which could include any number of departments with some responsibility for marketing communication. And unfortunately, in most cases these departments have their own managers and operate independently of each other. Too many companies still practice vertical rather than horizontal management, and this means departments are often unlikely to even talk with one another let alone work together. Even in large companies where a single group has been created to oversee all marketing communication, and to coordinate the efforts of all outside agencies and suppliers (something essential for effective IMC, we would argue), it is often difficult to rest control from brand management. Also, there is a long history of tension between the sales force and marketing teams.

Now, multiply all of this by the number of countries where a company markets its brands. While it is not unusual for many marketing communication suppliers to have global networks, it is still a management nightmare.

Global IMC must take into account local differences while still maintaining a consistent overall positioning for the brand. One way international marketers try to deal with this is by consolidating all their global marketing communication efforts in one agency with the capacity of handling most of its marketing communication needs, either within the agency itself or through its network of sister organizations.

But you begin to get the idea. All of this potential input into a company's marketing communication must be controlled and managed in order to ensure a consistent strategy and message. This is not easy, and even with the best of intentions it is difficult to implement effectively. But, if there is to be effective IMC, this problem must be solved. There must be a central source that has *real* responsibility for not only coordinating the efforts of all those involved in the process, but also the authority to make decisions. And perhaps the most important decision they must have the authority to make is how the marketing communication budget is to be allocated.

15.6 THE ROLE OF ADVERTISING AND PROMOTIONS IN IMC

We mentioned earlier that one of the main reasons traditional advertising agencies originally took the lead in managing IMC was because that was where most of the marketing communications money was to be found. But this is all changing. With the increasing short-term focus on the bottom line, promotion-oriented marketing communication is playing an ever larger role, and many companies are questioning the role of advertising today. They shouldn't.

What exactly is the role of advertising in IMC? As we have tried to make clear, IMC is a *planning* concept. So, the easy answer is that traditional advertising 'fits' when and where it makes sense in most effectively communicating with the target audience. But this easy answer will not be very satisfactory to many managers. As Schultz (1995a) once put it, 'An integrated approach to communication planning and implementation does not necessarily reduce the role or value of traditional mass-media advertising'. We agree. In today's world, what is advertising? Television commercials include direct response 800 numbers or ask consumers to look for a coupon in the newspaper—and actually show the coupon. Is this advertising or is it promotion? In the past, advertising has been traditionally delivered via measured media: television, radio, newspaper, magazines, outdoor. But today advertising messages are also delivered through direct marketing and channels marketing (*e.g.*, trade-oriented marketing such as co-op programs), areas where in the past one only found promotional messages.

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The consumer certainly does not know (or, we suspect, care) what constitutes 'advertising', as we mentioned earlier. In an interesting study conducted in the US by the Leo Burnett agency, 1,000 consumers were called at random and asked what they would call a wide variety of marketing communication forms (Schultz, 1995b). They found that consumers answered 'advertising ' to over 100 different forms of marketing communication. Many of the answers indeed would fit most advertising executives ' definition of advertising. But what about such things as sweepstakes/contests/games, product catalogs, information brochures, window displays in stores, coupons, bill inserts, and such? Sounds more like traditional promotion, but well over 90% of the consumers interviewed called them 'advertising'. In fact, 92% said product packaging is advertising! Perhaps not surprisingly, consumers seem to see almost every form of marketing communication as advertising.

Rossiter and Percy (1997) make two interesting points about the role of traditional advertising versus promotion in today's marketing communication. Addressing the swing to promotion in marketing communication budgets, they point out that in spite of this swing (a) there has been an *increase*, not a decrease in the use of general advertising media in the last decade (from when they were writing in the mid-1990s), and (b) most of the growth in promotion, apart from all-but-required trade promotions, had been additional – and most of this in advert-like promotions.

Nevertheless, in traditional terms the rate of advertising growth has basically followed the pace of media inflation, while other areas of nontraditional advertising as well as promotion have experienced real growth. But this second point about advert-like promotions is very important. It is not traditional forms of promotion that are growing, but promotion-oriented messages that are very advertising-like. For example, as Rossiter and Percy point out, direct mail and telemarketing, by far the largest and fastest-growing forms of marketing communication, are generally thought of as promotion rather than advertising. Yet when properly used they are as much advertising, in the sense of building brand awareness and brand equity, as they are promotion in the sense of meeting some short-term sales objective. The same may be said of free standing inserts (FSIs), by far the most widely used way of delivering coupons. In the strictest sense these are promotion-oriented media, and we shall treat them as such in this book. But they are also very advertising like in their ability to help build awareness and equity for a brand. This blurring of the old distinctions between advertising and promotion is yet another reason for the importance of IMC, because what one might think of as traditional advertising skills now play such a critical role in every form of marketing communication. As we shall see, planning an effective IMC program requires the manager to address strategic creative and media

questions that have always been addressed in traditional advertising. These principles are simply being applied to a wider range of options. In IMC, one is setting communication objectives and selecting media to maximize their ability to effectively reach the target market.

But rather than only considering various ways of using advertising, or independently considering some form of promotion, the planning and execution of all marketing communication should be integrated. The point is that in the end one may consider any marketing communication that deals with brand building as delivering an advertising-like message, and marketing communication that is looking for short-term action on the part of the target audience as delivering a promotion-like message; and promotions should include advertising-like messages.

As we shall see in later chapters, the fact that marketing communication may be delivered via new media or old, as part of a direct marketing campaign or on the Internet, as an advert or promotion, the strategic foundation for the development and execution of the message remains the same. The brain will process the words and images the same way, regardless of how it is delivered. Sound is sound, words are words, and pictures are pictures to the brain, regardless of where the sense organs find them.

15.7 BARRIERS TO EFFECTIVE IMC

Despite the fact that most marketers seem to agree that IMC makes sense, after 20 years there is very little evidence that it is being practiced by many companies. To the extent that it is being used, it is probably most likely to be found among fast moving consumer goods (fmcg companies) operating globally as they look for ways to coordinate their international marketing communication needs.

It should not be assumed by marketing managers that if they are not practicing IMC they are simply not enjoying the potential benefits of it. Without IMC, a brand's marketing communication could actually be significantly less effective. And the more complex the market, the less effective it will be. The lack of IMC, the lack of coordinated communications planning and the delivery of a consistent message, could lead to multiple ortrayals of a brand in the market. Even if the positioning is the same, if there is a lack of a consistent look and feel to all of a brand's marketing communication there will be no synergy or 'lift' from the overall program. With a consistent look and feel, the overall impact of a campaign is much greater than the sum of its parts because the processing of each piece of marketing communication is facilitated by the prior processing of other messages in the campaign. When the individual messages

being delivered lack this consistency, the processing of each different piece of marketing communication must begin from scratch. A promotion that contains the same general look and feel as the brand's advertising, which is carried over with the packaging and reflected in in-store merchandising, means that prior exposure to any of these pieces of marketing communication will aid in the processing of the others. If each of these pieces has its own unique look, there will be no prior learning or foundation available when someone sees it. They must process the message on its own. As we shall see in later chapters, getting someone to process marketing communication at all is difficult. Effective IMC helps. In fact, research has shown that there is a link between IMC and increase in sales, market share, and profit. So why hasn't IMC been more widely adopted? We like the reason offered by Pickton and Broderick (2005) : it is 'partly due to ignorance, unwillingness and inertia, and partly due to the sheer difficulties of achieving the integration.'

Perhaps the single biggest problem revolves around the decision-making structure of most marketing organizations. The structure or organizational make-up of a company or agency, and the way managers think about or approach marketing questions frequently pose problems in trying to implement IMC programs. We shall be looking at this in terms of specific organizational barriers to IMC and an organizations character. Additionally, the issue of compensation is often a serious roadblock to effectively implementing IMC.

1. Organizational barriers
2. Organizational structure
3. The low standing of marketing communication in an organization
4. Specialization
5. Organizational character
6. Culture of the organization
7. Management perceptions
8. Resistance to change
9. Financial emphasis

SUMMARY

- In 1989, the American Association of Advertising Agencies (known as the Four A's) formed a task force on integration that was to define IMC from the viewpoint of the Four A's agencies.
- Integrated marketing communications is the process of developing and

implementing various forms of persuasive communication programs with customers and prospects over time.

- Defines IMC as 'a way of looking at the whole marketing process from the viewpoint of the customer.'
- Distribution channels can also have an impact, and not only with trade communications. Retailers certainly play an influencing role via co-op programs or through channels marketing.

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REVIEW QUESTIONS

1. How would you define IMC?
2. Discuss why you feel recent definitions of IMC are or are not an improvement upon earlier definitions?
3. What is required for effective management of IMC?
4. How is the trade involved in a brand's IMC?
5. What are the unique roles of advertising and promotion in IMC strategy?
6. Why is it so difficult to implement effective IMC?
7. How can the barriers to IMC be overcome?

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CHAPTER 16 FINALIZING AND IMPLEMENTING THE IMC PLAN

★ STRUCTURE ★

16.0 LEARNING OBJECTIVES

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

- define the planning process.
- understand how to finalize the plan.
- describe how to identify touch points.
- understand the concept of communication tasks and media options.
- describe how to implement the plan.

16.1 INTRODUCTION

The planning process discussed in the last chapter yields all of the information needed to put together the integrated marketing communication (IMC) plan. The overall context for the plan is provided by the brand's marketing plan, the target audience is identified, and an understanding of how they make brand decisions established. The creative positioning and objectives are determined, and a set of media options appropriate for delivering the message selected. Now it is time to put it all together.

In this chapter, we shall look at how the knowledge gained through the IMC strategic planning process is used in finalizing a plan for the actual

IMC campaign, and how to implement it. Finalizing a plan requires identifying the touch points in the decision process where marketing communication is likely to have the most significant effect on a brand decision, the communication tasks required at each of these touch points, and media appropriate for accomplishing these tasks. Once this is determined and the plan detailed, it is time to implement the plan. A creative brief is prepared to establish the parameters for message execution, and the appropriate media selected to optimize the delivery of the message. The manager is then in position to deliver an effective IMC campaign for the brand.

16.2 FINALIZING THE PLAN

Once the strategic planning process is complete, the manager is in a position to begin finalizing a plan for implementing an IMC campaign. Based on the understanding of how purchase decisions are made in the category, in conjunction with target audience objectives and the communication strategy, the manager must decide whether or not the brand's marketing communication goals:

- Can be satisfied with a single message directed at one primary target audience, using one primary type of marketing communication (*e.g.,* advertising, direct-mail, brochures, etc.) or
- If a number of communication tasks should be considered, directed at one primary target, but to different roles in the decision process; different messages to different targets; and/or utilizing various types of marketing communication directed to different times or places in the decision process.

If the brand's communication objective can be satisfied by a single message and one primary medium based on what was learned from the strategic planning process, the manager can proceed directly to selecting the most appropriate medium and to finalizing a creative brief for the development of the message. It is important to understand that even if all that is necessary is a single message delivered through one primary medium, this is still IMC. If a brand has gone through a strategic planning process and all potential options were considered, but in the end one message delivered to the target audience through one primary medium satisfies the brand's communication objective, we would argue this is still an IMC program. It only means that at this particular point in time, this is all that is needed. Of course, this is rarely the case, but it underscores the importance of seeing IMC as a *planning process*.

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IMC is an ongoing process. Market dynamics could change, and different messages in other media might become necessary. The brand will be ready to respond to these changes because the manager has been through an IMC planning process.

When a more detailed plan is required, which again is almost all of the time, it will be necessary to first determine the important touch points in the decision process where marketing communication can be most effective, second establish the communication tasks needed at each of these touch points, and finally select the appropriate media to deliver the message.

Identifying touch Points

In the last chapter a behavioural sequence model was introduced, underscoring the need to understand consumer brand decisions as a process involving multiple stages with potentially several people involved, playing different roles in that process. Finalizing a consumer decision model like the Behavioural Sequence Model (BSM) makes it possible to organize all of the available knowledge about how brand choices are made in a category into a usable form for strategically integrated communication planning. An effective IMC plan can only be achieved if it is based on the decision process for a brand.

This understanding is extremely valuable because the manager must be able to identify those places in the decision process where marketing communication can have a positive impact upon brand choice. One might think about these places where marketing communication may influence the brand decision as touch points. It will be these *touch points* that provide the framework for the IMC plan.

Many of those who are interested in IMC have pointed out the importance of a solid understanding of the consumer in the effective implementation of IMC programs. In fact, it is important to look carefully at how consumers behave and see the world before it is possible to develop an effective IMC plan. The BSM is an ideal way of gaining this insight. It is indeed this insight into the consumer, more than anything else, which will help identify the touch points for effectively implementing an IMC program.

In order to help pull this together and demonstrate how one goes about identifying the important touch points in a decision process, consider the hypothesized BSM shown in Table 16.1 for a word-processing system. Suppose a company is marketing an innovative new word-processing system, and has developed this BSM of how companies go about deciding upon introducing new systems into their operations. Given this understanding of the decision process, what does it suggest about how best to positively effect the decision with marketing communication? Let us think through

this process, which is in effect what a manager would be doing in finalizing an IMC plan. It is obvious that in the real world this would be a complex decision process, with multiple potential target audiences, but for this example we shall utilize only the generic decision stages. As we look at the BSM, there is no doubt that more than a single message in one medium will be needed. Can one really imagine that a single advertising campaign, let alone a single promotion of some kind, would be able to do the job? Of course not.

Looking at the *need arousal* stage we see that a number of people might be involved. At the simplest level, the users of the current system in an initiator role might be complaining to their manager that they can't get the increasing workload out on time. On the other hand, the manager in charge may be dissatisfied with the quality of the work, as the result of seeing or hearing about better alternatives. The need of the users or managers may be aroused without marketing communication if the work is falling behind, but if a brand wishes to help stimulate need, some form of marketing communication will be required. Since it is a new system being marketed, it will be necessary to communicate with both those involved as initiators within a company and those in the trade, which will be asked to carry and sell the new system. At the very least there will be two target audiences participating at the need arousal stage who must be aware of the new system, and begin to form a positive attitude towards it.

Table 16.1: Decision roles for an hypothesized BSM for a word processing system

Decision Stages			
Need arousal	***Brand consideration***	***Purchase***	***Usage***
Users of current system/managers as **initiator** Dealers or outside consultants as **initiator**	Users/managers as **influencers** Dealers or outside consultants as **influencers** Manager as **decider** Senior management as **decider**	Manager or purchasing agent as **purchaser**	Users/manager as **user**

Once initial interest has been aroused, at the brand evaluation stage the potential user and the trade will begin to form attitudes about the various alternative systems available. The same individuals who were involved as initiators will also probably fill the role of influencer as well. But, others could also play a part. Consultants may be called in, and at some point during the evaluation senior management will become involved. At this stage, managers and senior management will assume the role of decider.

Does it make sense to use the same message for everyone involved? While the message to the trade (both consultants and distributors), users, and managers should be basically the same (and certainly reflect the same look and feel), the medium of delivery will likely vary. Messages to senior management will certainly be different. Management is not interested in the technical aspects of the system, but they are interested in ' value ' issues. There would appear to be a number of different marketing communication opportunities as this stage in the decision process. Additionally, if the brand does not already have a database in place, it would be a good time to begin. If there is one, it should be updated during this stage.

At the *purchase* stage, the manager or perhaps a purchasing agent, will be involved in the actual purchase. What message, if any, might we wish to deliver at this stage that differs from earlier material? The trade may wish to follow-up with an incentive promotion; the brand may wish to send direct mail to those the trade has indicated have shown interest in the new system.

Finally, what should be done during the *usage* stage? At the very least, it would make sense to do something to reinforce the manager's choice of the new system. Some form of direct mail would be appropriate, but so too would general advertising that reinforces overall brand image. This positioning affects not only the manager, but also those who are actually using the new system.

Even using only the four generic decision stages in this example, one can see that there are a number of potential touch points where marketing communication can help inform brand choice. The task of the manager is to now identify the communication tasks that will be necessary to address these touch points, and then to set priorities in terms of what is essential for brand success, and what else might be helpful. Then, from this set of communication tasks the manager determines what will be affordable given the budget. In other words, the foundation has been late for an effective IMC plan.

16.3 IDENTIFYING COMMUNICATION TASKS AND MEDIA OPTIONS

The important touch points in the decision process reflect where marketing communication will have the best opportunity of positively influencing the decision in favour of a brand. The manager must next consider the communication tasks necessary for each touch point. This means identifying the relevant target audience at each stage in the decision process and what marketing communication is expected to accomplish at each stage. Finally, in the development of the IMC plan, the manager must identify what appropriate media options are available to deliver the message.

Communication Tasks

At each touch point in the decision process there may be a number of potential target audience roles involved. These must be carefully considered, and those most likely to be responsive to marketing communication at that point identified. At the same time, the manager must decide exactly what is required of marketing communication at each touch point in order to positively influence the decision process. Together, these decisions identify the communications tasks required.

