I MBA – Semester - II					
Course Code	**MARKETING MANAGEMENT**	**L**	**T**	**P**	**C**
22MBA122		**4**	**0**	**0**	**4**

Course Educational Objectives (CEO):

CEO1: To provide knowledge on

- Needs, Wants and Demands
- Marketing mix

CEO2: To inculcate various methods of segmentation, targeting and positioning.

CEO3: To elucidate product management

CEO4: To provide necessary knowledge on pricing and distribution management

CEO5: To give a elaborate view on role of marketing

UNIT - I	**Introduction**	Lecture Hrs: 10

Needs, Wants, Demands, Marketing, Marketing Mix, Marketing Management- Concepts of Marketing- Marketing Environment.

UNIT - II	**Market Segmentation, Targeting and Positioning:**	Lecture Hrs: 10

Identification of Market Segments, Segmenting Consumer Marketing, - Selecting Target Markets - Segmentation and Targeting as a Basis for Strategy Formulation- Developing and Communicating a Positioning Strategy.

UNIT - III	**Product Management**	Lecture Hrs:12

Constituents of a Product - Product Line - Product Mix -Classification of New Products - New Product Development - Product Life Cycle, PLC as a Tool for Marketing Strategy.

UNIT - IV	**Pricing and Distribution Management:**	Lecture Hrs:12

Objectives of Pricing, Setting Pricing Policy, Methods of Pricing, Adapting Price, Initiating and Responding to Price Changes.

UNIT - V	**Marketing Promotion:**	Lecture Hrs:10

Role of Marketing Promotion– Marketing Promotion Mix –Sales Force Management-On line Marketing.

Course Outcomes:

On successful completion of the course the student will be able to,		**POs related to COs**
CO1	**Demonstrate** the knowledge in concepts of marketing and understanding needs, wants and demand.	PO1,PO2,PO7
CO2	**Develop** segmentation, targeting and positioning strategies	PO2,PO4,PO7
CO3	**Analyze** and derive the process of product management	PO5,PO7
CO4	**Examine** the methods of pricing and distribution strategies.	PO1,PO4,PO7
CO5	**Compare** the methods of marketing promotion and choose the best promotional strategy	PO5, PO7

Text Books:
1. Marketing Management, 9/e, C.B. Gupta & N. Rajan Nair, C.B. Gupta, Rajan Nair, Sulthan Chand and Sons. 2020 2. Marketing Management,12/e, Philip Kotler, Kevin Lane Keller, Abraham Koshy, Mithileshwar Jha, Pearson Prentice Hall Education Publications, New Delhi, 2007.
Reference Books:
1. Marketing Management, 3/e, V.S. Ramaswamy and S. Namakumari, McMillan India limited, New Delhi, 2007. 2. Marketing Management-Text and Cases, 2/e, Tapan K Panda, Excel Books, New Delhi, 2007. 3. Marketing Management, 1/e, C.B.Gupta and N.Rajan Nair, Sultan Chand and Sons, New Delhi, 2006. 4. Marketing in the 21st century, 8/e, Joel R.Evans, Barry Berman, Biztantra publications, New Delhi, 2008. 5. Marketing Management, 4/e, Rajan Saxena, TMH, New Delhi, 2010.
Online Learning Resources:
https://northcampus.uok.edu.in/downloads/20161102133904427.pdf https://onlinecourses.swayam2.ac.in/cec20_mg06/preview https://www.academia.edu/36875657/ MARKETING_MANAGEMENT_Student_Study_Material

Marketing Management

Unit 1

Introduction

Needs - Needs are the basic requirements of a human being, like food, cloth, shelter etc. humans cannot survive lace of those requirements. education and health care are the extend part of needs in this modern world.

According to marketing language, human needs are state of felt deprivation. It is the basic underlying of marketing.

Different people have different needs some of them are as follows

Physical needs- Food, cloth, house, safety etc.

personal needs- self expression, discuss feeling etc.

Social needs- love, affection etc.

Ego needs: status, recognition and self-esteem

Wants – Wants are the satisfiers of needs. Specific products have the ability of satisfy specific wants.

Wants are a form of needs and which are greatly dependent on the human needs. Wants are unlimited. Customers want high value and satisfaction for money.

For example, you need to write, for this your choice will be the best pen. To write is your needs but the best brand of pen is your wants.

Demands- Demands are wants for specific products. They are backed by willingness and ability to buying power. Wants backed by money and willingness to spend the money become demand.

For example, you need BMW car and you have the buying power, is your demand.

Marketing:

"Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organizational goals."

– "The American Marketing Association."

Every business needs to successfully market their products and services. Marketing is a critical tool for establishing awareness, attracting new customers and building lasting relationships. When done effectively, marketing can help you increase sales and establish your competitive advantage.

Today's customers are spoilt for choice. Marketing uses communication and advertising tactics to persuade customers that your brand, including your products and services, are exactly what they need. Even though you are marketing your brand, every aspect of your marketing strategy should focus on satisfying the current and future needs of your customers.

Marketing is a crucial aspect of your business and requires research, time, planning, and appropriate budget allocations. This guide will help you understand the basics of marketing.

Nature of Marketing

1. **Customer Focus**

   Marketing is a customer-centered function of the business. It aims at finding out what customers want and fulfilling their needs by delivering them the right products.

2. **Creates Market Offering**

   Marketing provides offers of various goods and services to potential customers. It is the one that communicates all information regarding products like its prices, uses, quality, and technology to customers.

3. **Exchange Oriented**

   It is a process which aims at exchanging products among buyer and seller. Marketing attracts and influences people to buy the products of the company.

4. **Continuous Activity**

   Marketing is a regular and continuous activity of business for selling their products. Businesses always need to monitor the marketing environment and should accordingly plan, implement, and control all marketing programs.

5. **Goal-Oriented**

   Marketing is a goal-oriented business activity that aims at achieving the desired sales and profitability. It focuses on approaching more and more customers and thereby satisfying their needs by delivering them the required goods or services.

6. **Manages 4 P's**

   It is a combination of four elements that are product, place, price, and promotion. The whole marketing system is made up of these variable factors which are influenced by customer behavior, competition, trade factors, etc.

7. **Creates Utilities**

   Marketing creates various utilities such as form utility, time utility, and place utility. It creates form utility by manufacturing the right product using inputs, time utility by storing goods in warehouses, and place utility by delivering goods properly to end customers.

8. **Economic Process**

   It is a process that involves exchanges of goods in monetary terms. Marketing is one by means of which monetary transactions as per the exchange value of goods take place for transferring goods among buyers and sellers.

Scope of Marketing

1. **Create Awareness**

   Informing customers about the company's products is a must for attracting them to buy products. Marketing is the medium through which companies communicate with the public and explain the features or benefits of their products. Marketing helps in creating wide publicity of goods and services in the market.

2. **Studies Customer's Wants**

   Marketing helps in understanding the needs or wants of customers which enables them to provide satisfactory services. Business through their marketing programs interacts with customers and understands their behaviors. Proper understanding of customers' demands helps in designing the right product which satisfies their needs.

3. **Product Planning**

   A product refers to a bundle of benefits that offers satisfaction to the consumers. Product planning starts with the generation of the idea and continues until the product is ready to be launched in the market. To create a successful product the company must understand the needs of the consumer and the currently available competition in the market.

4. **Advertising**

   Advertising is the best tool for marketing. It makes the consumers aware of the product that is going to hit the market. Through marketing, big companies are able to condition our subconscious mind about the goodness of the product. The advertisement also helps to increase the sale drastically and ultimately the profits. Advertising can be done through various media sources such as newspapers, television, magazines, hoardings, the internet, etc.

5. **Pricing Policies**

   Determination of the pricing policies of the product is crucial because good pricing policies will definitely help in attracting more consumers. generally, consumers are highly-priced elastic which means lower the price, higher will be the demand and higher the price, lower will be the demand. Cost of manufacturing the product, government policies, marketing, competitor's price, etc. are the factors that influence the price of the product.

6. **Distribution**

   The selection of the proper distribution channel is very necessary for the product to attract new consumers towards it. Selecting a distribution channel means defining the route of the goods they will take while reaching from the producer to the ultimate consumer. Wholesaling and retailing are the two most popular distribution channels.

7. **Selling**

   It refers to the process of selling what is manufactured by the company as a product in the market. selling refers to the supply of goods and services directly or indirectly to the targeted consumers. Selling involves performing and managing various activities simultaneously such as approaching to the new consumers, distributing the free samples, making sales on a huge discount, and getting feedback.

8. **Packaging**

   The packaging is essential for delivering the product safely and secures a good image in the consumer's mind. It also helps in the goodwill formulation. Packaging involves designing and producing the external covering for the product which will keep the product safe and hygienic. Packaging is inclusive of the product information which adds to the appeal of the product which ultimately helps in the sales promotion.

9. **After-Sales Services**

The term marketing includes after-sale services to be provided by the business to its customers. Resolving issues of the customer's and problems in case of any product failure will help in developing better relations with customers.

10. Collects The Feedback

It involves collecting the feedback or suggestions of customers once the product is sold. Through this, satisfaction or dissatisfaction level of customers can be easily identified which helps in improving the service quality using suggestions provided by them.

Marketing Mix

Definition: The ***marketing mix*** refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and even Politics as vital mix elements.

1. Product

A product is any good or service that fulfills consumer needs or desires. It can also be defined as a bundle of utilities that comes with physical aspects such as design, volume, brand name, etc. The type of product impacts its perceived value, which allows companies to price it profitably. It also affects other aspects such as product placement and advertisements.

Companies can change the packaging, after-sales service, warranties, and price range, or expand to new markets to meet their objectives. Marketers must understand the product life cycle and come up with strategies for every stage in the life cycle, i.e., introduction, growth, maturity, and decline.

2. Price

The price of a product directly influences sales volume and, consequently, business profits. Demand, cost, pricing trends among competitors, and government regulations are crucial factors that determine pricing. Price usually reflects the product's perceived value rather than its real value. This means that pricing can be increased to promote exclusivity or reduced to create access.

Thus, pricing involves making decisions in terms of the basic price, discounts, price alteration, credit terms, freight payments, etc. It is also important to analyze when and if techniques like discounting are required or appropriate.

3. Promotion

Promotion involves decisions related to advertising, sales force, direct marketing, public relations, advertising budgets, etc. The primary aim of promotion is to spread awareness about the product and services offered by a company. It helps in persuading consumers to choose a particular product over others in the market. Promotional efforts include the following:

Advertising: A means of selling a product, service, or idea through communicating a sponsored, non-personal message about the product.

Public relations: Involves management and control of the flow and matter of information from one's organization to the general public or other institutions.

Marketing strategy: Involves identifying the right target market and using tools such as advertising to penetrate the said market. Promotion also includes online factors such as determining the class of search functions on Google that may trigger corresponding or targeted ads for the product, the design and layout of a company's webpage, or the content posted on social media handles such as Twitter and Instagram.

4. Place (or Distribution)

Place involves choosing the place where products are to be made available for sale. The primary motive of managing trade channels is to ensure that the product is readily available to the customer at the right time and place. It also involves decisions regarding the placing and pricing of wholesale and retail outlets.