Target audience: What specific members of the target audience should be addressed at each stage, and what roles are they playing? It would be rare indeed for all of the potential target audience members in all of their roles to be included. This is where the manager must begin making choices. Which target audience members in what roles are critical? These become the primary target audiences at that stage. One may also identify secondary or even tertiary audiences, in the event that there is enough in the budget to consider them after all the primary target audiences for each stage is addressed.

Communication objectives: Next, the manager needs to translate the appropriate communication effects into specific communication objectives for each stage. For example, brand awareness is always an objective, but what kind (recall versus recognition); and is it necessary to raise or simply maintain the awareness? With brand attitude, is it necessary to educate the target audience? Does the message at that point need to interest the target audience in the brand, stimulate enquiry, give them a good feeling, or underscore a unique feature? Should brand purchase intention be a commitment to call and make a reservation or place an order; or to ask for more information? Should the target audience request the brand specifically, say from an investment broker or health care provider; or pick the brand on their next visit to the store? What is needed here is a clear, concise interpretation of the proper communication effects required to meet the overall communication

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objectives for the IMC campaign. This can be a very involved process, drawing together all of the knowledge and understanding that came out of the strategic planning process. To illustrate, let us look at just some of the possible communication tasks associated with each stage of the generic decision model.

What communication effects are likely to be relevant to need arousal? Since this is the stage when someone begins to think about possible purchase or usage of a brand, raising brand awareness will be a primary objective. An initial favourable brand attitude will also be needed, especially for low-involvement decisions. It is clearly not enough for people to simply be aware of a brand at this initial stage. Some tentatively positive attitude will also be required if the brand is to remain a contender in the decision process. But the manager must also consider category need here. It may not be necessary, but one should always ask if the target audience is both experienced and active in the category.

At the brand evaluation stage one must be concerned with both brand attitude and brand purchase intention effects. For low-involvement decisions, the tentatively favourable brand attitude built during need arousal must be reinforced, providing again what Maloney (1962) called 'curious disbelief', leading to a positive intention to try. For high-involvement decisions, it is essential that enough appropriate information is provided at this stage because the target audience must be both informed and convinced. At the same time, if dealing with positive motives, one must be concerned with nurturing the appropriate feelings as well. Authentically reflecting the emotion involved in decision processes involving positive motives implies more than just a favourable attitude. A positive intention to buy or use the brand is needed, and this will follow from a favourable evaluation owing to the correct emotional associations.

But deciding to choose a brand does not guarantee it will actually be purchased or used. So at the actual purchase stage it will be necessary to ensure that the positive brand attitude is reinforced, and that the brand purchase intention is actually carried out. During usage, messages should help continue reinforcing brand attitude and encourage re-purchase or continued use of the brand. All of these decision stage–communication effects relationships are summarized in Table 16.2.

Table 16.2 : Decision stage–communication effect relationship

Decision Stage	*Communication effect*
Need arousal	• Consideration of category need • Raise brand awareness • Tentative brand attitude
rand consideration	• Build positive brand attitude

	• Convincing benefit claim for high-involvement strategies • Establish authentic emotional link for transformational strategies
Purchase	• Reinforce positive brand attitude • Ensure positive brand purchase intention
Usage	• Reinforce positive brand attitude • Encourage repeat brand purchase intention

Media Options

Once the manager has determined the communication tasks, it is necessary to identify appropriate media options for delivering the message at each touch point in order to accomplish the task. This is where the manager specifies exactly what media options are available to reach the target audience, consistent with the primary communication objective for the task.

How can recognition awareness be sustained? Should print advertising, billboards, or coupons be used? Will broadcast advertising or direct mail be appropriate? To facilitate purchase, should the brand use in-store banners or special displays? What about incentive promotions? This may be a good place to point out that if multiple media are used in an IMC campaign, it is done because of the specific appropriateness of the various media to the communication tasks, not from any sense of 'synergy' (Dijkstra, 2002).

16.4 IMC PLANNING WORKSHEET

The touch points identify those stages in the decision process where IMC can positively effect the brand decision, communication tasks establish what marketing communication must accomplish at each of those points, and media options are selected that are appropriate for those tasks. A good way of summarizing this is with an IMC planning worksheet along the lines of the one shown in Table 16.3.

Table 16.3: IMC planning worksheet

Touch points for decision stages	*Communication tasks*		*Media options*
	Target audience	*Communication objectives*	

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The first column lists is the touch points that were identified from a BSM or some other model of the consumer decision process for the category. In the next two columns the specific target audiences and their role, and the communication objectives making up the communication tasks, are listed for each touch points. The last column provides those media options appropriate for the corresponding communication tasks.

Summarized in this way, the manager may objectively review the various communication tasks likely to positively influence the brand decision along with appropriate media options for each, and consider what would best fit the brand's overall objective and budget.

To illustrate what we have been discussing, let us consider the case of Acuvue, and look at what was involved in the development of the IMC plan for the introduction of disposable contact lenses. This is a particularly good case to consider because it involves a somewhat complex decision process where both the patient as consumer and their doctor or eye care professional are involved. Figure 16.1 offers an overview of the eyeglass lens decision process, and illustrates the interrelationship between patient and doctor considerations. This model reflects what was learned from a BSM, and from it comes the significant touch points. You can see that both the patient and doctor are involved together in making the decision to use disposable contact lenses, and this will clearly require a carefully IMC program.

Using the IMC planning worksheet just described, the manager can summarize the communication tasks and media options available for each touch point, as we see in Table 16.4 for patients and Figure 16.6 for doctors. What these worksheets suggest for the IMC plan are discussed below. Looking at the first touch point for patients, *Awareness Need and Options*, although family members and friends could play an important role as initiators and influencers, the primary target audience will be those who currently wear prescription eyeglasses or contact lenses.

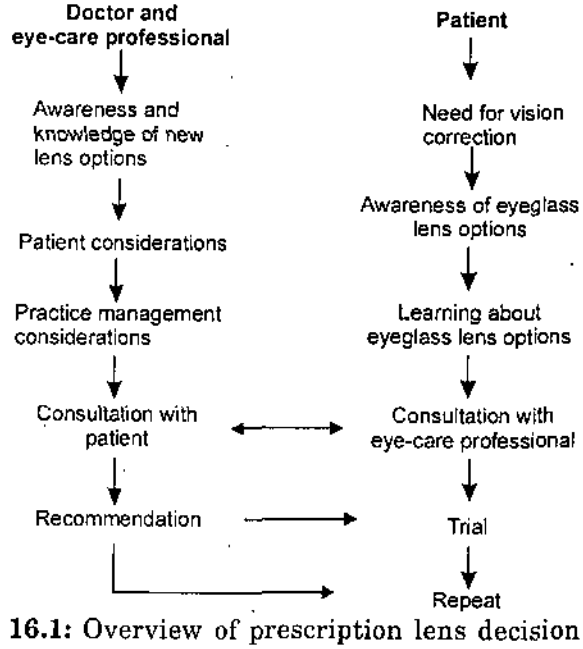

Figure 16.1: Overview of prescription lens decision process

At this first touch point in the decision process, category need must be initiated. But because only one brand is available (Acuvue), creating awareness and initial interest in disposable contact lenses will correspond to brand awareness and initial brand attitude. The best way of accomplishing these communication objectives will be with traditional advertising in broadcast and print. At the same time, for the doctor's role in the *patient's* decision, it will be necessary to build brand awareness along with a clinical understanding of its performance in order to stimulate interest in looking more deeply into them. Obviously, the doctor must feel comfortable in bringing disposable contact lenses to the attention of their patients or recommending them. Much of this initial awareness and attitude will follow from the patient advertising, but must be reinforced by more targeted communication through advertising in professional journals, direct mail, and at professional conferences.

Table 16.4: Patient IMC planning worksheet

Touch points	*Communication tasks*		*Media options*
	Target audience	*Communication objective*	
Awareness of need and options	Current prescription eyeglass and contact lens users as initiators and influencers Doctor and eye-care professional as initiator and influencer	Create awareness of disposable contact lenses Build brand awareness and initial brand attitude	Broadcast and print advertising Direct mail to doctors, adverti sing in professional journals, professional conferences
Learning about options	Current prescription eyeglass and contact lens users as influencers and deciders	Strengthen brand awareness Build brand attitude by providing information to convince	Print advertising point-of-purchase (for doctor's office) Direct mail intemet
Consultation and decision	Current prescription eyeglass and contact lens users as influencers and deciders Doctors and eye-care professionals as influencers	Strengthen positive brand attitude stimulate brand purchase intention	Point-of-purchase (for doctor's office) Incentive promotions via direct mail, point-of-purchase or internet
Usage and reinforcement	Current prescription eyeglass and contact lens users as users and influencers	Brand purchase intention Maintain Brand attitude	Broadcast and print advertising Direct mail

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At the *Learning about Options* touch point, the most logical point for the patient to seek information about disposable contact lenses is from their doctor or eye-care professional. This will require providing them with brochures or other merchandising material not only for point-of-purchase (the doctor's or eye-care professional's office), but also for possible inclusion as statement stuffers or self-contained mailers for the doctor to send to patients. Additionally, on-going advertising, especially print where there is more time to process, will continue to build brand awareness and attitude. Also, toll-free numbers and the Internet offer opportunities to provide more information.

To facilitate the actual purchase at the *Consultation and Decision* touch point, the patient must consult with the doctor and try the product. Again, this will require good point-of-purchase material and possibly a promotion to reinforce positive brand attitude and purchase intention. At the final patient touch point, Usage and Reinforcement, it will be necessary to reinforce confidence in the decision, building and sustaining positive category and brand attitude. Here traditional advertising with television and print can reassure the patient, and give them the comfort of feeling part of a much wider group of users than may actually be the case. Direct mail can also help reinforce the decision, perhaps also including an incentive to continue using.

Table 16.5: Doctor and eye-care professional IMN planning workshop

Touch points	*Communication tasks*		*Media options*
	Target audience	*Communication objectives*	
Awareness of needs and options	Doctor and eye-care professional as initiator and influencer Sales force as initiator and influencer	Create awareness of disposable contact lenses Build brand awareness and initial brand attitude	Broadcast and print advertising (to patients) Professional journals, direct mail, professional conferences Sales force collateral end merchandising kits
Learning about options	Doctor and eye-care professional as influencer and decider	Build positive attitude for both disposable contact lenses and brand	Professional journals Professional conferences Direct mail
Practice management considerations	Doctor and eye-care professional as influencer and decider Sales force as influencer	Build positive brand attitude Link brand to practice	Point-of-purchase merchandising program Joint program through channels Marketing

Acquisition and review	Doctor and eye-care professional as purchaser, user and influencer	Build positive brand purchase intertion Reinforce positive brand attitude	Incentive promotions Direct mail Professional journals Patient advertising in television and print

Now that we have considered the patient along with the doctor's participation in their decision, let us briefly look at the two touch points dealing specifically with the doctor and eye-care professional, where it is important to reinforce for them the positive business side of the decision. At the *Practice Management Consideration* touch point, independent of satisfying the *patient's needs, doctors must be attentive to the impact of what they dispense* in their practice. A key concern, of course, is patient demand. A program to acquaint them with the patient IMC support can address this issue.

Additionally, educating them regarding the brand's potential contribution to their business practice can be accomplished via merchandising programs, direct mail, sales calls, and professional seminars. Also, positive brand attitude can be built by using some form of channels or tactical marketing to specifically associate the practice with the brand. At the last touch point, *Acquisition and Review* , promotion incentives can be offered to stimulate brand purchase intention, along with continued reinforcement of brand attitude via patient and trade advertising in television and print.

This example not only underscores the often complex nature of the decision process, but also how many communication tasks can be involved in putting together an effective IMC plan. The IMC planning worksheet offers the manager a good way of looking at all of the options available. It suggests what will be needed to meet communication objectives, and the media options that can be used. In effect, it provides an outline for completing the IMC plan.

This does not mean that the manager now has the 'answer'. What is provided is a summary of the best reading of everything known coming out of the strategic planning process, and what the brand hopes to accomplish with its marketing communication program. If the budget was large enough, it would be possible to proceed directly to implementing everything outlined in the worksheet. Unfortunately, that is rarely the case. Realistic budget constraints will no doubt limit what may be accomplished. But using the worksheet as a guide, it will be possible to make more efficient and effective decisions on which communication tasks to implement in order to most effectively drive brand success. It will be these decisions that inform the final IMC plan.

16.5 IMPLEMENTING THE PLAN

Once the communication tasks required have been identified and the IMC plan completed, it must be implemented. This means creating the advertising and promotion called for, and determining how best to

deliver it. In previous chapters we have considered what is necessary to create effective marketing communication. But before any marketing communication can be created, a creative brief is required. This is what ensures the executions created reflect the IMC plan. We shall deal with this next, and then look at how media is selected to address the communication tasks identified in the plan.

The creative Brief

It is the creative brief that ensures that the results of the strategic planning process inform message execution, and that everyone is on the same page. In fact, all of the key people involved in the planning and execution of an IMC campaign should ideally be part of the development of a creative brief. This would include account executives, planners, and creative from the agency, as well as brand management from the company; or, whatever individuals in comparable positions are involved if the brand is not using a traditional advertising agency. The reason it is so important to include all of those playing a key role in the process is that once completed, the creative brief provides the consensus of how the message will be executed, and the benchmark against which the resulting advertising and promotion will be evaluated.

The creative brief format outlined in this section includes all of the points that are essential to an effective creative execution. Many companies and advertising agencies have their own way of writing a creative brief, but most will in some fashion or other cover the 10 key areas discussed here. Overall, one might think of a creative brief in three sections: one that helps define the task at hand, one that is principally concerned with the creative objectives, and one that is concerned with executional elements. *Task definition:* The first four points of the creative brief deal with task definition: Key market observation, source of business, customer barrier/insight, and target audience. The purpose of these points is to help answer why the IMC program is being put together. What is the brand hoping to accomplish, who in the market are being addressed with this creative, what do they already know, think, or feel about the brand, what is the message trying to effect? All of this information should be available from the marketing plan and strategic planning process. The four points that help define the specific task are:

1. *Key market observation* – What one point can the brand make about the market that will help the creatives understand and believe in the rest of the brief? There is no need to be exhaustive, just provide the basics.

2. *Source of business* – Where, specifically, is the business expected to come from? One is not looking for general descriptions here, but specific sources (*e.g.*, current holders of long-term bonds, people unhappy with the restrictions on their current brand, etc.).

3. *Consumer barrier/insight* – What one thing is known about the potential target audience that may need to be overcome, or that may help reach them? What do they know, or think they know about the brand or product category; how do they feel about it; how interested are they in it; how do they distinguish between different brands?

4. *Target market* – What is the most vivid description that can be offered of the types of individuals to whom this communication will be directed? This description must go further than a simple listing of demographics or even lifestyle characteristics. It is important to provide enough information for the creatives to be able to picture in their mind's eye whom they are addressing. Copywriters like to imagine they are talking directly to an individual, and specifically in their decision role (Kover, 1995).

Objectives and Strategy

The next four points deal with communication objectives and strategy. What one is seeking to do here is help provide creatives with the best orientation possible, including the one point that, if communicated, will achieve the desired objective. Also, provide the evidence available to convince the target audience.

1. *Communication objectives and tasks* – What is the specific communications objective for this creative, and where does it fit within the total IMC program? Here is where to designate the primary objective (category need, brand awareness, brand attitude, brand purchase intention), and what communication tasks are to be accomplished.

2. *Brand attitude strategy* – What is known about the way consumers make decisions? Is the decision high or low involvement, and is the behaviour positively or negatively motivated? This positions the strategy into one of the four strategic quadrants of the Rossiter-Percy Grid.

3. *Benefit claim and support* – What is the primary consumer benefit and why? Identify the benefit claim that is most strongly associated with the relevant motivation, and provide the evidence that supports this choice. Anything that could be used in the communications to demonstrate or communicate the correctness of the benefit claim should be included. For example, if it is understood that consumer motivation is likely to centre upon incomplete satisfaction, pointing out comparative advantages and how they should be presented might be appropriate.

4. *Desired consumer response* – What is it that the target audience should know, think, feel, or do as a result of the communication? This should be a brief summary of what is expected to happen.

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Executional Elements

The last two points in the creative brief deal with the actual execution, providing guidance on what sort of communication this should be and what information must be included. These last two points are:

1. *Creative guidelines* – What tactics are appropriate for the type of brand awareness involved, and for the strategic quadrant chosen?
2. *Requirements/mandatory content* – What are the requirements, either creatively, legally, or corporately, that must be included? Here, for example, is where the logo treatment is spelled out.