Distribution channels such as outsourcing or company transport fleets are decided upon after cost-benefit analysis. Small details such as shelf space committed to the product by department stores are also included.

Marketing Management

Meaning

Marketing management is the organizational discipline which focuses on the practical aspects of marketing orientation, techniques and methods inside organizations and on the management of a firm's marketing resources and activities.

Philip Kotler and Kevin Lane Keller, define "marketing management" as

"…'the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value".

Functions of Marketing Management

Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties.

Thus, we see marketing management as the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering and communicating superior customer value.

In the marketing process, companies work to understand consumers, create customer value and build strong customer relationships. A brief summary of functions of marketing management is explained below

1. Marketing Objectives
2. Planning
3. Organization
4. Co-ordination
5. Direction
6. Control
7. Staffing
8. Analysis and evaluation

1. Marketing Objectives

Marketing management determines the marketing objectives. The marketing objectives may be short-term or long-term and need a clear approach. They have to be in coherence with the aims and objectives of the organization.

2. Planning

After objectively determining the marketing objectives, the important function of the marketing management is to plan how to achieve those objectives. This includes sales forecast, marketing programmes formulation, and marketing strategies.

3. Organization

A plan once formulated needs implementation. Organizing functions of marketing management involves the collection and coordination of required means to implement a plan and to achieve predetermined objectives. The organization involves a structure of the marketing organization, duties, responsibilities and powers of various members of the marketing organization.

4. Co-ordination

Co-ordination refers to harmonious adjustment of the activities of the marketing organization. It involves co-ordination among various activities such as sales forecasting, product planning, product development, transportation, warehousing etc.

5. Direction

Direction in marketing management refers to development of new markets, leadership of employees, motivation, inspiration, guiding and supervision of the employees.

6. Control

Control refers to the effectiveness with which a marketing plan is implemented. It involves the determination of standards, evaluation of actual performance, and adoption of corrective measures.

7. Staffing

Employment of right and able employees is very crucial to the success of a market plan. The Marketing Manager co-ordinates with the Human Resource Manager of an organization to be able to hire the staff with desired capability.

8. Analysis and evaluation

The marketing management involves the analysis and evaluation of the productivity and performance of individual employees.

Concepts of marketing

Marketing Concept is the philosophy that an organization should analyze the needs of their consumers and then make decisions to satisfy those needs, better than the competition.

Basically, there are five different **philosophy of marketing management** in **marketing concept** under which business enterprises conduct their marketing activity:

1. Production Concept
2. Product Concept
3. Selling Concept
4. Marketing Concept
5. Social Marketing Concept

1. Production Concept

The **production concept** specifies that consumers will prefer products that are widely available and inexpensive. The concept is based on the production orientation of the firm. It is based on the idea that the more we produce the more revenue we will make.

So, the organizations try to lowering production costs and achieve higher volume by following intensive distribution strategy. Managers believe that consumers prefer products that are widely available and priced low.

This seems a viable strategy in a developing market where market expansion is the survival strategy for the business. Application of this concept leads to poor quality of service and a higher level of impersonalisation in business.

2. Product Concept

The **product concept** specifies that consumers will favour quality, performance and other innovative products.

Managers focus on developing superior, innovative products and improving the existing quality and product lines over a period.

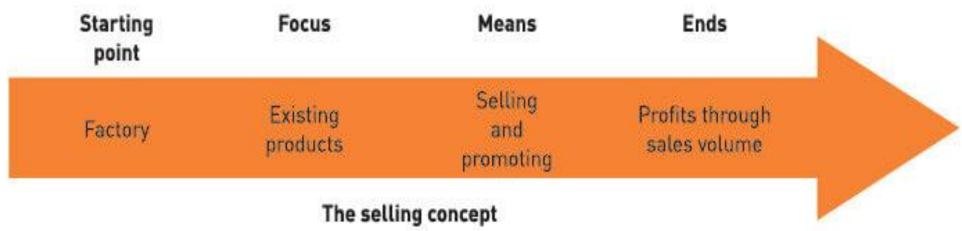
Innovations in the scientific laboratory are commercialised and consumers get an opportunity to know and use these products. This is called “Technology Push Model”.

The drawback of this approach is that managers focus on launching products based on their own scientific innovations and technological research and forget to read the consumer’s mind.

It is often observed that innovations enter the market before the market is ready for the product. Innovative products are launched without awareness, educating the customers about them and the probable benefit or value that the consumer is likely to get by using the new products.

3. Selling Concept

The **selling concept** specifies that the consumers and business if left alone, will ordinarily not buy enough of the firm's products. The organization must, therefore, invest in selling and promotion effort.



The selling concept proposes that customers, be individuals or organizations will not buy enough of the firm's products unless they are persuaded to do so through the selling effort. So, companies should undertake selling and promotion of their products for marketing success.

4. Marketing Concept

The **marketing concept** specifies that the company must be more effective than the competitors in creating, delivering, and communicating customer value to its chosen target markets, to achieve its organizational goals.

The concept proposes that the reason for success lies in the company's ability to create, deliver and communicate a better value proposition through its marketing offer, in comparison to the competitors for its chosen target segment.