Table 16.6: See your doctor or eye-care professional Patient creative brief for disposable contact lenses

Product	*Job*	*Date*
Key market observations Consumer research identifies dissatisfaction with maintenance of contact lensses		
Sourch of business Current contact lens and prescription eyeglass wearers		
Consumer insight Residual concern over the idea of disposable lenses		
Target market Adult contact lens and prescription eyeglass wearer; doctors and eye-care professionals		
Communication objectives and tasks Seed category need and build awareness and brand attitude that communicates to the target the advantages of disposable lenses		
Brand attitude strategy High involvement informational brand strategy driven by problem-solution and incomplete satisfaction motives		
Benefit claim and support Acuvue disposable lenses are available. Support. no more solvents and cleaning		
Desired consumer response Accept the viability of disposable contact lenses and interest in looking into Acuvue lenses		
Creative guidelines Address potential concern over the idea of disposable lenses		
Requirements/mandatory content See your doctor or eye-care professional		

Now that we have detailed each of these points, there is one thing to always keep in mind when putting together a creative brief. It is important to create a balance between there being enough information for clear

guidance and providing so much information that the creative people working on the assignment are placed in the position of working out their own communication priorities from the information provided. Generally speaking, there are two areas where it is hard to give too much information—target market and support for the benefit claim. But for the rest, keep it to the bare essentials. There is a reason it is called a creative brief. It should be complete on one page (an example is shown in Table 16.6). If more detail is desired, creatives should be referred to the marketing plan and results of the strategic planning process.

SUMMARY

- The overall context for the plan is provided by the brand's marketing plan, the target audience is identified, and an understanding of how they make brand decisions established.
- IMC is an ongoing process. Market dynamics could change, and different messages in other media might become necessary.
- The touch points identify those stages in the decision process where IMC can positively effect the brand decision, communication tasks establish what marketing communication must accomplish at each of those points, and media options are selected that are appropriate for those tasks.
- At the Learning about Options touch point, the most logical point for the patient to seek information about disposable contact lenses is from their doctor or eye-care professional.

REVIEW QUESTIONS

1. How does the manager go about identifying touch points for the IMC plan?
2. How does an IMC planning worksheet help the manager in finalizing the IMC plan?
3. What is necessary to implement the IMC plan?
4. What do you understand by decision stage communication effect relationship?
5. Discuss the implementation of plan.

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CHAPTER 17 INTRODUCTION TO QUANTITATIVE RESEARCH

★ STRUCTURE ★

17.0 LEARNING OBJECTIVES

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

- define market measures, customer profiles, and attitudinal data.
- describe the major techniques of quantitative research.
- discuss about self completion surveys.
- discuss the role of interviewer in quantitative research.
- describe the principles of research design.
- discuss about field research and observational research.

17.1 INTRODUCTION

This chapter deals with the study of quantitative research, and its techniques. Self-completion surveys, interviewing and its advantages, role of interviewer in quantitative research. Apart from this you will be able to discuss about principles of research design, experimental research, field research and observational research.

17.2 MATCHING QUANTITATIVE RESEARCH TO THE OBJECTIVES

Faced with a marketing problem, the researcher has to decide how to solve it. Take for example a company that wants to carry out a customer satisfaction survey to find out where it is doing well and where it needs to improve. This is clearly a survey requiring measurement therefore it is a quantitative study. However, before it can start, the researcher needs to find out what attributes should be measured for importance and satisfaction. A discussion with the sales force will help but it may not be enough. The sales team lives close to the subject and could be biased. Depth interviews or even a focus group may be required before the quantitative project begins.

It is quite normal for a research project to need multi-phase research to deal fully with the problem, and this is known as multi-method research design. The most common example of this is a client who first needs to explore a problem, and then wants to carry out some conclusive research, to help make a sound business decision to tackle that problem. There will be implications for both the timetable and the budget in carrying out qualitative research before hand. Quantitative research, because it involves large numbers of interviews, is likely to be the most expensive part of the total project. However, qualitative research employs specialists and this makes it relatively expensive.

It would be hard to envisage developing a discussion guide, booking interviews, doing the depth interviews, analyzing them and presenting the findings in less than three or four weeks. This would mean that to carry out a qualitative stage as a precursor to the quantitative research could put pressure on the timing if results for the whole programme are needed for a certain date. This pressure on timing and costs can lead to the temptation to skip one or other of the stages. May be the qualitative research alone will help us see the problems we should be addressing. May be we can skip the qualitative stage and move straight into quantitative if we think we know the questions we should be asking. There is an obvious danger that decisions could be made that

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cut corners and therefore put the integrity of the research at risk. Quantitative research enables us to obtain three different classifications of numbers: *market measures, customer profiles (or segmentation data)* and *attitudinal data*.

Market measures quantify and describe a market. Common examples include; market and sector size, shares of the market held by suppliers or brands, penetration levels (what proportion of all potential consumers own or buy a product), purchase and consumption frequencies, patterns of consumption and seasonality. Data of this type is essential for any manager developing or reviewing a marketing plan for a com pany, product group or brand. They can be obtained at various levels of the market – when people are buying (*e.g.*, through interviews with consumers), but also at the point of manufacture or at the point of distribution (which would entail business to business interviews).

Market measures taken from a sample are generally projected or grossed up to the total market or population. For example, to find out the market size for a breakfast cereal we could sample the population to find out how many people eat breakfast and in particular this type of cereal and then gross up by the population numbers to arrive at estimates of the total consumption.

Customer profiling occupies a good deal of researchers' time. What type of people or organisations are the customers and potential customers? What types of products or services do they own or use? Customer profiling is quantitative in nature because reliable breakdowns are needed for the whole market or population. If a survey indicates that amongst the sample interviewed, the large majority of people with gas wall heaters are in social classes D and E and live in older houses, we need to be confident, if we are to use the data in marketing planning, that this is the case for the whole population. Profiling data can take various forms:

- socio-demographics (age, sex, income and occupation group, education level, home tenure etc),
- geodemographics (the types of housing areas in which people live or for business research, the classifications such as company size, geographical location, industry etc)
- consumer behaviour (frequency of buying a product, frequency of switching brands etc)
- ownership of various products (numbers and brands of products owned)
- attitudes (to products or brands).

Unlike market measures, consumer profiling data can only be collected from consumers—in other words the people or companies that are buying the products.

Attitudinal data is used in a quite general sense to cover issues such as awareness, perceptions, beliefs, evaluations, preferences and propensities to buy products. Attitudes are therefore subjective and are in the minds of individuals. They are perceptions, but since these influence purchasing habits, they are extremely important. For this reason, a good deal of market research is concerned with the measurement of attitudes.

Similarly, attitudes are taken to be a predictor of future behaviour. Preferences between real products or concept bundles can, with appropriate analysis, lead to predications on what will actually happen in the market including the consequences of changing some element of the marketing mix such as the price or product quality. Attitudes are also very much the subject of qualitative research which is often concerned to identify which categories of attitudes effects customer choice. In quantitative research, however, the focus is on establishing the degree to which specific attitudes exist amongst the market and population. People have attitudes to brands and this can markedly affect their behaviour. Measuring brand awareness and brand loyalty are important roles of quantitative research.

Qualitative research may have revealed some doubts about people's attitudes to a particular brand, but what proportion of potential consumers hold such negative views and how does this link the purchase frequency? Various techniques are used to measure attitudes but in one form or another scalar measurement is the usual tool.

17.3 THE MAJOR QUANTITATIVE RESEARCH TECHNIQUES

There are three major methods of obtaining quantification of attitudes or behaviour in a population:

- direct measurement
- self-completion and
- interviewing (phone and face to face).

17.4 DIRECT MEASUREMENT

Many companies need to regularly measure the position of their brands in the market place. Manufacturers of fast moving consumer goods (fmcg) such as chocolate bars or soap powder, obtain these measures through retail audits.

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In a retail audit, a representative sample of retail outlets is taken (including different types and sizes of outlet with the final data broken down between these classifications) and the sales are established for relevant brands and products. The data from the outlets is then aggregated and grossed up to represent the whole market.

Audits were first used in the 1930s and were one of the first major methods of market research data collection giving rise to such large companies as AGB (Audits of Great Britain) and Nielsen. In the first instance the audits were carried out by staff visiting the outlets where a count was made of the stock levels of products at two points in time. Then the difference plus deliveries (taken from delivery notes etc) was considered to be the sales over the period. The counting was labour intensive and expensive.

In the 1990s stock counts in retail auditing were replaced by EPOS (electronic point of sale) data. This allows data to be measured through electronic scanning of bar codes at the tills for each and every product bought and thereby providing information to tightly control stock levels, purchasing, shelf space etc as well as facilitating efficient check-outs. EPOS data offers increased accuracy (*e.g.*, no more lost delivery notes), more frequent measurement (hourly if need be) and many other benefits (*e.g.*, cross relating items purchased).

Much retail auditing is, therefore, now based on EPOS data with the major research companies involved securing access to retailers' own databases. Retail audits, whilst not conceptually complex, are a major organizational undertaking, complicated in some respects by EPOS. They are consequently carried out by only a few specialised companies. The costs involved are high and the data is largely syndicated. Retail audits are also on-going and, therefore, continuous as opposed to *ad hoc* research. Another method of direct measurement is TV audience research. Today the most common method of measuring television viewing is through "peoplemeters" which are electronic devices that sit on a television and feed a data storage unit, also in the household, which in turn is linked to the telephone so it can transmit viewing data back to the market research company's central computer. In any one television region (or even a small country) a panel of around 400 households is signed up to have peoplemeters installed on their TVs. In the homes that are equipped with the peoplemeters, the viewers use remote control units to indicate who is watching the television and what they think of the programmes. Another method of direct measurement is mystery shopping.

Service levels in retail outlets can be measured by interviewing customers. However, customer's recall may lapse or they may forget to mention small and important points of detail. An alternative is to observe and record what actually happens in the outlets. This is carried out by research

staff posing as customers. The Market Research Society Code of Ethics offers guidance on this method, recommending that only the outlets of the sponsoring client can be mystery shopped. In other words, Ford could mystery shop its own car dealers but not those of any other car franchise as this would be knowingly wasting their time (since there is never any intention that the mystery shopper will buy a car, they simply pretend to do so). Arguably this technique, which relies on researcher observation, is less "direct" than retail audits through EPOS which deals in objective data collection, without the interviewer's opinions.

Other sorts of observations are also used occasionally in market research – *e.g.*, traffic counts and in poster research.

17.5 SELF-COMPLETION SURVEYS

Self-completion surveys have traditionally been carried out by posting questionnaires to the target audience coupled with a strong incentive to persuade people to reply. As the penetration of internet access continues to increase across populations, researchers are making more use of web based surveys in which the respondent can complete the questionnaire on-line. This brings considerable advantages because routing and skip questions are handled automatically and the respondent can type in comments (with no problems of hard to read handwriting). The replies to the questionnaires are fed straight into the data analysis pot, eliminating data entry errors and removing a substantial cost. Self-completion surveys work best with groups of people who have a strong relationship with the product or service that is being researched. They are used, for example, amongst new house buyers who have a strong interest in sitting down for half an hour to twenty minutes to complete a questionnaire.

They would not work so well if they sought information on a subject such as toilet rolls. If the interest level is low, researchers attempt to boost replies by offering prize draws or financial incentives. Whether the self-completion questionnaires are sent out via the post or on-line, they suffer from unpredictable and usually low levels of response. It is not unusual for only 10% of a population to reply. These respondents could represent an atypical group of complainers or enthusiasts. It would need an expensive survey of these non-respondents by telephone or face to face interview (as we know that mailed questionnaires do not get a response) and budgets do not allow for this check back.

Response rates of 30% and higher from a single mailing are quite common when the subject is about a new car or on behalf of a company with some apparent authority such as British Gas or one of the water

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companies. In contrast, respondents receiving a questionnaire through the post enquiring about the type of pen they use would most probably yield a low response (less than 5 per cent is likely), because the subject is not compelling. It is difficult therefore to know if the results from a mailed questionnaire are representative of the whole population. Despite this limitation, nearly 7 million self-completion paper or web interviews are sent in for analysis in the UK each year, and this is equal to the number of face to face and telephone interviews taken together.

Postal surveys depend on suitable databases containing the correct names and addresses of respondents. If lists are out-of-date, contain inaccuracies in spelling of the names and addresses, or are made up of unsuitable respondents, the questionnaires will fall on stony ground and the response rates will be low. Returned and unopened envelopes will indicate that there are problems with the mailing list and could indicate the need for a check back to find out the true reply rate amongst valid respondents. Whilst check backs are useful, they substantially add to the cost and complexity of the study. The shorter the questionnaire, the more likely it will be completed and returned. However, 40 questions carefully laid out on two sides of A3 (folded to make four pages of A4) can look less than 20 questions spread over six single pages. In general, the number of questions does not influence responses as much as the interest factor and there are many example of questionnaires the size of booklets obtaining high response rates.

Respondents want to feel that their efforts in completing the questionnaire are valued. It is important, therefore, that the cover letter gives purpose to the study and convinces recipients that their replies really matter. Legitimacy influences response rates in all types of surveys and it is especially important in postal studies. If possible a benefit should be mentioned such as the promise of better products, improved service or a gift (or money). Postal surveys which offer anonymity have a higher response than those where respondents must identify themselves. Much depends on the circumstances. In many business-to-business surveys, respondents may be happy to be identified as long as they are confident that the research is bone fide and not a surreptitious attempt at selling.

Response rates can be boosted by a second mailing. If the first mailing yields a 25 per cent response, a second one could draw a further 10-15 per cent. The researcher needs, therefore, to consider whether to send a second mailing to the non-respondents and accept the fall off in response rate or to draw up an extension to the first sample and achieve a 25 per cent response from a fresh list. Much depends on the importance of winning a high overall response rate. If a high rate from the given sample is critical, then a second mailing is justified and should take place about two weeks after the first.

Time could, of course, be a prohibiting factor as the second mailing, together with the waiting time for the responses to come in, will add at least a further four weeks to the survey. It is preferable, though not essential, that the second mailing misses out those who have already returned a questionnaire. Eliminating the initial replies requires respondents to have identified themselves. Also, it is laborious removing respondents from the list if there are hundreds of names and addresses on the sample frame.

There are times of the year when a mailing will yield a poor response. The August holiday month and Christmas are obvious periods to avoid.

17.6 INTERVIEWING

Most of the information required in research projects can only be obtained through an administered interview with respondents. The choice between these methods is dependent on a trade-off between:

- what is practical with the target audience (do we have telephone numbers of the audience, do we need to show them anything?)
- costs and budgets (how much money do we have to spend on the research?)
- the timescale (when is the information required?).

Face to face interviews are used in both consumer and business to business research (for cost reasons, rather less in the latter) and may be carried out in "the street" – any public place – in respondents' homes, at place of work (particularly relevant for business to business research) or special venues – *e.g.,* where products can be shown as part of the interview (often referred to as "hall" tests). Face to face interviews are still a favoured means of collecting primary information in many surveys for good reasons:

Better explanations. In face to face interviews respondents have more time to consider their answers and the interviewer can gain a deeper understanding of the validity of a response. Sometimes interviewers need to show advertisements, logos, headlines or samples and this is plainly suited to personal situations.

Depth. It is easier to maintain the interest of respondents for a longer period of time in face to face interviews. Being face-to-face with respondents gives the interviewer more control and refusals to answer questions are less likely than over the telephone. Concern about confidentiality can be more readily satisfied than with an 'anonymous' person at the end of a phone. An interviewer on the doorstep or in the High Street can show an identity card.

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Greater accuracy. In a face to face interview respondents can look up information and products can be examined. If the interview is at a business, files of information can be referred to, or phone calls made to colleagues to confirm a point. The interviewer may be able to make a visual check to ensure that the answers are correct.

Product placements. Products placements can be sent through the post but it is usually better for them to be delivered by hand by the interviewer. Face-to-face contact with respondents permits a more thorough briefing on how to use the product. Pre-test questions can be asked, and arrangements can be made for the follow-up.

Against the advantages of face to face interviewing, there are a number of disadvantages:

Organisation. Face to face interviews are difficult to organise. If the interviews are country-wide, a national field force is required. The subject may be complex and demand a personal briefing which is expensive to arrange when interviewers are scattered geographically. Monitoring and controlling face to face interviews is more difficult than with telephone interviews. Face to face interviews need to have a supervisor in attendance for part of the time and checkbacks, by visit or post, must be organised. For the most part, however, the interviewer is working in isolation and the quality of the work has a considerable dependency on the conscientiousness of the individual.

Cost. The cost of personal consumer interviews varies considerably between those carried out in the street and the home. In-home interviews based on pre-selected addresses are, in turn, more expensive than those to a quota. In general, street interviews cost the same to carry out as telephone interviews. In some cases, street interviews offer advantages over the telephone by allowing show cards and visuals, while at other times the facility to random sample and achieve complete geographical coverage could swing the benefits in favour of telephone interviewing.