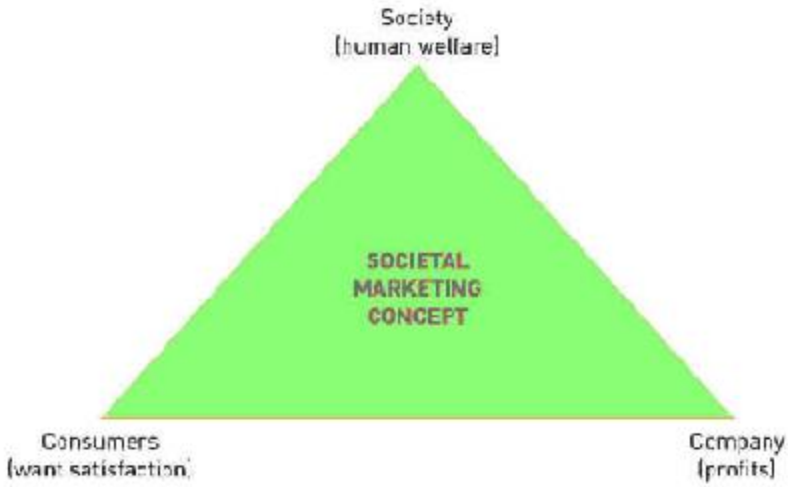
According to Theodore Levitt, "Selling focuses on the needs of the seller and marketing focuses on the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing deals with the idea of satisfying customer needs by offering a quality product and the whole cluster of things associated with creating, delivering and finally consuming it".

The marketing concept is an elaborative attempt to explain the phenomenon that rests on four key issues like target market, customer need, integrated marketing communication and profitability.

5. Societal Marketing Concept

The **societal marketing concept** proposes that the organization's objective is to determine the needs, wants and intentions of the target market and to deliver the expected satisfaction in a way to preserve or enhance the consumer's and society's well-being.

The goals of profit maximisation should match with the goals of customer satisfaction and responsible corporate citizenship.



Societal Marketing Concept

Social marketing often termed as cause-related marketing, utilises concepts of market segmentation, consumer research, product concept development, product testing and brand communication to maximise the target segment response

Marketing Environment

Definition: The Marketing Environment includes the internal factors (employees, customers, shareholders, retailers & distributors, etc.) and the External factors (political, legal, social, technological, economic) that surround the business and influence its marketing operations. Some of these factors are controllable while some are uncontrollable and require business operations to change accordingly. Firms must be well aware of its marketing environment in which it is operating to overcome the negative impact the environment factors are imposing on firm's marketing activities.

The marketing environment can be broadly classified into three parts:

1. **Internal Environment –** The Internal Marketing Environment includes all the factors that are within the organization and affects the overall business operations. These factors include labor, inventory, company policy, logistics, budget, capital assets, etc. which are a part of the organization and affects the marketing decision and its relationship with the customers. These factors can be controlled by the firm.

2. **Microenvironment-** The Micro Marketing Environment includes all those factors that are closely associated with the operations of the business and influences its functioning. The microenvironment factors include customers, employees, suppliers, retailers & distributors, shareholders, Competitors, Government and General Public. These factors are controllable to some extent.

These factors are further elaborated:

- **Customers**– Every business revolves around fulfilling the **customer's needs and wants**. Thus, each marketing strategy is customer oriented that focuses on understanding the need of the customers and offering the best product that fulfills their needs.
- **Employees**– Employees are the main component of a business who contributes significantly to its success. The quality of employees depends on the training and

motivation sessions given to them. Thus**, Training & Development** is crucial to impart marketing skills in an individual.

- **Suppliers**– Suppliers are the persons from whom the material is purchased to make a finished good and hence are very important for the organization. It is crucial to identify the suppliers existing in the market and choose the best that fulfills the firm's requirement.
- **Retailers & Distributors**– The channel partners play an imperative role in determining the success of marketing operations. Being in direct touch with customers they can give suggestions about customer's desires regarding a product and its services.
- **Competitors**– Keeping a close watch on competitors enables a company to design its marketing strategy according to the trend prevailing in the market.
- **Shareholders**– Shareholders are the owners of the company, and every firm has an objective of maximizing its shareholder's wealth. Thus, marketing activities should be undertaken keeping in mind the returns to shareholders.
- **Government**– The Government departments make several policies viz. Pricing policy, credit policy, education policy, housing policy, etc. that do have an influence on the marketing strategies. A company has to keep track on these policies and make the marketing programs accordingly.
- **General public**– The business has some social responsibility towards the society in which it is operating. Thus, all the marketing activities should be designed that result in increased welfare of the society as a whole.

3. **Macro Environment**-The Macro Marketing Environment includes all those factors that exist outside the organization and cannot be controlled. These factors majorly include Social, Economic, Technological Forces, Political and Legal Influences. These are also called as **PESTLE framework.**

The detailed description of Macro factors is given below:

Political & Legal Factors– With the change in political parties, several changes are seen in the market in terms of trade, taxes, and duties, codes and practices, market regulations, etc. So the firm has to comply with all these changes and the violation of which could penalize its business operations.

Economic Factors– Every business operates in the economy and is affected by the different phases it is undergoing. In the case of recession, the marketing practices should be different as what are followed during the inflation period.

Social Factors– since business operates in a society and has some responsibility towards it must follow the marketing practices that do not harm the sentiments of people. Also, the companies are required to invest in the welfare of general people by constructing public conveniences, parks, sponsoring education, etc.

Technological Factors– As technology is advancing day by day, the firms have to keep themselves updated so that customers needs can be met with more precision.

Therefore, marketing environment plays a crucial role in the operations of a business and must be reviewed on a regular basis to avoid any difficulty.

UNIT 2

According to **Schiffman and Kanuk**, "Market Segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix".

Rajan Saxena defines, "Segmentation as the process of dividing heterogeneous market into homogeneors sub units."

As per **SJ.Skinner**, "Market segmentation is the process of dividing a total market into groups of consumers who have relatively similar product needs."

According to **Philip Kotler**, "Market segmentation is sub-dividing a market into distinct and homogeneous subgroups of customers, where any group can conceivably be selected as a target market to be met with distinct marketing mix".

Market Segmentation – Importance

Some of the importances of market segmentation are described below:

1. Co-Ordination of Product and Marketing Appeals – As market segmentation presents an opportunity to understand the nature of the market; the seller can adjust his thrust to attract the maximum number of customers by various publicity media and appeals.
2. Better Position to Spot Marketing Opportunities – As the producer can make a fair estimate of the volume of his sale and the possibilities of furthering his sales in the regions where response of the customers is poor.
3. Allocation of Marketing Budget – It is on the basis of market segmentation that marketing budget is adjusted for a particular region or locality. Specific budget can be allocated according to different market segments.
4. Meeting the Competition Effectively – It helps the producer to face the competition of his rivals effectively. The producer can adopt different strategies for different markets taking into account the rival's strategies.
5. Effective Marketing Programme – It helps the producer to adopt an effective marketing programme and serve the consumer better at comparatively lower cost. Diverse marketing programmes can be attached for various segments.
6. Evaluation of Marketing Activities – Market segmentation helps the manufacturer to find out and compare the marketing potentialities of the products. It helps to adjust production and using

his resources in the most profitable manner. As soon as the product becomes obsolete, the product line could be diversified or discontinued.

Characteristics of Market Segmentation

Measurable and Obtainable

The size, profile and other relevant characteristics of the segment must be measurable in terms of data. It must be possible to determine the values of the variables used for segmentation with justifiable efforts. This is an important part especially for demographics and geographic variables.

Relevant

The size and profit potential of the market should be large in term of economically. Because it helps to understand the profit potential of the company. If a segment is small in size then the cost of marketing activities cannot be justified.

Substantial

The segments should be substantial to generate the required returns that the company has invested in segment. Activities with small segments will give a biased result or negative results.

Appropriate

The segments must be relevant to the organizations objectives. Because if the segments will not same as organizations objectives and resources, then chances of meeting the goal will become less.

UNIT 2

I. Identifying Market Segments and Selecting Target Markets

Identifying Market Segments

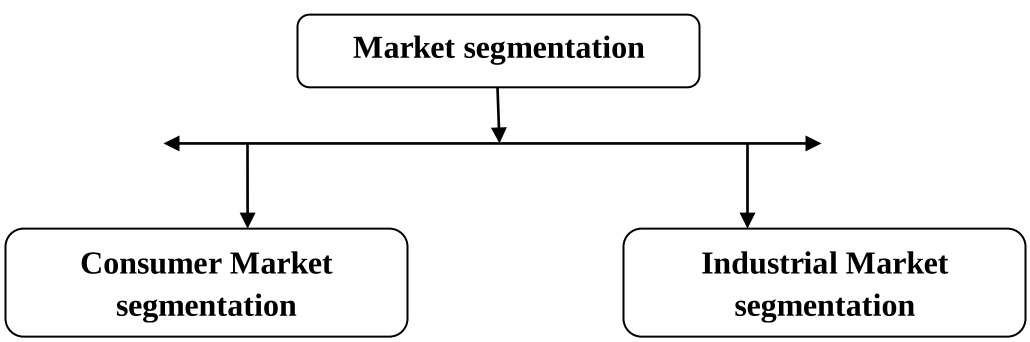
Identifying market segments means identifying your ideal customer. Market for product is big and diverse making it difficult for companies to be able to satisfy every customer. Companies need to identify a certain set of customer within a market and work towards satisfying them. This set of identification is market segment. Companies further need to understand the intricacy of how this segment behaves and operates.

Market segmentation

According to **Philip Kotler**, "Market segmentation is the sub-dividing of market into homogeneous subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix."

According to **Cundiff & Still** "Market Segments are grouping of consumers according to such characteristics as income, age, degree of urbanization, race of ethic classification, geographic location or education"

According to **Stanton**, "Market Segmentation consists of taking the total heterogeneous market for a product and dividing into several sub-markets or segments, each of which tends to be homogenous in all significant aspects." In short, we can say that, market segmentation is a process by which a market is divided into several segments.



Consumer Market Segmentation

Consumer Market Segmentation can be broadly divided into two main approaches:

1. **People Oriented**

2. **Product Oriented**

1. **People Oriented Approach**: It is also known as customer personal characteristics approach. We can classify the customers by many customer dimensions such as demographic, geographic location and psychographic. These variables are used in segmenting the consumer market. The following are the people-oriented approaches

a) **Demographic & Socio-Economic** – Demographic & Socio-Economic criteria is used very widely for market segmentation. This is very convenient, easy to measure and data is easily available. Under this criteria, we can make own groups of customers on the basis of their income, age, education, occupation, religion, size of family, social class etc, and on this basis, we can sub divide for example- on the basis of age group, we can divided as children, teenager, adult and aged. Thus, we can earn maximum profit.

b) **Geographic** – Geographic location is the usual and popular criteria for market segmentation. For the purpose of formulating the marketing plan, market segmentation may be on the basis of geographic location. Under geographic location, we can sub divide the country on the basis of zones, regions, urban & rural places, density of population, country size and climate.

c) **Psychographic** – Psychographic criteria for market segmentation is also a very important factor. Under psychographic segmentation, consumers or buyers are divided into, different groups on the basis of personality, lifestyle and personality characteristics.