Time. In-home interviews are time consuming because of the travel time between respondents (this is not the case, of course, when the interviews are carried out in the street). The prior commitments of the field force and the delays caused by questionnaires being mailed out and returned, normally mean that at least a two-week period is necessary for organising a face to face interviewing project. A month is more reasonable. A programme of business-to-business interviews may have less face to face interviews than a consumer study but they too take an inordinate time to organise as the researchers struggle to set up interviews in the diaries of busy managers. The use of telephone research has grown rapidly so that in the year 2000 it was level pegging with face to face interviewing. Telephone interviewing is widely used in business to business research because

virtually all business respondents are contactable by phone and are used to being contacted in this way.

The greatest advantages of the telephone against personal interviewing is its speed and low cost. These are most evident in business-to-business market research. In favourable circumstances, perhaps five to six 20 minute interviews with managers in industry can be completed in a day over the telephone. In the same time only 1 or 2 interviews can be achieved face-to-face.

In consumer research the time and cost advantages of telephone interviewing are not quite so clear-cut. If the comparison is between street and telephone interviewing then there is probably little difference in either time or cost – in fact, street interviewing might even be cheaper. However, when compared with in-home interviews, the telephone is both quicker and cheaper since there is no time wasted in travel between interview points.

Concerns about doorstep security also favour the telephone as an interviewing medium. Householders do not have to answer the door to a stranger while interviewers are saved the risk of entering dubious neighbourhoods. Not surprisingly, telephone interviewing is a far more popular data collection method in the US than in Europe.

We have seen that there are a number of strong arguments in favour of telephone interviews, with particularly important benefits in cost and speed. However, there are sometimes good reasons for not using telephone interviews. Visuals are difficult to use. If something has to be shown, then the telephone is not the right approach.

Nor is the telephone suited when it is necessary to ask respondents to consider a number of pre-determined factors in order to test their views. More than five or six factors on a list are difficult to hold in the mind and so it is usual to show these on a card in order that they can be given fair consideration. The phone also invites an instant response and so does not encourage a fully considered and reflective answer. The answer is likely to be spontaneous and "off the top". Despite these limitations, the advantages of the telephone in data collection are considerable and the method is likely to continue to make inroads against street and face-to-face interviews.

17.7 THE ROLE OF THE INTERVIEWER IN QUANTITATIVE RESEARCH

The quality of data is heavily influenced by the standards of the interviewing fieldforce. In many surveys the variability and error in the data can be as much from bias in interviewing as from sampling error. These influences

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could be the result of not following the questionnaire wording or mis-recording responses. Most questionnaires used in quantitative research involve a predominance of pre-coded or closed questions and the layout of the response codes can help to minimise problems of mis-recording. More problematical, however, is the recording of open ended questions (*e.g.*,– why did you buy this product?). Interviewers are instructed to record such responses "verbatim" but in practice they summarise the comment and there is no way of knowing whether what is recorded reasonably reflects the response given. Even the recording of apparently simple responses such as numbers can lead to problems; zeros missed off or decimal places moved. Minimising such problems is partly a matter of interviewer training and briefing although reducing the use of openended questions in a quantitative survey may be the more radical and sure solution.

Good project management attempts to limit the effect of these problems as well as keep research in tight financial and timescale control. In a large project there could be 20 to 30 interviewers carrying out the interviews and this reduces the chances of one interviewer's bad practice significantly distorting the overall data.

Comparisons of performance between the interviewers will quickly identify possible problems and more detailed checks can be made. Much can be done to head off problems in interviewing by good training and briefings. The interviewer briefing is the occasion when interviewers are told who to contact and how to administer the interview. Undoubtedly personal briefings are to be preferred but it can be very expensive assembling an interviewing force that is scattered around the country. Normally well written briefing notes and sometimes taped briefings from the supervisors, suffice (briefing telephone interviewers is much easier as they are based in one location).

A significant bias that occurs in market research surveys arises from non-response. Over time, average response rates in market research have fallen and can be as low as 50%. If non-response was random, the problem would be of little consequence but it is not. Typically certain groups of potential respondents are less likely to respond than others – some neighbourhoods, for example, are now effectively no-go areas for face to face interviewing – and although weighting methods can partly compensate, the problem leads to quite significant levels of data distortion.

Sometimes it is difficult to ascertain the true non-response rate. For example in street interviews we cannot be certain how many people take avoiding action by passing the interviewer on the opposite side of the road.

The interviewer can play an important role in ensuring that high levels of cooperation are achieved. Factors that affect cooperation are:

- the perceived legitimacy of the interview
- the benefits to the respondent of taking part
- the approach of the interviewer in being able to communicate an interest in the subject.

17.8 PRINCIPLES OF RESEARCH DESIGN

Research designs can be classified into three broad categories, according to the amount of control the researcher maintains over the conduct of the research study. The three general categories are experimental research, field research, and observational research. Each of these categories varies on two important characteristics: internal validity and external validity.

17.9 RESEARCH DESIGN AND INTERNAL AND EXTERNAL VALIDITY

The terms internal and external validity must not be confused with measurement validity. Instead, these terms refer to the overall validity of a research study not to the measurement of the concepts used in the research.

Internal validity describes the ability of the research design to unambiguously test the research hypothesis. An internally valid design accounts for all factors, including those which are not directly specified in the theory being tested, which might affect the outcome of hypothesis tests. It insures that these factors do not confound the results.

Since it is impossible for any single research design to account for all such potentially confounding factors, we must speak of better or worse internal validity, not of perfect validity. But designs with higher internal validity will, for example, control or account for the actions of variables which might produce spurious relationships. They will use representative samples, so that subject or group differences will not be confused with the action of independent variables. In general, they will eliminate more of the alternative explanations of research findings (those which contradict the theory being tested) than will experimental designs with weak internal validity. External validity refers to the generalizability of the research, that is, the ability of its conclusions to be validly extended from the specific environment in which the research study is conducted to similar "real world" situations. The results of an externally valid study can be used to predict the behaviour of the theoretical constructs outside the laboratory or data center. Externally valid research with generalizable

conclusions is obviously more valuable than externally invalid research, whose conclusions are restricted to specific research settings.

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17.10 EXPERIMENTAL RESEARCH

The first category that we will examine is experimental research. In this kind of research study, the researcher controls the setting in which the research is conducted (the "laboratory") and he also manipulates the levels of the independent variable or variables, and follows this by observation of the corresponding changes in the dependent variable or variables. By controlling the surroundings in which the research is conducted, the researcher can eliminate some environmental conditions that might confuse the results. This control improves the internal validity of the research study. For example, a researcher studying the effects of music on children's learning from educational videotapes would probably want to show the tapes to the experimental subjects in a quiet room. Furthermore, it is likely that she will use the same, or very similar, rooms, equipped with similar furniture, lighting, and potentially distracting items like books and toys. By insuring that all subjects see the tapes under the same conditions, she can eliminate the possibility that learning (or lack of learning) is due to factors other than the experimental videotapes. If the same tapes were shown in uncontrolled settings like individual homes, learning for some children might be disrupted by distracting brothers and sisters, the presence of toys, etc. The effects that these environmental factors have on learning will obscure the effects that are the result of the use of music. These are the effects that the researcher really wants to observe. By directly manipulating the levels of the independent variables in an experimental design, the researcher can meet all the conditions for establishing a relationship between variables. This manipulative control will also improve the internal validity of the study, as it allows the experimenter to predetermine the time sequence of events, and to insure that the independent variable takes on a wide enough range of values (*i.e.*, has enough variance) that an unambiguous test of the hypothesized relationships can be made.

Suppose the researcher studying children's learning creates two videotapes, one using music at critical points in the presentation, and a second which does not use music, but is otherwise identical. She has manipulated the nominal independent variable (presence or absence of music), while controlling for other possibly confounding factors. By using the same tape for both groups, with only the music track modified, she has insured that the effects of other content features of the tapes, like the narrator, the script, or the illustrative visuals, are constant for viewers of both tapes. These factors will then produce identical effects on viewers of

either version of the tape, so the effects of these features will not be confused with the effects of music.

The researcher then selects two different groups of children, using appropriate random sampling techniques, and shows one of the tapes to each group. Several days later, she returns to measure the children's recall of the material on the tape. Using some variant on the basic statistical methods outlined in the previous chapters, she tests a directional comparative hypothesis which states that "Material presented with a musical background will be recalled at higher levels than will the same material presented without music".

In this simple experiment, the researcher has met the basic requirements for testing a hypothesis:

1. The independent variable is present in at least two levels (presence and absence of music).
2. The two groups can be treated as equivalent within the limits of sampling error, since their members were chosen randomly. This eliminates any systematic effect from variables which were not measured as part of the research, like the effect of differing academic abilities or attention spans for different children. Since the groups are randomly chosen, each should contain a similar number of high ability and low ability children, children with long and with short attention spans, etc.
3. This allows the researcher to conclude that any difference seen in the dependent variable for the two groups must have been produced by the different levels of the independent variable. This establishes covariance.
4. Since the dependent variable is observed after the presentation of the independent variable, temporal priority between the cause variable (the independent variable) and the effect variable (the dependent variable) is established by the researcher.
5. Since the unit of analysis is the individual child, the requirement for spatial contiguity is satisfied.
6. If the researcher has provided a good theoretical linkage which relates the presence/absence of music to recall, the final condition for causality, necessary connection is established.

The control that an experimental study affords a researcher helps to establish strong evidence for causal connections between the independent and dependent variables. But it can also cause some problems in generalizing the results of the research to the outside world. The very strong control which improves the internal validity of the experiment can sometimes damage its external validity.

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Suppose the experiment described above shows that children recall more of the material from the videotape that used music. Most of the factors that could produce a spurious relationship between music use and recall are controlled by the experiment. The program content is constant in both groups, the groups are equivalent because of random assignment, the level of distraction from the environment is constant for both groups, etc. This is an experiment that is strong on internal validity. It is therefore very tempting to generalize its results to all educational videotapes for children, and to prescribe the use of music to enhance learning. Unfortunately, this experiment happens to be somewhat weak in external validity, so such a prescription may not be warranted. The conditions under which the children actually watch television are very different from the experimental conditions. For example, children often have low levels of attention to television when they are viewing in their homes. In the experimental setting, the attention level may have been much higher, due to the experimental instructions given by a high-authority figure (the researcher says "please watch this tape"), or by the lack of familiar distractions like favorite toys, siblings, etc. As a result, learning from tapes which use music may be very similar to those which do not use it, if overall attention levels are low—that is, not much will be recalled from either kind of tape. If this is the case, adding music to educational tapes will be a waste of money, even though, under the right conditions (like those in the experimental setting), the researcher can show an positive effect of music.

The experiment also uses the tape of a single educational presentation. While the conclusions about the use of music may be correct for this presentation (and probably are, because of the high internal validity of the experiment), the results may not generalize to other teachers, or other topics. Again, the control that can be exerted over the experimental material by making sure it is identical in all experimental conditions carries the cost of limiting the external validity of the conclusions. The issue here is one of the costs and benefits of controlled observation. A good experimental design will control for potentially confounding factors, whether they are explicitly identified or not. The researcher in the videotape experiment does not have to define all the possible variables that might affect recall (such as attention, distraction, the inherent appeal of the material, etc.), because she can be assured that they are all present in equal amounts in both experimental groups. Since they are, they can't bias the results.

But these variables do affect recall in realistic situations. The control that experimental designs impose over these outside variables may actually obscure the realistic operation of the system of variables in the real world.

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17.11 FIELD RESEARCH

The second major category of research is field research. In this kind of research setting, the researcher retains control over the independent variables, but conducts the research in a natural setting, without any control over environmental influences.

For instance, suppose that a researcher is interested in the ability of a communication training program to reduce communication anxiety in persons who must give speeches or public presentations. The researcher, who is employed by a large corporation, creates two randomly selected groups of subjects by drawing samples from a sampling frame which is a list of all employees of the organization. Each person in both groups is asked to fill out a questionnaire. The questionnaire contains the information for operationalizing the dependent variable "communication anxiety". It asks for self-reports of the person's apprehension immediately before giving his or her most recent presentation and the discomfort he or she felt while speaking at that time. The independent variable, "training program", is operationalized by creating a program of study and practice in public speaking and use of audio-visual materials. This variable then has two levels (presence or absence of training), and each of these levels is applied to one of the groups. That is, one group receives the training program, while the other does not. This latter group is often called a *control group*. The directional comparative hypothesis being tested is this: "Those who receive Communication Training will have reduced levels of communication anxiety compared to those who did not receive Communication Training". If the mean anxiety levels for the group which received training is significantly lower than the mean for the control group, the researcher will conclude that the hypothesis was supported.

The researcher waits several months, and then asks each group to again fill out the same questionnaire. He is presuming that both groups will have made some public presentations during the interval. If the training program worked, those in the group which receive the training should have felt more comfortable in speaking than those in the control group.

Note the difference between this kind of research setting and an experimental setting. In field research, the conditions under which the effects of the independent variable are observed are not under the researcher's control. Although the researcher still exerts control over the independent variable (by creating the training program and controlling who is exposed to it), he does not control the setting in which the independent variable exerts an effect on the dependent variable. Different subjects may have had very different public communication experiences.

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One may have had to give a large number of presentations during the months between the two administrations of the questionnaire, while another may have had few or no opportunities to put the training into practice; some persons may have had to give presentations to large audiences, while others spoke only to small groups, etc. Because of this variation, the researcher must expect that some variation in the dependent variable is due to uncontrolled factors in the field research setting. These variations should not bias the results, however, as the randomly selected groups should both have equivalent numbers of persons with frequent and infrequent presentations, large audience and small audience experiences, etc. But the strength of covariance between the independent and dependent variables will be reduced by the random error that is introduced, and this will make it harder to confidently state that the condition of covariance has been met, *i.e.*, to obtain statistically significant relationships between the independent and dependent variables. This is because there are variables other than the independent variable acting on the dependent variable, and their effects may mask the effect of the independent variable.

Given this penalty, why would a researcher ever choose to do field research, rather than experimental research? The basic reason has to do with the generalizability or external validity of the research. Field research, because it occurs under natural conditions, is often more informative than pure experimental research. The researcher in our example could have used an experimental design, by requiring that all persons in each of the groups give a presentation on the same subject, to the same audience, in the same room. This control over the research setting would remove the random error due to differences in subjects' public communication experiences, and would enhance the researcher's ability to answer the relatively narrow question posed by the research hypothesis. As we saw in the previous section, this kind of control improves the internal validity of the research. But the researcher probably wants to know more than simply whether the hypothesis is supported or not; he also wants to know if the effect which he has hypothesized works under realistic conditions—those conditions outside the rigid control of the experimental laboratory. For this reason, he chose to trade some of the research power of an experiment for the more general test of the hypothesis in the setting to which the results are eventually to be generalized. In the example, the researcher might find that the training program significantly reduces communication anxiety in the experimental setting. But the experiment only tests the effect of communicator training for a single kind of presentation, to a single kind of audience. To generalize the results of the experiment to all kinds of presentations, with all kinds and sizes of audiences, requires some strong assumptions: (1) all presentations are equivalent to the one required in the experimental procedure; and (2) that all audiences, regardless of

size or makeup, are equivalent. The researcher may be quite reluctant to make these assumptions.

Of course, the researcher could modify the experimental design to add different conditions which better represent the complexities of the real setting. He might require the subjects to give different kinds of presentations, to different sizes of audiences, speak in large and small halls and conference rooms, etc. But the research design would then be much more complex, and possibly too expensive to complete. And there would still be no assurance that the researcher had adequately reproduced all the conditions that a large number of public speakers were likely to encounter in the "real world".

The researcher can regain some of the lost sensitivity to the effect of the independent variable in a field experiment by measuring the "outside" variables and using statistical control. The researcher still manipulates the independent variable, but uses statistical techniques to isolate or control the effects of measured "outside" variables, and that removes them from the category of unknown error.

17.12 OBSERVATIONAL RESEARCH

There are many instances in which the researcher can control neither the independent variable nor the research setting. In this situation, the researcher is limited to measuring, rather than manipulating the independent variable. Like field research, observational research designs exert no control over the setting in which the hypothetical process occurs.

In one class of observational research called retrospective research, this lack of control occurs because the exploration is being carried out sometime after the actual process being researched has actually occurred. For example, a researcher interested in family communication patterns might ask a group of adults to describe their recollections of communications with their parents during their childhood, and then relate the types of communication to the adults' current achievements, relationships with spouses and children, etc. In this case, the independent variable (types of parent child communications) cannot be manipulated, as the communication occurred many years in the past. And obviously the setting for this process will have been different for each subject, so no control over it can be exerted years later. But it is still quite possible to find covariance between the different types of family communication which took place in the past, and the current amount of achievement, satisfaction with current relationships, etc.