2. **Product Oriented Approach**: It is also known as customer response approach or buyer-behaviour characteristics. It may be considered in relation to product benefits, product uses and brand loyalty. Buyer-behaviour involves psychological factor such as buying motives perception, preferences and attitudes. Under this approach, these are briefly as below

a) **Usage of product**: Market may be segmented on the basis of use pattern. A buyer may be classified as users, non-users, ex-users and potential users or regular users. On the basis of volume, buyers may be classified as heavy, medium and light.

b) **Readiness stage**: in this stage, we study how much a buyer is ready or prepared for purchasing the product. Buyer may be aware, unaware, interested, desirous and intending to buy the product.

c) **Benefits sought**: Benefit sought is also an important buyer behaviour characteristic. This segmentation gives emphasis on wants and desires of buyers. Benefits sought by consumers are the reason for the existence of market segment. Buyer’s Satisfaction mainly depends upon product benefits, for example- economy, style, durability, taste, flavour, performance, status etc. A manufacturer may be segment of market on the basis of customers’ benefits.

d) **Brand Loyalty**: Customer loyalty may be used as a basis of market segmentation. Loyalty segmentation enables marketer to make the promotional content and product appeal to retain the loyal customers, to attract new customers from competitive brands or to convert non-loyal to loyal buyers. Brand loyalty measurement is a difficult task for the marketer. A manufacturer creates brand loyalty through a strong understanding of their customers' priorities and buyers' behaviour.

e) **Marketing Factor**: Marketing may be a basis of market segmentation. It includes price of product, quality of product, retail advertisement etc. Thus, market segmentation may be decided on the basis of these factors.

f) **Attitude**: A manufacturer may be segmenting the market on the basis of attitude of the customers. These attitudes are: enthusiastic, positive, indifferent, negative and hostile.

Industrial Market Segmentation:

Industrial Market Segmentation almost depends upon the same variables and basis of consumer market segmentation.

Cundiff & Still presented the following basis of market segmentation for industrial market

1. Kind of Business

2. Usual Purchasing Procedures

3. Size of User

4. Geographical Segmentation

1. **Kind of Business** – Industrial Market may be segmented on the basis of kind of business activities such as genetic, agriculture, extractive, manufacturing, constructive, mining, forestry, wholesale trade, retail trade, export and import trade and auxiliaries to trade like transportation, finance, insurance, communication, storage, electric and gas.

2. **Purchasing Procedure**- The is also a basis for industrial market segmentation. Purchasing procedure can vary from one organisation to another. We focus on purchasing criteria.

3. **Size of User** - Industrial market segmentation also depends upon size of the user. Generally, users are divided into three groups-heavy, medium, and light users or non-users.

4. **Geographical Segmentation** – Geographical location of the user is generally influenced by the sources of raw material, labour supply, easy access to the market and financial institutions. On the basis of geographical segmentation, industrial buyers can be segmented into following segments:

Location: Rural and urban customers.

Distance: Local, regional, national and international market.

Terrain Area: Hilly, desert, valley and plains.

Climate: Level and intensity of humidity, rain, heat and cold etc.

Characteristics of a Good Segmentation:

1. Substantiality:

Substantiality implies that market must be lager enough to justify company's marketing efforts. It must offer attractive opportunities in terms of return on investment. Too small segments are not profitable as the firm has to make separate marketing programme (4Ps) for each of them.

2. Suitability:

The segmentation must have overall suitability with firm's internal and external situation. It must suit with resources, objectives, and policies of the firm. There must be parity, compatibility, and balance between segments and firm's situations. Irrelevant criteria for segmenting market lead to mismatch.

3. Adequate Demand:

It is the basic condition for successful segmentation. Different segments must exhibit adequate demand. Each of the selected segments must be able and willing to buy the company's offers.

4. Accessibility:

The segmentation should be such that a firm can meet reasonably the expectations of selected segments. Firm must serve different segments efficiently. In short, the segments must be sufficiently homogeneous in terms of different bases to enable the company to reach them successfully.

5. Action ability:

The segmentation must permit a company to take necessary actions effectively. The firm must be in position to respond different segments firmly. It must be able to tackle the problems and to absorb available opportunities.

6. Other Qualities:

Over and above main qualities, there are some other qualities of an ideal segmentation.

They include:

a. Potential for growth

b. Scale of economy

c. Differentiability, etc.

Benefits or advantages of market segmentation can be described as follows:

1. Identification Of Profitable Markets

Market segmentation is the process of dividing the total market into smaller market segments based on certain criteria. When the total market is divided into smaller micro markets the organization can accurately evaluate the size, growth and profit potential of the market segments. The organization can evaluate the competitive forces, such as the nature and extent of competition, and select to operate in the most profitable segment or segments.

2.Specialize On A Market Segment

Market specialization is only possible through segmentation. Market segmentation helps the organization to develop specialization in the micro markets. When an organization choose to operate in micro markets it can develop a better understanding of the marketplace. Segmentation leads the organization to offer appropriate product varieties, set right prices, develop effective promotion programs, and select the efficient **distribution channels**. Once such a specialization is achieved, the organization can deal more effectively with competitive forces in the micro markets.

3. Effectively Use Marketing Resources

Through market segmentation, the organization can use its marketing resources to the most promising markets. The organization can correctly evaluate the sales, costs and profits of various segments. This helps the organization to correctly identify the type of marketing effort needed by various market segments. The organization can withdraw from unprofitable segments and use its resources to the profitable segments. This results in better allocation of marketing resources.,

4. Monitor Changes In The Market Place

Market segmentation helps the organization to efficiently monitor the changes taking place in the market place. The market place is not only dynamic in terms of buyer taste and preferences but also in terms of competition. When an organization operates in micro markets it can efficiently monitor such changes, take swift corrective action and its marketing mix to the changed situation.

5. Adapt Marketing Strategies

The marketing firm can design appropriate strategies related to its marketing mix for a market segment. The marketing strategies can also be changed according to the changes taking place in the market segment.

6. Effectively Focus On Competitors

Segmentation helps the marketing firm to easily identify its competitors in a market segment; evaluate their relative strengths, and understand their strategies more accurately. This will prepare the firm to effectively deal with its competitors.

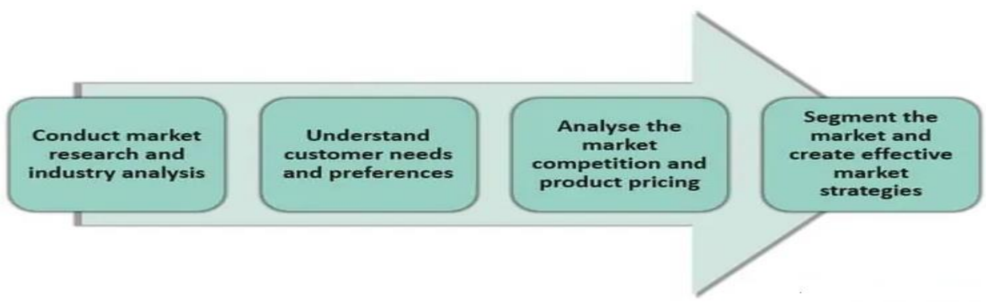
II. Selecting target markets

A target market is a specific market segment consisting of different groups of individuals, households, and organizations with select product preferences and budgets and to whom a company wants to offer its goods and services.

Target Markets: A Step-by-Step Approach

A business must take several actions to attract a specific segment of the market. It is a crucial component of the marketing strategy and impacts the features, price, and distribution of products and services:

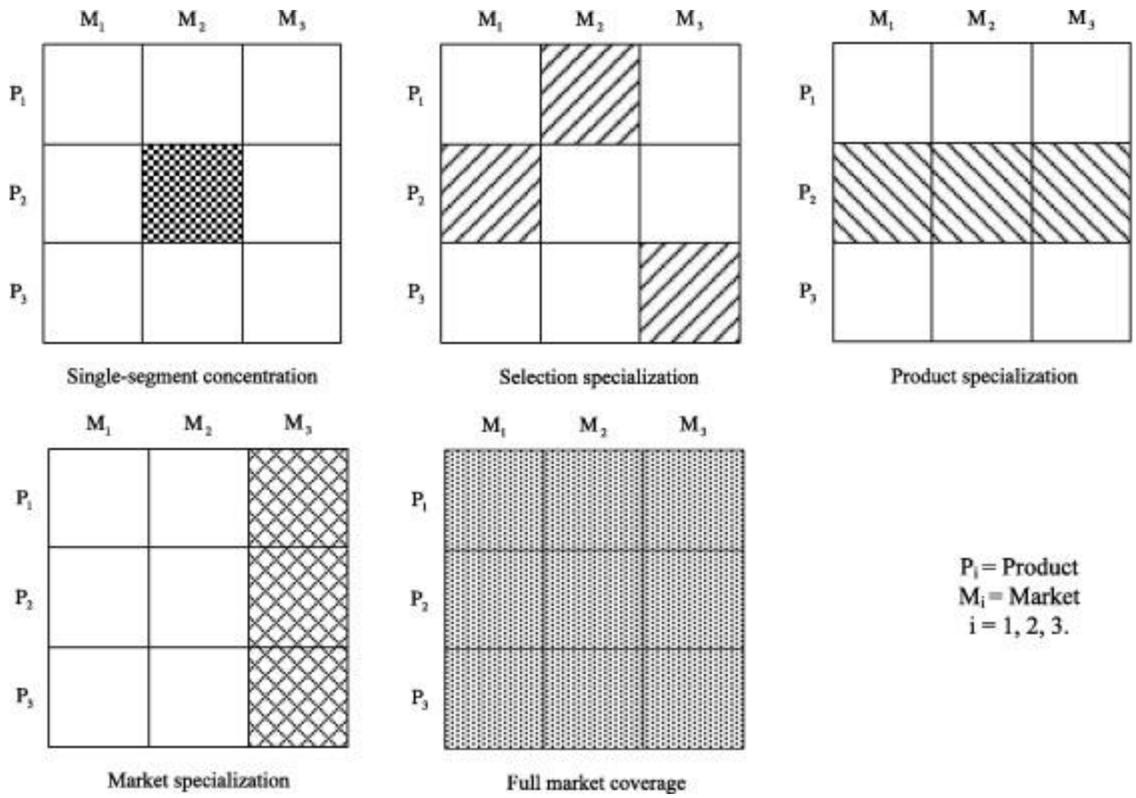
1. Conduct market research and industry analysis
2. Understand customer needs, preferences, and purchase behavior
3. Analyze the market competition and product pricing
4. Segment the market and create effective market strategies



Selecting the Target Market Segments:

Once a marketer has evaluated the different segments for their size, growth, and attractiveness, and found that they are compatible with the company's objectives and resources, the obvious step is to go far selecting the market segments. There are five patterns of target market selection, which was first put forward by D F Abell:

1. Single Segment Concentration
2. Selective Segment Specialisation
3. Market Specialisation
4. Product Specialisation
5. Full Coverage



1. ***Single Segment Concentration:***

In the simplest case, the firm selects a single segment. It is also called as concentrated marketing. The marketer decides to cater to a single segment only. - Concentrated marketing; the marketer understands the needs and wants of the segment and focuses on one segment only

2. Selective Segment Specialisation:

This is known as multistage coverage because different segments are sought to be captured by the company. The company selects a number of segments each of which is attractive, potential and appropriate. There may be little or no synergy among the segments, but this strategy has the advantage of diversifying the firm's risk.

3. Market Specialisation:

It means focusing on the requirements and preferences of clients who are a part of a particular market. Risks are also there because the company solely serves one particular market. For instance, a market downturn has an impact on the organization's profitability and long-term viability.