Observational research may also be required when it is impossible to

manipulate the independent variable, or when it would be unethical to do so. A researcher studying the impact of newspaper editorial endorsements on voter behaviour will not be able to systematically manipulate the endorsements given by newspapers, and even if she could, would probably have ethical qualms about interfering with the political process (even for such a noble purpose as communication research). A third reason for conducting observational research involves the use of secondary data. This is data collected by some agency other than the researcher, possibly for some purpose other than communication research. For example, a researcher might use census data which includes information about the number of telephones and television sets and radios in different countries to study the effect of the availability of communication technology on national development. Obviously the researcher can manipulate neither the amount of communication technology (unless he's fabulously wealthy) nor the Gross National Product of countries. He must use an observational design.

SUMMARY

- Self completion surveys have traditionally been carried out by posting questionnaires to the target audience coupled with a strong incentive to persuade people to reply.
- Face to face interviews are used in both consumer and business to business research (for cost reasons, rather less in the latter) and may be carried out in "the street" – any public place – in respondents' homes, at place of work (particularly relevant for business to business research) or special venues – e.g., where products can be shown as part of the interview (often referred to as "hall" tests).
- Research designs can be classified into three broad categories, according to the amount of control the researcher maintains over the conduct of the research study. The three general categories are experimental research, field research, and observational research.
- In one class of observational research called retrospective research, this lack of control occurs because the exploration is being carried out sometime after the actual process being researched has actually occurred.

REVIEW QUESTIONS

1. What do you understand by quantitatives research?
2. What are the major quantitative research techniques?

3. Write short notes on
   (a) direct measurement
   (b) self-completion
   (c) interviewing (phone and face to face).
4. What do you understand by field research?
5. What do you mean by observational research?

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UNIT V

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CHAPTER 18 IMPLEMENTING MARKETING PLANS

★ STRUCTURE ★

18.0 LEARNING OBJECTIVES

After going through this chapter, you will be to:

- describe how to implement marketing plan.
- describe the issues of internal marketing implementation.
- understand the implement action skills.
- discuss the concept of total quality management.
- define system, hiring, training and operations.

18.1 INTRODUCTION

In this chapter we move to a different stage of our effective marketing management model—implementation. Members of a target market do not see and react to a marketing strategy, they see and react to the implementation of that strategy. A brilliant strategy with disastrous implementation does not turn out well. On the other hand, brilliant implementation of a fair strategy will usually generate very good results.

Good implementation of a good strategy may generate great results. In this chapter the major issues involved in the implementation of marketing strategies will be explored, including internal marketing, total quality management, and implementing the marketing mix.

18.2 INTERNAL MARKETING IMPLEMENTATION ISSUES

Chronologically, strategy development precedes implementation. Conceptually, both should occur simultaneously. That is, strategy, when it is conceived should be thought through to the point of implementation. Otherwise, strategic plans and goals might be impractical or at least inefficient, requiring far more resources than might have been the case if some thought had been given to implementation issues when the strategy was devised. One of the most important considerations when devising a marketing strategy is to foster ownership of the plan. Several means can be used by management to foster ownership of a marketing plan:

1. **Detailed action plans**—One effective way of getting key people to own the strategy is to develop a detailed plan for implementing the strategy. Such a plan sets responsibilities for specific actions for individuals, and includes a measure and time frame of the action. For example, a strategy to add a direct sales program to a channel that previously used only retailers would specify a number of actions and responsibilities. One action might be for the company to secure a list of 6,000 current customers' names and addresses from the in-home database within the next three days. By specifying what actions specific individuals will be accountable for, management can ensure that plan ownership has been achieved. Those activities required for the plan's successful implementation will be assigned and will not go wanting because no one took responsibility for them.

2. **Champion and ownership team**—Champions are individuals who see their overall responsibility as the successful implementation of the marketing strategy and marketing plan. Better yet is a team of people with different expertise who can make sure the assigned responsibilities are fulfilled within their spheres.

3. **Compensation**—Another proven means of getting ownership of a plan is to tie people's compensation to the performance of those actions involved in the plan's implementation. These performance measures can be results oriented for both internal revenue/profit measures and external market numbers such as

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product trial rate, market share, brand awareness, percent of stores stocking the brand, low out-of stock occasions, etc.

4. **Management involvement**—Top managers must sustain a commitment to the plan and review its implementation progress periodically. Other people involved in the plan's implementation will look to management for cues on the interest and importance placed in its implementation. Obviously, marketing managers must do a good job of "internal marketing" if marketing plans are to be translated into successful implementation activities.

Internal marketing refers to "the managerial actions necessary to make all members of the marketing organization understand and accept their respective roles in implementing marketing strategy." All members" means that everyone from the production line workers to the president must understand that what they do impacts the delivery of customer satisfaction via the implementation of the planned strategy. This requires everyone to understand and be committed to the underlying tenets of the marketing concept, which may mean that marketers devote time to training and sensitizing employees into a customer philosophy. Thus, internal marketing necessitates segmenting the groups of people within the organization; analyzing their needs, motives, objectives and level of understanding of marketing philosophy; devising specific training programs for each segment; and then carrying out the training and motivating and measuring the success of these programs.

18.3 IMPLEMENTATION SKILLS

To be successful, implementation skills must be developed within an organization. From an implementation perspective, an organization must translate strategy into a series of assigned activities in such a way that everyone can see their job as a set of value-added actions. These actions should be seen as contributive to the organization because they ultimately result in greater value being delivered to the customer. Bonoma suggests four types of skills to be utilized in implementation activities:

Allocating skills are used to assign resources (*e.g.*, money, effort, personnel) to the programs, functions, and policies needed to put the strategy into action. For example, allocating funds for special-event marketing programs or setting a policy of when to voluntarily recall a defective product are issues that require managers to exhibit allocating skills.

Monitoring skills are used to evaluate the results of marketing activities. Chapter 8 discusses how these skills can be used to determine the effectiveness of the marketing program.

Organizing skills are used to develop the structures and coordination mechanisms needed to put marketing plans to work. Understanding informal dynamics as well as formal organization structure is needed here.

Interacting skills are used to achieve goals by influencing the behaviour of others. Motivation of people internal as well as external to the company—marketing research firms, advertising agencies, dealers, wholesalers, brokers, etc., is a necessary prerequisite to fulfilling marketing objectives.

Table 18.1 shows how Eli Lilly might have used these four skills to implement the strategy and objectives formulated at the corporate, SBU, and product/market levels of planning. In this example there is a consistency between every level and every action taken with respect to the various manifestations of strategy and tactics. Contemporary marketing managers, perhaps unlike their predecessors, would find it important to tell the sales force and external agents why these assignments were being made and not just what and how much to do.

Table 18.1: An Example of Objectives and Strategy Implementation at Eli Lilly

Corporate level
Objective: Maintain product leadership in each market we enter.
Strategy: Product leadership values discipline.

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Strategic business unit level
Objective: Maintain a market share of the nonnarcotic analgesic market of 80 percent+ for the next five years
Strategy: Introduce new products to take place of high-revenue-producing products when they lose patent protection.

↓

Product market level
Objective: Call on physicians to detail Darvocet as a more advanced analgesic than Darvon with more efficacy and fewer side effects; call on pharmacists to leave order blanks for Darvon at sale prices.
Strategy: Product line extension and aggressive pricing.

Allocating	Monitoring	Organizing	Interacting
Assigning to sales force the targeted number and types of MDs and pharmacists to call on during a specified period of time. Budgeting of funds to cover advertising, selling, direct mail, and other expenses.	Annual plan controls will monitor sales to make sure total sales objectives are achieved as well as percent of sales to old versus new product; sales calls to MDs and pharmacists to ensure calls are made, pricing to ensure that the correct price for old and new products are printed and that sale announcements are received by pharmacists at specified time Profitability controls will be used to monitor profitability by type of MDs, chain versus independent pharmacies, etc.	Ensuring that existing market organization structure aids in the execution of the specified strategy and tactics.	Motivating sales force to devote the effort necessary to make the number of calls needed to fulfill the strategic plan. Providing sales force with information and material needed to change MDs prescribing habits toward new products and obtain orders from pharmacies for both old and new products. Working with as agency in preparation of promotional materials.

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18.4 INTEGRATING A SOCIETAL MARKETING ORIENTATION THROUGHOUT THE ORGANIZATION

One of the key indicators of whether a true societal marketing orientation exists within a company is the degree to which its philosophical tenets are held by people outside the marketing function. It is critically important to inculcate everyone within the organization, as well as the external agencies with which the company works, into having customer orientation in the execution of their jobs. Often it is necessary to institute training sessions to explain why such an orientation is needed in the globally competitive markets in which the organization competes, as well as set forth the management expectations for achieving the goal of generating satisfied, loyal customers. Several books have been devoted to the subject of building a customer focus within an organization. Kotler illustrates the problems involved in integrating the efforts of key personnel when implementing a customer orientation.

The marketing executive of a major airline desires to increase the airline's market share by increasing customer satisfaction through providing better food, cleaner cabins, better trained cabin crews, and lower fares. Yet he has no authority in these areas. The catering department chooses food that keeps costs low; the maintenance department uses cleaning services that keep cleaning costs low; the personnel department employs people without regard to whether they are friendly; and the finance department controls fares. Since these departments generally take a cost or production point of view, the executive has difficulty achieving an integrated marketing approach.

Integrated marketing efforts require two things. First, there must be a coordination of efforts among the various marketing functions (sales force, product management, advertising, marketing research, and so on). Too often, the sales force is angry at product management for setting an unrealistic sales goal; or the advertising agency and brand management cannot agree on an appropriate ad message. Second, marketing efforts must be well coordinated between marketing and the other departments within the organization. In its job descriptions IBM provides an explanation of how that job impacts on the customer. IBM factory managers know that a clean and efficient production area can help sell a customer on a factory visit. IBM accountants understand that quick response to customer inquiries and accuracy in billing impact the image customers have of IBM.

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18.5 TOTAL QUALITY MANAGEMENT

Total quality management (TQM) and its related concept, continuous quality improvement (CQI), have gotten considerable attention as processes intended to deliver greater customer satisfaction. In both concepts the underlying motivation is to never be satisfied with "good enough." These tenets strive to identify and better execute those activities that can ultimately affect the ability of the company's product to generate satisfied customers. To a marketer, the "quality" of a product or service is defined as its ability to address a customer's needs.

Therefore, TQM involves evaluating how everyone in the organization can integrate their activities to address customer needs, and CQI involves evaluating how each activity can be measured and improved as a means of delivering need satisfaction.

Japanese producers have demonstrated these concepts in their success at building market share in a variety of business and consumer markets. By applying CQI and TQM they have shown that defective goods are not inevitable, continuous improvement is a mandatory goal, benchmarking the top-performing product in each product category is the starting place for such improvements, and that high quality ultimately costs less because of retaining customers and avoiding the expenses of correcting problems. Increasing quality involves not just avoiding the production of defective parts, however, it means improving the product's design so that it is capable of delivering satisfaction of customer needs.

Attention to TQM means focusing on activity-delivery schedules, customer service, billing accuracy, clear advertising strategies, etc., which can impact customer satisfaction. Taking the customer's point of view (a basic principle of the marketing concept) provides a perspective on how a company can continuously improve those implementation activities. For example, an airline reservation system might benchmark all the actions involved in making a reservation (*e.g.*, ease of recall of the "800" phone number, waiting time to talk with reservationist, message/music while waiting, knowledge/friendliness/helpfulness of reservationist, accuracy of taking reservation, etc.). The company can then set goals for how to continuously improve by always looking at the service from the customer's perspective. Defects are defective ways of addressing customer needs; improvements are better ways of satisfying customers. TQM goals will remain empty rhetoric, however, unless employees are empowered with the authority and responsibility to make customer-related decisions on the spot. Of course, those decisions must be consistent with the company's missions and customer service policies. Without such empowerment, customers may get frustrated with not having their needs immediately addressed.

Total quality management can benefit an organization in several ways. Financially, the company can expect lower operating costs, better returns on sales and investments, and a high-quality image which allows for premium pricing of goods and services. Other benefits include more rapid introduction of innovations, improved access to global markets, better retention of customers, better corporate image, and better employee morale.

18.6 ORGANIZING FOR IMPLEMENTATION

In the past two decades, management theorists have increasingly turned their attention to the interactions of people, systems, corporate cultures, and organizational structures as the key to understanding successful implementation of marketing strategy. Each of these components will be discussed as contributors to the successful implementation of marketing strategy.

People

Success within organizations does not come from everyone doing their best but rather from everyone doing their best at an assigned role to achieve an objective everyone understands and works to achieve. Managers need to gain the cooperation of involved parties to successfully achieve the implementation of marketing strategies. One study revealed that implementation was improved if the manager seeking change:

1. Is invested with the authority and seniority to oversee the process and evaluate performance.
2. Can demonstrate that changes are needed when performance falls below competitive benchmarks.
3. Can demonstrate the feasibility of altering practices to improve performance.
4. Establishes a task force to identify those implementation procedures that are inefficient or ineffective and suggests improvements.
5. Approves improved practices.
6. Monitors changes and demonstrates their value to the organization.
7. This approach is more effective than implementation by edict, persuasion, or more democratic/participative approaches.

By using this approach the manager unfreezes old beliefs, norms, attitudes, and behaviours and engages in supervision of the change process. An experienced manager can identify subordinates with superior ability to accomplish assigned tasks. These people usually receive the assignments

most demanding and critical to the implementation process. Taken to the extreme, however, this approach of "giving the busy person the job you need done well" may overburden even the most competent executive. Establishing systems that allow senior management to review assigned tasks and responsibilities for implementation of a program can ensure that bottlenecks are not created by making too many demands on talented executives.

Systems

A number of systems are relevant to the implementation of marketing strategies. Among these are accounting and budgeting systems, information systems, and measurement and reward systems. The system most directly involved in the implementation of marketing plans is the project planning system, which involves the scheduling of specific tasks for carrying out a project. Some of the better-known planned project implementation tools are the Program Evaluation Review Technique (PERT) and the Critical Path Method (CPM). Using CPM in the implementation of a marketing strategy requires completion of the following steps:

1. Specific activities and sequences must be identified in the marketing strategy.
2. Specific dates for completion and review points for progress are identified.
3. Specific individuals are assigned responsibility for completion of each task.

To achieve success with the use of CPM, marketing managers must foster ownership of the process by means previously outlined in this chapter (*i.e.,* detailed action plans, champion and ownership teams, compensation, and management involvement). Mapping out the activities, sequencing, and time required to execute the actions makes it possible to identify the "critical path"—the sequence that will take the longest time to complete. Although other paths will have some slack time and delays these will not add to the overall time of the project. Only increases in the time it takes to perform the activities in the critical path will add to the overall time for the project. This increase could result in missed deadlines such as key buying dates, shipment deadlines, trade show dates, etc. If everyone understands the critical nature of performing his or her task in the allotted time the process can become self-managing. Everyone is dependent on one another for performing their tasks in sequence in a timely fashion and "peer pressure" prevents procrastination.

A competitive advantage can be obtained in certain markets by reducing the time it takes to implement a marketing strategy. Firms such as Toyota, Hitachi, Honda, Sharp, Benetton, The Limited, FedEx, and

Domino's Pizza have gained a competitive advantage in their markets by greatly decreasing the time it takes to perform key implementation activities.

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Corporate Culture

Organizational or corporate culture is the pattern of role-related beliefs, values, and expectations that are shared by the members of an organization. It is a social control system with norms as behavioural guides. Rules and norms for behaviour within an organization are derived from these beliefs, values, and expectations. Norms of behaviour can actually exert more control over employee behaviour than a set of objectives or sanctions, which people can sometimes ignore, because norms are based on a commitment to shared values. For instance, if a Nordstrom employee goes to heroic lengths to satisfy a customer, such behaviour is seen as laudable by management and peers because it is consistent with the shared values of the organization's employees. Norms can also work to discourage sloppy work which would violate a set of shared values of excellence held by employees.

In their book, Built to Last, Collins and Porras describe "cult-like" cultures as one of the traits of visionary companies. By this they mean that visionary companies tend to be cultlike around core ideologies, and not around charismatic individuals. According to Collins and Porras, such companies translate their ideologies into tangible mechanisms aligned to send a consistent set of reinforcing signals by indoctrinating people, and imposing a tightness of fit to create a sense of belonging to something special. They suggest the following:

Hiring

- Tight screening processes during hiring and for the first few years
- Rigorous up-through-the-ranks policies—hiring young, promoting from within, and shaping an employee's mind-set from a young age

Training

- Developing internal "universities" and training centers
- Training programs that convey not only practical content but also teach ideological values, norms, history, and tradition
- On-the-job socialization with peers and immediate supervisors
- Using unique language and terminology (such as Disney's "cast members," and Motorola's "Motorolans")

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- Corporate songs, cheers, affirmations, or pledges that reinforce psychological commitment and a sense of belonging to a special, elite group

Reward

- Incentive and advancement criteria explicitly linked to corporate ideology "buy-in" mechanisms (financial, time investment)
- Celebrations that reinforce successes, belonging, and specialness
- Awards, contests, and public recognition that reward those who display great effort consistent with the ideology; severe tangible and visible penalties or termination for breaching the ideology

Operations

Plant and office layout that reinforces norms and ideals The successful nurturing of a corporate culture as embodied by such visionary companies results in a governance of behavior sometimes described as a "clan." A clan system, utilizing norms, exercises control over employees by socializing individuals into an informal social system that stresses teamwork rather than strict adherence to a set of bureaucratic rules and regulations. If a corporation's ideology, which has been indoctrinated into the employee (see previous list), stresses customer service as a shared value, then the clan system operates to reinforce that value. A clan culture can aid in improving the implementation of marketing strategies in several ways.

1. Goals and beliefs of the organization are shared by employees resulting in less goal conflict.
2. Clan members believe that their self-interest is best served through team cooperation, so they support one another.
3. Costs associated with formalized control methods are reduced because of the increase in commitment and reduction of politics and conflict associated with implementation activities.

SUMMARY

- Chronologically, strategy development precedes implementation. Conceptually, both should occur simultaneously.
- Chronologically, strategy development precedes implementation. Conceptually, both should occur simultaneously.
- Allocating skills are used to assign resources (*e.g.*, money, effort, personnel)

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to the programs, functions, and policies needed to put the strategy into action.

- One of the key indicators of whether a true societal marketing orientation exists within a company is the degree to which its philosophical tenets are held by people outside the marketing function.
- Total quality management (TQM) and its related concept, continuous quality improvement (CQI), have gotten considerable attention as processes intended to deliver greater customer satisfaction.
- A number of systems are relevant to the implementation of marketing strategies.

REVIEW QUESTIONS

1. What are internal marketing implementation issues?
2. How many types of skills are suggested by Bonoma? Explain.
3. What do you mean by total quality management?
4. What are the various ways of improving the implementation of marketing strategies?

CHAPTER 19 SALES FORECASTING

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★ STRUCTURE ★

19.0 LEARNING OBJECTIVES

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

- define planning.
- define the terms like short-term forecasts, medium-term forecasts and long-term forecasts.
- discuss about the levels of forecasting.
- describe the qualitative techniques.
- describe the quantitative techniques such as time series analysis and causal techniques.
- understand the use of computers software in sales forecasting.

19.1 INTRODUCTION

It is of utmost importance that the sales manager has some idea of what will happen in the future in order that plans can be made in advance. There would otherwise be no point in planning and all that has been said in the previous chapter would be negated. Many sales managers do not recognise that sales forecasting is their responsibility and leave such matters to accountants, who need the forecast in order that they can prepare budgets (dealt with later). Sales managers do

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not always see the immediate need for forecasting and feel that selling is a more urgent task. Indeed, the task of forecasting by the sales manager is often delayed until the last minute and a hastily put together estimation with no scientific base, little more than an educated guess, is the end result. The folly of such an attitude is examined during this chapter.

When one is in a producer's market—similar to the situations in the immediate post-war years, there is less of a need for forecasting as the market takes up all one's production; it is less a matter of selling and more a matter of allowing customers to purchase. However, in a buyer's market the situation is different.

The consequence of over-production is unsold stock which is costly to finance from working capital borrowings. The marginal money, *i.e.* the cost of borrowing the last unit of revenue, comes from the bank overdraft, which is at least base rate of borrowing plus 1 or 2 per cent. It can therefore be seen that over-production and holding stock can be costly. Conversely, under-production can be detrimental as sales opportunities might be missed due to long delivery times and business might pass to a competitor that can offer quicker delivery.

Thus, the purpose of the sales forecast is to plan ahead and go about achieving forecasted sales in what management considers to be the most effective manner. It is again emphasised that the sales manager is the person who should be responsible for this task. The accountant is not in a position to know whether the market is about to rise or fall; all that can be done is to extrapolate from previous sales, estimate the general trend and make a forecast based on this. The sales manager is the person who should know which way the market is moving, and it is an abrogation of responsibility if the task of sales forecasting is left to the accountant. In addition, the sales forecasting procedure must be taken seriously because from it stems business planning. If the forecast is flawed then business plans will also be incorrect.

19.2 PLANNING

It has been established that planning stems from the sales forecast and the purpose of planning is to allocate company resources in such a manner as to achieve these anticipated sales.

A company can forecast sales either by forecasting market sales (called **market forecasting**) and then determining what share of this will accrue to the company or by forecasting the company's sales directly. Techniques for doing this are dealt with later in the chapter. The point is that planners are only interested in forecasts when the forecast comes down to individual products in the company.

We now examine the applicability and usefulness of the short-, medium- and long-term forecasts in so far as company planners are concerned and look at each from individual company departmental viewpoints.

1. *Short-term forecasts*. These are usually for periods up to three months ahead and are really of use for tactical matters such as production planning. The general trend of sales is less important here than short-term fluctuations.

2. *Medium-term forecasts*. These have direct implications for planners. They are of most importance in the area of business budgeting, the starting point for which is the sales forecast. Thus, if the sales forecast is incorrect, then the entire budget is incorrect. If the forecast is over-optimistic then the company will have unsold stocks, which must be financed out of working capital. If the forecast is pessimistic then the firm may miss out on marketing opportunities because it is not geared up to produce the extra goods required by the market. More to the point is that when forecasting is left to accountants, they will tend to err on the conservative side and produce a forecast that is lower than the trend of sales, the implications of which have just been described. This serves to re-emphasise the point that sales forecasting is the responsibility of the sales manager. Such medium-term forecasts are normally for one year ahead.

3. *Long-term forecasts*. These are usually for periods of three years and upwards depending on the type of industry being considered. In industries such as computers three years is considered long-term, whereas for steel manufacture ten years is a typical long-term horizon. They are worked out from macro-environmental factors such as government policy, economic trends, etc. Such forecasts are needed mainly by financial accountants for long-term resource implications and are generally the concern of boards of directors. The board must decide what its policy is to be in establishing the levels of production needed to meet the forecasted demand; such decisions might involve the construction of a new factory and the training of a workforce. In addition to the functions already mentioned under each of the three types of forecast, other functions can be directly and indirectly affected in their planning considerations as a result of the sales forecast. Such functions include the following:

    1. It has been mentioned that production needs to know about sales forecasts so that they can arrange production planning. There will also need to be close and speedy liaison between production and sales to determine customer priorities in

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the short term. Production also needs long-term forecasts so that capital plant decisions can be made in order to meet anticipated sales.

2. Purchasing usually receives its cue to purchase from production via purchase requisitions or bills of material. However, in the case of strategic materials or long delivery items it is useful for purchasing to have some advance warning of likely impending material or component purchases in order that they can better plan their purchases. Such advance warning will also enable purchasing to purchase more effectively from a price and delivery viewpoint.

3. Human resource management is interested in the sales forecast from the staffing planning viewpoint.

4. It has already been mentioned that the financial and, more specifically, costing functions need the medium-term forecast to budget. Later in this chapter we discuss the role of the sales forecast in the sales budgetary procedure and how such a function operates. The long-term forecast is of value to financial accountants in that they can provide for long-range profit plans and income flows. They also need to make provision for capital items such as plant and machinery needed in order to replace old plant and machinery and to meet anticipated sales in the longer term.

5. Research and development (R&D) will need forecasts, although their needs will be more concerned with technological matters and not with actual projected sales figures. They will want to know the expected life of existing products and what likely changes will have to be made to their function and design in order to keep them competitive. Market research reports will be of use to R&D in that they will be able to design and develop products suited to the marketplace. Such a view reflects a marketing orientated approach to customer requirements. Here reports from salespeople in the field concerning both the company's and competitors' products will be useful in building up a general picture; such information will be collated and collected by the marketing research function.

6. Marketing needs the sales forecast so that sales strategies and promotional plans can be formulated in order to achieve the forecasted sales. Such plans and strategies might include the recruitment of additional sales personnel, remuneration plans, promotional expenditures and other matters.

A useful model, proposed by Hogarth, involved three interactive forecasting components: the person performing the task of forecasting, the actions that are a consequence of that person's judgements and the ultimate outcome of that judgement. This model is shown in Figure 19.1.

The individual making the forecast is represented in the scheme in terms of beliefs relating to the forecasting task. This judgement relates to acquiring and processing information and the output from this information. This is then translated into action, which is the sales forecast. The outcome refers to action that, along with external factors, then produces the final forecast. Feedback points are included as corrective measures that might be needed as the forecast becomes reality.

It can thus be seen that an accurate forecast is important because all functions base their plans on such forecasts. The short-, medium- and long-term forecasts all have relevance to some business function and, in the absence of reasonably accurate forecasting, where such plans are not based on a solid foundation, they will have to be modified later as sales turn out to be different from those predicted in the sales forecast.

Now that the purpose of sales forecasting has been established, together with its role as a precursor to all planning activity, we can look at the different types of forecasting technique, bearing in mind that such forecasting is the responsibility of the sales function. Such techniques are split into two types: qualitative techniques and quantitative techniques.

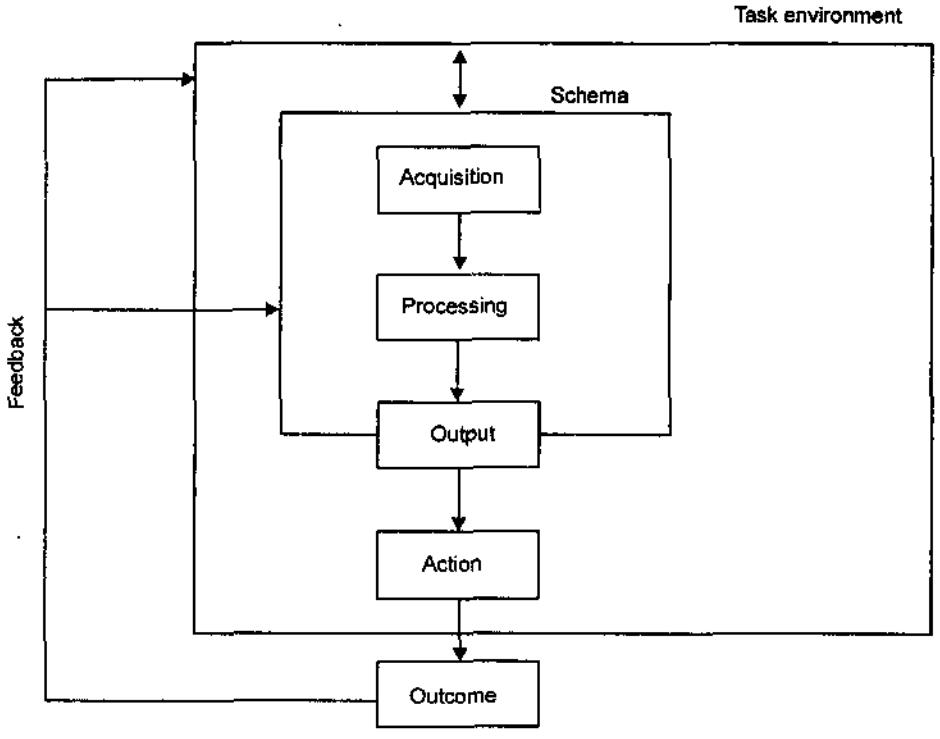

Figure 19.1 A conceptually based model of judgemental forecasting

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19.3 LEVELS OF FORECASTING

Forecasts can be produced for different horizons starting at an international level and ranging down to national levels, by industry and then by company levels until we reach individual product-by-product forecasts. The forecast is then broken down seasonally over the time span of the forecasting period and geographically right down to individual salesperson areas. These latter levels are of specific interest to sales management, for it is from here that the sales budgeting and remuneration systems stem, as we discuss later in the chapter.

However, companies do not generally have to produce international or national forecasts as this information is usually available from recognised international and national sources. The company forecaster finds such data useful for it is by using such information that product-by-product forecasts can be adjusted in the light of these macro-level predictions. It is also from these market forecasts that the company can determine what share it will be able to achieve through its selling and marketing efforts. These marketing efforts involve manipulating the marketing mix in order to plan how to achieve these forecasted sales (*e.g.*, a price reduction could well mean more sales will be possible). Once it reaches a detailed level of product by product forecasting, geographically split over a time period, it is then termed the 'sales forecast', which is more meaningful to sales management. Indeed, it could be said that this is the means through which sales management exercises control over the field salesforce and, as we describe later, this is the revenue-generating mechanism for the entire sales organisation of a company as seen in the example that follows.

19.4 QUALITATIVE TECHNIQUES

Qualitative forecasting techniques are sometimes referred to as judgemental or subjective techniques because they rely more on opinion and less on mathematics in their formulation.

Consumer/user survey method: This method involves asking customers about their likely purchases for the forecast period, sometimes referred to as the market research method. For industrial products, where there are fewer customers, such research is often carried out by the salesforce on a face-to-face basis. The only problem is that then you have to ascertain what proportion of their likely purchases will accrue to your company. Another problem is that customers (and salespeople) tend to be optimistic when making predictions for the future. Both of these problems can lead to the possibility of multiplied inaccuracies.

For consumer products it is not possible to canvass customers through the salesforce. The best method is to interview customers through a market research survey (probably coupled with other questions or through an omnibus survey where questions on a questionnaire are shared with other companies). Clearly, it will only be possible to interview a small sample of the total population and because of this the forecast will be less accurate. There is also a question of the type and number of questions one can ask on such a sample survey. It is better to canvass grades of opinion when embarking on such a study and these grades of opinion can reflect purchasing likelihoods. One can then go on to ask a question as to the likelihood of purchasing particular makes or brands which will, of course, include your own brand or model.

This method is of most value when there are a small number of users who are prepared to state their intentions with a reasonable degree of accuracy. It tends, therefore, to be limited to organisational buying. It is also a useful vehicle for collecting information of a technological nature which can be fed to one's own research and development function.

Panels of Executive Opinion

This is sometimes called the jury method, where specialists or experts are consulted who have knowledge of the industry being examined. Such people can come from inside the company and include marketing or financial personnel or, indeed, people who have a detailed knowledge of the industry. More often, the experts will come from outside the company and can include management consultants who operate within the particular industry. Sometimes external people can include customers who are in a position to advise from a buying company's viewpoint. The panel thus normally comprises a mixture of internal and external personnel. These experts come with a prepared forecast and must defend their stance in committee among the other experts. Their individual stances may be altered following such discussions. In the end, if disagreement results, mathematical aggregation may be necessary to arrive at a compromise.

This type of forecasting method is termed a 'top-down' method whereby a forecast is produced for the industry. The company then determines what its share will be of the overall forecast. Because the statistics have not been collected from basic market data (from the 'bottom-up') there is difficulty in allocating the forecast out among individual products and sales territories, and any such allocation will probably be arbitrary. Thus, the forecast represents aggregate opinion and is only useful when developing a general, rather than specific product-by-product forecast.

A variation of this method is termed 'prudent manager forecasting' whereby company personnel are asked to assume the position of purchasers

in customer companies. They must then look at company sales from a customer's viewpoint and 'prudently' evaluate sales, taking into consideration such factors as external economic conditions, competitive offerings in terms of design, quality, delivery and price and whatever other factors are considered relevant to making an evaluation of the company's sales.

Salesforce Composite

This method involves each salesperson making a product-by-product forecast for their particular sales territory. Thus, individual forecasts are built up to produce a company forecast; this is sometimes termed a 'grass-roots' approach. Each salesperson's forecast must be agreed with the manager, and divisional manager where appropriate, and eventually the sales manager agrees the final composite forecast. Such a method is a bottom-up approach. Where remuneration is linked to projected sales (through quotas or targets) there can be less cause for complaint because the forecast upon which remuneration is based has been produced by the salesforce itself.

A variation of the above method is termed 'detecting differences in figures' and here each stage in the hierarchy produces a set of figures before meeting. The salesperson produces figures, broken down by product and customer, and the area manager produces figures for the salesperson's territory. They then meet and must reconcile any differences in figures. The process proceeds with the area manager producing territory-by-territory figures and meeting with the regional manager who will have produced figures for the area, until it eventually reaches the sales manager and the entire forecast is ultimately agreed. The immediate problem with the salesforce composite method of forecasting is that when the forecast is used for future remuneration (through the establishment of sales quotas or targets) there might be a tendency for salespeople to produce a pessimistic forecast. This can be alleviated by linking selling expenses to the forecast as well as future remuneration.

When remuneration is not linked to the sales forecast there is a temptation to produce an optimistic forecast in view of what was said earlier about customers and salespeople tending to overestimate. The consequence of the above is that a forecast might be produced that is biased either pessimistically or optimistically. As a corollary to the above it can also be argued that salespeople are too concerned with everyday events to enable them to produce objective forecasts and they are perhaps less aware of broader factors affecting sales of their products. Thus their forecasts will tend to be subjective.

Delphi Method

This method bears a resemblance to the 'panel of executive opinion' method and the forecasting team is chosen using a similar set of criteria. The main difference is that members do not meet in committee.

A project leader administers a questionnaire to each member of the team which asks questions, usually of a behavioural nature, such as 'Do you envisage new technology products supplanting our product lines in the next five years? If so, by what percentage market share?' The questioning then proceeds to a more detailed or pointed second stage which asks questions about the individual company. The process can go on to further stages where appropriate. The ultimate objective is to translate opinion into some form of forecast. After each round of questionnaires the aggregate response from each is circulated to members of the panel before they complete the questionnaire for the next round, so members are not completing their questionnaires in a void and can moderate their responses in the light of aggregate results.

The fact that members do not meet in committee means that they are not influenced by majority opinion and a more objective forecast might result. However, as a vehicle for producing a territory-by-territory or product-by-product forecast it has limited value. It is of greater value in providing general data about industry trends and as a technological forecasting tool. It is also useful in providing information about new products or processes that the company intends to develop for ultimate manufacture and sale.

Bayesian Decision Theory

This technique has been placed under qualitative techniques, although it is really a mixture of subjective and objective techniques. It is not possible to describe the detailed workings of this method within the confines of this text; indeed it is possible to devote a whole text to the Bayesian technique alone. The technique is similar to critical path analysis in that it uses a network diagram and probabilities must be estimated for each event over the network. The basis of the technique can best be described by reference to a simple example. As this chapter does not easily lend itself to the provision of a case study that can encompass most or all of the areas covered, a practical exercise, followed by questions covering Bayesian decision theory, has been included at the end of the chapter which should give the reader an insight into its workings.

Product Testing and Test Marketing

This technique is of value for new or modified products for which no previous sales figures exist and where it is difficult to estimate likely

demand. It is therefore prudent to estimate likely demand for the product by testing it on a sample of the market beforehand.

Product testing involves placing the pre-production model(s) with a sample of potential users beforehand and noting their reactions to the product over a period of time by asking them to fill in a diary noting product deficiencies, how it worked, general reactions, etc. The type of products that can be tested in this manner can range from household durables, for example, vacuum cleaners, to canned foods such as soups. However, there is a limit to the number of pre-production items that can be supplied (particularly for consumer durables) and the technique is really of value in deciding between a 'go' or 'no go' decision.

Test marketing is perhaps of more value for forecasting purposes. It involves the limited launch of a product in a closely defined geographical test area, for example, a test town such as Bristol or a larger area such as the Tyne-Tees Television area. Thus, a national launch is simulated in a small area representative of the country as a whole, obviously at less expense. It is of particular value for branded foodstuffs. Test market results can be grossed up to predict the national launch outcome. However, the estimate can only cover the launch. Over time, the novelty factor of a new product might wear off. In addition, it gives competitors an advantage because they can observe the product being test marketed and any potential surprise advantage will be lost. It has also been known for competitors deliberately to attempt to sabotage a test marketing campaign by increasing their promotional activity in the area over the period of the test market, thereby introducing additional complications when assessing the final results.

19.5 QUANTITATIVE TECHNIQUES

Quantitative forecasting techniques are sometimes termed objective or mathematical techniques as they rely more upon mathematics and less upon judgement in their computation. These techniques are now very popular as a result of sophisticated computer packages, some being tailor-made for the company needing the forecast. It is not proposed to go into the detailed working of such techniques because they require specialist skills in their own right; indeed a single technique could take up an entire textbook. Some quantitative techniques are simple while others are extremely complex. We now explain such techniques so you will have an appreciation of their usefulness and applicability. If the forecasting problem calls for specialist mathematical techniques then the answer is to consult a specialist and not attempt it on the basis of incomplete information given here. Quantitative techniques can be divided into two types:

1. ***Time series analysis.*** The only variable that the forecaster considers is time. These techniques are relatively simple to apply, but the danger is that too much emphasis might be placed upon past events to predict the future. The techniques are useful in predicting sales in markets that are relatively stable and not susceptible to sudden irrational changes in demand. In other words, it is not possible to predict downturns or upturns in the market, unless the forecaster deliberately manipulates the forecast to incorporate such a downturn or upturn.

2. ***Causal techniques.*** It is assumed that there is a relationship between the measurable independent variable and the forecasted dependent variable. The forecast is produced by putting the value of the independent variable into the calculation. One must choose a suitable independent variable and the period of the forecast to be produced must be considered carefully. The techniques are thus concerned with cause and effect. The problem arises when one attempts to establish reasons behind these cause and effect relationships; in many cases there is no logical explanation. Indeed, there is quite often nothing to suppose that the relationship should hold good in the future.

Reasoning behind causal relationships may not be too clear at this stage, but once the techniques are examined later in the chapter it should become self-evident. The first set of techniques examined are those concerned with **time series analysis.**

Quantitative Techniques (time series)

Moving averages

This method averages out and smooths data in a time series. The onger the time series, the greater will be the smoothing. The principle s that one subtracts the earliest sales figure and adds the latest sales igure. The technique is best explained through the simple example given in Table 19.1. It can be seen that using a longer moving average produces a smoother trend line than using a shorter moving average.

These data are reproduced graphically (see Figure 19.2) and it can be seen that averaging smooths out the annual sales figures. Five-year averaging produces a smoother line than three-year averaging. One can then produce a forecast by extending the trend line, and it is up to the individual forecaster to decide whether three year or five-year averaging is better. Indeed, it is sometimes unnecessary to smooth the data (in the case of a steady trend) and the technique is then termed trend projection. Generally speaking, the more the data fluctuate, the more expedient it is to have a longer averaging period.

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Table 19.1: Office Goods Supplies Ltd: Annual sales of briefcases, moving average

		Three-year		*Five-year*	
Year	*Number*	*Total*	*Average*	*Total*	*Average*
1994	1,446	—	—	—	—
1995	1,324	4,179	1,393	—	—
1996	1,409	3,951	1,317	6,543	1,309
1997	1,218	3,773	1,258	6,032	1,206
1998	1,146	3,299	1,100	5,855	1,171
1999	935	3,228	1,076	5,391	1,078
2000	1,147	3,027	1,009	4,953	991
2001	945	2,872	957	4,810	962
2002	780	2,728	927	5,049	1,008
2003	1,003	2,957	986	4,706	941
2004	1,174	2,981	994	4,805	961
2005	805	3,022	1,007	5,186	1,037
2006	1,044	3,009	1,003	5,470	1,094
2007	1,161	3,492	1,164	—	—
2008	1,287	—	—	—	—

Exponential Smoothing

This is a technique that apportions varying weightings to different parts of the data from which the forecast is to be calculated.

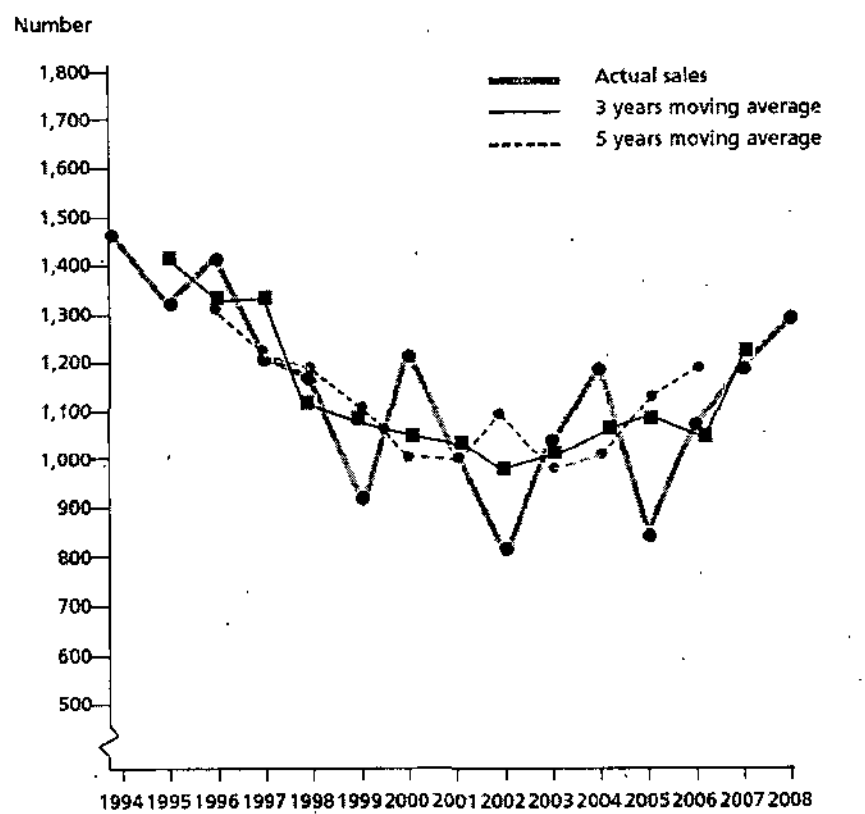

Figure 19.2 : *Office Goods Supplies Ltd: annual sales of briefcases, moving average*

The problem with moving averages and straightforward trend projection is that it is unable to predict a downturn or upturn in the market (unless the forecaster deliberately places a downturn or upturn in the data). In this technique the forecaster apportions appropriate degrees of 'typicality' to different parts of the time series.

It is not proposed to explain the detailed mathematics behind the technique because this is not a sales forecasting textbook. Instead, the statistics used in the previous example have been taken and from these weightings have been applied to earlier parts of the series. These weightings are applied by the forecaster according to their own judgement as to how 'typical' earlier parts of the data are in the production of a forecast (although there is a mathematical technique for deciding this if necessary). The result is shown in Figure 19.3.

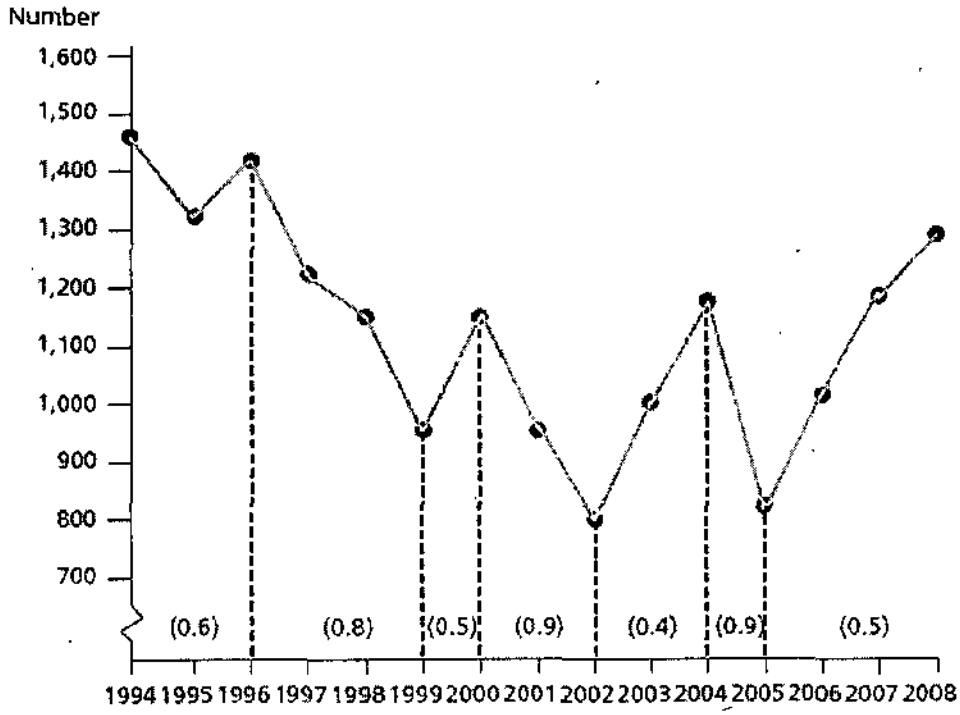

Figure 19.3 : Office Goods Supplies Ltd: annual sales of briefcases, exponential smoothing (weighting shown in brackets)

In the moving averages technique the forecast will take some time to respond to a downturn or upturn, whereas with the exponential smoothing method the response can be immediate. In the example in Figure 19.3 the forecaster has apportioned greater weightings to downturn periods of trade than to upturn periods, and the forecast will thus reflect another downturn period for 2009. Had a moving averages forecast been used, this would have produced a less steep continuum of the 2007–08 upturn trend. In practice the technique is simple to operate, but it is essentially a computer technique. The forecaster can very simply alter the smoothing constant for different periods to produce

a number of alternative forecasts. The skill lies in determining the degree of weightings for earlier and later parts of the time series.

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Time Series Analysis

This technique is useful when seasonality occurs in a data pattern. It is of particular use for fashion products and for products that respond to seasonal changes throughout the year. It can be used for cyclical changes in the longer term (such as patterns of trade) but there are better techniques available for dealing with such longer-term trends. Thus, its best application is where the seasonal pattern is repeated on a fairly regular annual basis. These seasonal movements are measured in terms of their deviation from the aggregate trend.

The technique is best explained graphically by using data from the previous example. The quarterly sales of briefcases have been taken for Office Goods Supplies Ltd for the years 2004–08 (see Table 19.2), and it can be seen that sales exhibit a seasonal pattern, with a peak of sales in the final quarter of each year. When the sums of quarterly deviations from the trend are added, the resultant sum is +40 in this particular case (see Table 19.3). The total sum must equal zero, otherwise it would mean that a positive bias would be built into the forecast. However, this correction must come from all figures equally, and is calculated as:

40/4 = + 10

Therefore, +10 must be subtracted from each quarter's figures. The corrected figures are then:

Table 19.2: Office Goods Supplies Ltd: Quarterly sales of briefcases

Quarter			1	2	3	4
Corrected Deviations			–292	–19	–328	+639 = 0
Year	***Quarter***	***Unit sales***	***Quarterly Moving total***	***Sum of pairs***	***Divided by 8 to find trend***	***Deviations from trend***
2004	1	207				
	2	268	= 1,174	= 2,295	287	–64
	3	223	1,121	2,136	267	+209
	4	476	1,015	= 1,934	242	–88
2005	1	154	919	1,723	215	–53
	2	162	= 804	= 1,643	205	–78
	3	127	839	1,779	222	+139
	4	361	940	= 1,935	242	–53

2006	1	189	995	2,039	255	+8
	2	263	= 1,044	= 2,110	264	–82
	3	182	1,066	2,156	269	+141
	4	410	1,090	= 2,197	275	–64
2007	1	211	1,107	2,268	284	+3
	2	287	= 1,161	= 2,346	293	–94
	3	199	1,185	2,433	304	+160
	4	464	1,248	= 2,497	312	–77
2008	1	235	1,249	2,536	317	+33
	2	350	= 1,287			
	3	200				
	4	502				

Table 19.3: Office Goods Supplies Ltd: Sum of quarterly deviations from trend

Quarter	*1*	*2*	*3*	*4*
Year				
2004	—	–53	–64	+209
2005	–88	–53	–78	+139
2006	–53	+8	–82	+141
2007	–64	+3	–94	+160
2008	–77	+33	—	—
Sum	–282	–9	–318	+649 = + 40

Table 19.4: Office Goods Supplies Ltd: Forecasted trend figures and deviations from trend that have been applied

Year	*Period*	*Trend*	*Deviation*	*Forecast*
2008	3	326	–82	244
	4	334	+160	494
2009	1	343	–73	270
	2	352	–5	347
	3	360	–82	278
	4	369	+160	529

In this particular example these figures must now be divided by 4 to produce a yearly aggregate (because four years' data have been used in their compilation) and the figures from which the forecast will be derived are as follows:

Quarter	1	2	3	4
Deviations	–73	–5	–82	160 = 0

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The figures in Table 19.4 are an extension of data at the end of Table 19.2 and these have been derived as follows. Unit sales are added to provide a one-year total. This total then summates the one-year moving sales by taking off the old quarter and adding on the new quarter. The quarterly moving totals are then paired in the next column (to provide greater smoothing) and this sum is then divided by 8 to ascertain the quarterly trend. Finally, the deviations from trend are calculated by taking the actual figure (in unit sales) from the trend, and these are represented in the final column as deviations from the trend.

The statistics are then incorporated into a graph and the unit sales and trend are drawn in Figure 19.3. The trend line is extended by sight (and it is here that the forecaster's skill and intuition must come in). The deviations from trend are then applied to the trend line, and this provides the sales forecast.

In the example in Figure 19.3 it can be seen that the trend line has been extended on a slow upwards trend similar to the previous years. The first two figures for periods 3 and 4 of 2008 are provided as a forecast, as this is a function of the calculation. These two periods of course passed, and it can be seen that the forecast is slightly different from what happened in reality. Proof that forecasting is never perfect! The four quarters of 2009 have been forecasted and these are included in the graph.

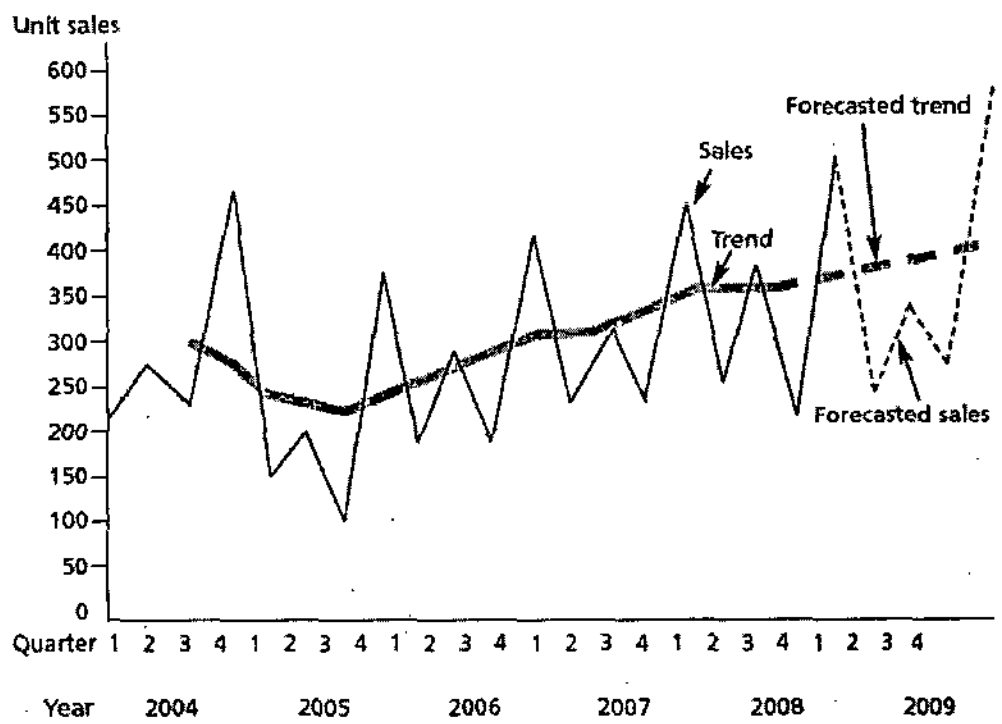

Figure 19.3 : Office Goods Supplies Ltd: quarterly sales of briefcases and one-year forecast

The technique, like many similar techniques, suffers from the fact that downturns and upturns cannot be predicted, and such data must be subjectively entered by the forecaster through manipulation of the extension to the trend line.

Z (or zee) charts

This technique is merely a furtherance of the moving averages technique. In addition to providing the moving annual total, it also shows the monthly sales and cumulative sales; an illustration of the technique shows why it is termed Z chart.

Each Z chart represents one year's data and is best applied using monthly sales data. As a vehicle for forecasting it provides a useful medium where sales for one year can be compared with previous years using three criteria (monthly, cumulative and moving annual).

The sales of briefcases for Office Goods Supplies Ltd have been provided for each month of 2007 and 2008 and this is sufficient to provide data for the Z chart as can be seen in Table 19.5. The figures in Table 19.5 are then transposed graphically in Figure 19.4.

Moving annual sales are obtained by adding on the new month's figure and taking off the old month's figure, 12 months previously. The cumulative sales are obtained by adding each month to the next month, and the bottom line of the Z is the monthly sales. The method is very much a comparison by sight method and in this case would be used for the medium-term (one-year) sales forecast. However, as a serious method for prediction its uses are limited; its main use is for comparison.

Table 19.5: Office Goods Supplies Ltd: Monthly sales of briefcases 2007–08

Month	*Unit sales 2007*	*2008*	*Cumulative sales 2008*	*Moving annual total*
Jan	58	66	66	1,169
Feb	67	70	136	1,172
Mar	86	99	235	1,185
Apr	89	102	337	1,198
May	94	121	458	1,225
Jun	104	127	585	1,248
Jul	59	58	643	1,247
Aug	62	69	712	1,254
Sep	78	73	785	1,249
Oct	94	118	903	1,273
Nov	178	184	1,087	1,279
Dec	192	200	1,287	1,287

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Miscellaneous

This final section briefly outlines two computer-based techniques; to describe their workings in detail would take a disproportionate amount of space together with a detailed knowledge of mathematics. They rely in their application upon sophisticated computer packages. If the reader wishes to pursue the techniques further, then a software specialist would advise on their applicability and the degree of accuracy for the desired intention. This is not to say that the forecaster (say the sales manager) should necessarily need to have a detailed knowledge of the technique that is being applied. All they need to know is what the forecast will do and its degree of accuracy.

The first of these techniques is Box-Jenkins, which is a sophistication of the exponential smoothing technique that applies different weightings to different parts of the time series. In the case of this technique, the computer package takes earlier parts of the time series and manipulates and weights parts of this against known sales from later parts of the time series. The weighting that provides the best fit is finally deduced and can then be used for the forecast. It is reasonably accurate for short- and medium-term forecasting.

The other technique is termed X-11 and was developed by an American named Julius Shiskin. It is a decomposition technique and breaks a time series down into trend cycles, seasonal cycles and irregular elements. It is an effective technique for medium-term forecasting and incorporates a number of analytical methods into its computation.

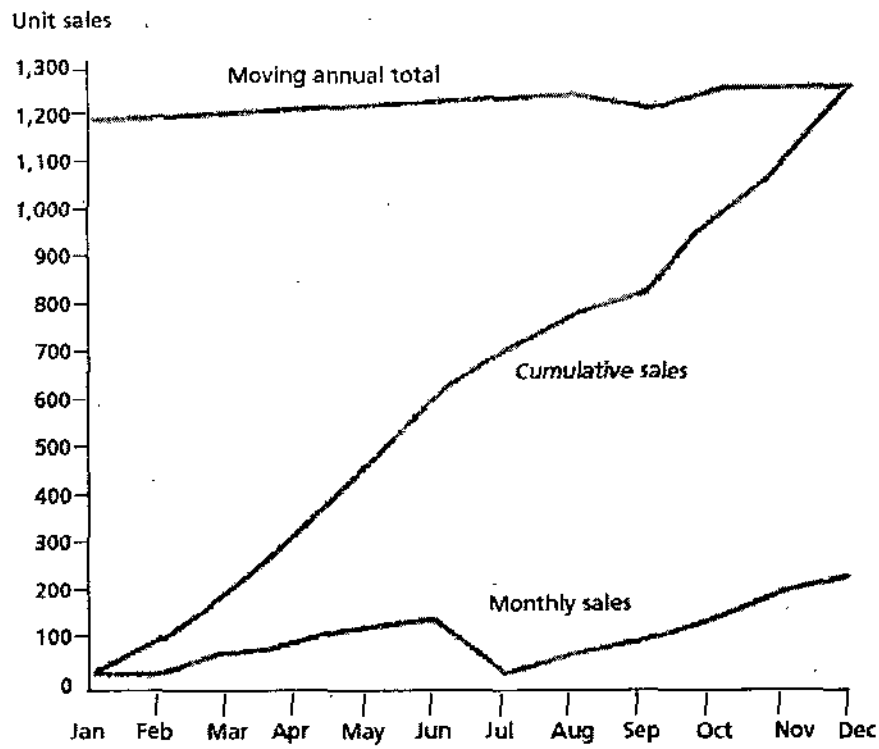

Figure 19.4 : Office Goods Supplies Ltd: monthly sales of briefcases, $\bar{Z}$ chart for 2008

Quantitative Techniques (causal)

Leading indicators

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This method seeks to define and establish a linear regression relationship between some measurable phenomenon and whatever is to be forecasted. It is not appropriate to enter into a discussion of the technique of linear regression within the confines of this text; should you wish to pursue the technique further, most reasonably advanced statistical texts will adequately describe the method and its applicability.

The best way to explain the technique is to consider the following simple example. The sale of children's bicycles depends upon the child population, so a sensible leading indicator for a bicycle manufacturer would be birth statistics. The bicycle manufacturer will therefore seek to establish a relationship between the two and, if the manufacturer is considering children's first two-wheeler bicycles (say, at age three years old, on average) then births will precede first bicycles by three years. In other words first bicycles will lag births by three years.

The example is obviously an over-simplification, and there are forecasting packages available that permute a number of leading indicators; *i.e.*, they are indicators that are ahead of actual sales. It is possible to provide the permutation that best fits known sales, where the sales are lagged in time and the indicator is leading. The permutation that best fits the known sales to the indicator (or permutation of indicators) is the one to use in the forecast. Thus, the permutation is constantly under review as time goes on. As forecasts pass into actual sales, so the forecasting permutation is modified to take account of most recent sales.

This more sophisticated type of forecasting uses what is known as correlation analysis to establish the relationship. Again the reader is directed to any reasonably advanced statistics text for a fuller explanation of its workings and implications.

Simulation

This forecasting methodology has become possible with the widespread use of computers. Leading indicator forecasting establishes relationships between some measurable phenomenon and whatever is to be forecasted, while simulation uses a process of iteration, or trial and error, to arrive at the forecasting relationship. In a reasonably complicated forecasting problem (which most are that utilise this technique) the number of alternative possibilities and outcomes is vast. When probabilities of various outcomes are known, the technique is known as Monte Carlo simulation and depends upon a predetermined chance of a particular

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event occurring (it is no coincidence that the technique derives from probabilities worked out for gambling games).

We cannot explain the technique further without entering into complex mathematical discussions and explanations. In so far as this text is concerned, it is sufficient that you are aware of the technique; if further information is required, an expert forecaster should be consulted.

Diffusion Models

Most of the techniques discussed so far have depended upon a series of past sales for the company and the industry to be available before a forecast can be calculated. However, when new products are introduced to the market which are not simply extensions or redesigns of old products, then the technique for estimating sales comes from a body of theory called the diffusion of innovations. One of the authors made a study of the subject 20 years ago and produced a forecast for video-recorders that utilised the Bass diffusion model.

Again, as with most causal techniques, the mathematics are complicated and the best advice for the sales manager seeking to apply such a technique to a new product would be to seek the advice of a specialist. This is essentially a computer technique and its computation is complicated. Basically, diffusion theory assumes that the new product has four basic units:

- the innovation;
- the communication of the innovation among individuals;
- the social system; and
- time.

The theory goes on to say that the innovation can be categorised into one of the following groupings:

- continuous;
- dynamically continuous; and
- discontinuous.

This is a hierarchical listing, with the innovations being more widely removed from previous technology as one moves further down the list. This means that the further down the hierarchy the innovation is placed, the lower will be the degree of likely acceptance. In the early days of a product innovation, knowledge must be communicated to as many individuals as possible, especially those who are likely to be influential in gaining wider appeal for the innovation. This communication process is broken down into formal and informal communication. These two elements are fed into the forecasting model and as such the model can be applied

without large amounts of past sales data. The formal communication is controlled by the company and includes such data as advertising expenditure and sales support for the launch and the informal element relates to such matters as family and reference group influences.

Once the innovation has been launched, a measure of the rate of adoption is needed in order to produce a useful forecast. Products are born, they mature and eventually die, and it is important to the forecaster using this technique that the first few points of the launch sales are known in order to be able to determine the rate of adoption. Thus, a forecast can be made using only a small amount of data covering the early launch period. An assumption is therefore made that the product being considered has a life-cycle curve and that new product acceptance is through a process of imitation, *i.e.,* later purchasers will follow the innovators.

Use of Computer Software in sales Forecasting

Software has been written designed specifically for forecasting purposes. The problem with any listing of such software is that it quickly dates, so if it is proposed to use a software package then the best advice is to consult an up-to-date listing. The following is a list of more generalised packages that have withstood the test of time.

EXEC*U*STAT from Mercia Software Ltd. Combines business statistics with high-quality graphics output. It provides for quick analysis of data.

FOCA from Timberlake Clark Ltd. Offers modern quantitative forecasting of time series using exponential smoothing, spectral analysis, Box-Jenkins and adaptive filtering.

MINITAB from CLE.COM Ltd. A general-purpose data analysis system that is easy to use. Its features include descriptive statistics, regression analysis with diagnostics, residual analysis and step-wise procedures, time series analysis including robust smoothers and Box-Jenkins operations.

RATS from Timberlake Clark Ltd. An econometric package that performs time series and cross-sectional regression. It is designed for forecasting of time series, although small cross-sectional and panel data may also be used.

SAS/ETS from SAS Software Ltd. An econometrics and time series library which provides forecasting, planning and financial reporting. It contains procedures for time series analysis, linear and non-linear systems simulation and seasonal adjustments, and its applications include econometric modelling and cash-flow planning as well as sales forecasting.

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SORITEC from Timberlake Clark Ltd. Includes non-linear and simultaneous estimation techniques, simultaneous non-linear simulation and solution, a full matrix processing language and transfer function estimation.

SPSS-PC_ from SPSS (UK) Ltd. A fully interactive data analysis package with full screen editing facilities, data entry and validation and a range of analytical and reporting procedures.

STATGRAPHICS from Cocking & Drury Ltd. A statistical and graphics package that includes plotting functions (2D and 3D), descriptive methods, estimation and testing, distribution fitting, exploratory data analysis, analysis and variance, regression analysis, time series analysis including Box-Jenkins ARIMA modelling, multivariate and non-parametric methods and experimental design.

STATPAC GOLD from Molimerx Ltd with batch and interactive processing and good graphics that requires less memory than most other packages. This listing only documents those packages that are available in Britain, many more are available in the United States.

19.6 BUDGETING—PURPOSES

It was outlined at the beginning of this chapter that an organisation needs to budget to ensure that expenditure does not exceed planned income. It has been shown that the sales forecast is the starting point for business planning activities. The company costing function takes the medium-term sales forecast as its starting point, and from this budgets are allocated to departments (or cost centres). Budgets state limits of spending; they are thus a means of control. The company can plan its profits based upon anticipated sales, minus the cost of achieving those sales (which is represented in the total budget for the organisation).

The consequence of an incorrect medium-term forecast can be seen as the company profit plan will be incorrect. It has already been mentioned but is re-emphasised here, that if the forecast is pessimistic and the company achieves more sales than those forecast, then potential sales might be lost owing to unpreparedness and insufficient working finance and facilities being available to achieve those sales. Conversely, if the forecast is optimistic and sales revenue does not match anticipated sales then revenue problems will arise, with the company having to approach a lender – probably a bank – to fund its short-term working capital requirements (which can be expensive if interest rates are high). This latter factor is a prime cause of many business failures, not necessarily because of bad products or a bad salesforce, but through insufficient money being available to meet working capital needs. These problems stem from incorrect medium-term forecasting in the first place. The

following budgeting practice used by Kraft gives an illustration of budgeting methods.

Alternative Types of Budgeting

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There are a number of budgeting types to choose from. Kraft uses a mix of the following:

1. *Zero based budgeting:* In a dynamic business it often makes sense to 'start afresh' when developing a budget rather than basing ideas too much on past performance. This is appropriate to Kraft because the organisation is continually seeking to innovate. Each budget is therefore constructed without much reference to previous budgets. In this way, change is built into budget thinking.

2. *Strategic budgeting:* This involves identifying new, emerging opportunities, and then building plans to take full advantage of them. This is closely related to zero based budgeting and helps Kraft to concentrate on gaining *competitive advantage*.

3. *Rolling budgets:* Given the speed of change and general uncertainty in the external environment, shareholders seek quick results. US companies typically report to shareholders every three months, compared with six months in the United Kingdom. Rolling budgets involve evaluating the previous twelve months' performance on an ongoing basis, and forecasting the next three months' performance.

4. *Activity based budgeting:* This examines individual activities and assesses the strength of their contribution to company success. They can then be ranked and prioritised, and be assigned appropriate budgets.

SUMMARY

- Thus, the purpose of the sales forecast is to plan ahead and go about achieving forecasted sales in what management considers to be the most effective manner.
- A company can forecast sales either by forecasting market sales (called **market forecasting**) and then determining what share of this will accrue to the company or by forecasting the company's sales directly.
- *Short-term forecasts*. These are usually for periods up to three months ahead and are really of use for tactical matters such as production planning.
- *Medium-term forecasts* these have direct implications for planners.

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- *Long-term forecasts.* These are usually for periods of three years and upwards depending on the type of industry being considered.
- Research and development (R&D) will need forecasts, although their needs will be more concerned with technological matters and not with actual projected sales figures.
- Forecasts can be produced for different horizons starting at an international level and ranging down to national levels, by industry and then by company levels until we reach individual product-by-product forecasts.
- Quantitative forecasting techniques are sometimes termed objective or mathematical techniques as they rely more upon mathematics and less upon judgement in their computation.

REVIEW QUESTIONS

1. What is the place of sales forecasting in the company planning process?
2. Distinguish between qualitative and quantitative forecasting techniques. What are the advantages and disadvantages associated with each approach?
3. Define the differences between a sales forecast and a market forecast.
4. How might a government forecast or a forecast from a trade association be of specific use to a medium-sized company?