4. Product Specialisation:

It concentrates on offering various items to various market segments. An organization places more emphasis on its products than on its market segments. A company that employs such a strategy gains a strong reputation for creating those particular products. For instance, Samsung produces mobile phones for several client groups. For business class customers, they offer S-Series phones and basic phones for those with lower incomes.

5. Full Coverage:

The company attempts to serve all customer groups with all the products they might need. Only very large firms can undertake a full market coverage strategy that can be done in 2 ways:

i. Undifferentiated marketing or convergence:

The company ignores market segment differences and goes after the whole market with one market offer. It focuses on a basic buyer need rather than on differences among buyers.

ii. Differentiated marketing or divergence:

The company operates in several market segments and designs different programmes for each segment. It creates more total sales than the former.

III. Segmentation and Targeting as a basis for strategy formulation:

IV. Developing and communicating a positioning strategy

The STP marketing model (Segmentation, Targeting, and Positioning) is a familiar strategic approach in modern marketing. It is one of the most commonly applied marketing models in practice, with marketing leaders crediting it for efficient, streamlined communications practice.

STP marketing focuses on commercial effectiveness, selecting the most valuable segments for a business and then developing a marketing mix and product positioning strategy for each segment.

Positioning : Positioning in marketing is a strategic process that involves creating an identity/ image of the brand or product within the target customers' minds.

Definition :

Philip Kotler defines positioning as “the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market”

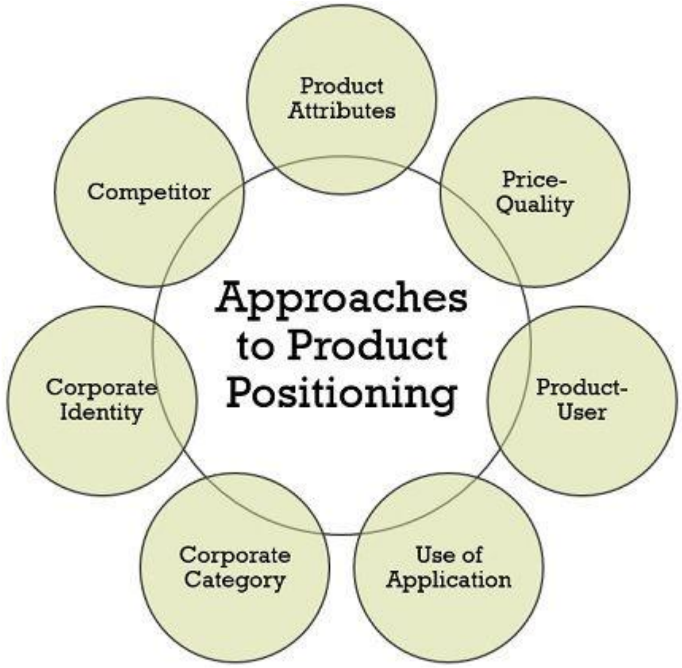
According to **Trout and Ries**, "positioning is not what you do to a product. Positioning is what you do to the mind of the prospect”

Characteristics of A Good Product Positioning

Product positioning isn’t just about choosing the right strategy; it’s also about executing it in the right way. There are certain characteristics that make a good positioning strategy. They are as follows:

- **Relevancy:** The positioning of a product should be relevant to the target audience. It should address their needs and wants.
- **Clarity:** The positioning of a product should be clear and concise. It should be easy for customers to understand.
- **Differentiation:** The positioning of a product should be different from that of its competitors. Otherwise, it will be difficult for customers to see its value.
- **Consistency:** The positioning of a product should be consistent across all channels. This includes advertising, packaging, and even word-of-mouth.
- **Believability:** The positioning of a product should be believable. Otherwise, customers will not trust the brand or the product.

.Types of positioning / approaches of positioning



1. **Positioning by product attributes or consumer benefit**: According to this approach, product positioning can be done on the basis of the brand characteristics or the benefits delivered. Companies using this approach may include automobiles, smartphones, cameras, electronic appliances and many more.

   For Example

   - Berger paints is for long-lasting paint.
   - Pediasure is for growth and nutrition.
   - Listerine is for mouth wash.
   - Maggi is for 2-minute noodles.
   - Bata is for comfortable footwear.

2. **Positioning by price-quality**: As per this approach, the positioning of the product is based on its price-quality, i.e. the manufacturing company consciously offers better services, quality and features, in premium products for which they charge a higher price to cover the cost and the promotional expenses.

   For Example, Zenith watches are positioned for premium quality watches.

3. **Positioning by product-user**: In this approach, the product is positioned keeping in mind a particular consumer or group of consumers.

For Example

Johnson & Johnson for baby products.

4. **Positioning by use of application**: In this approach, the product is positioned for an occasion, event or time of use.

   For Example

   - Boroline for antiseptic cream.
   - Moov for waist and muscle pain
   - Head & Shoulders is for removing dandruff
   - Saffola for keeping the heart-healthy

5. **Positioning by corporate category**: A positioning approach used to perceive the brand, as belonging to a different product category. This is used when the existing product category, already has a number of competitors.

   For Example

   - Boroplus is positioned as an antiseptic plus healthy skin.
   - Finis perfumed phenyl is positioned as a disinfectant and cleaning agent.

6. **Positioning by corporate identity**: Those companies that turned out as highly trusted brand names, and use their names to indicate the competitive excellence to promote their new brands. **For Example** LG, Parle, Sony, Reliance, Toyota, etc

7. **Positioning by competitor**: When the competitor has a good image in the market, and the marketer seeks the consumer to perceive their brand as superior or equivalent to the product offered by the competitor.

   For Example Dettol and Savlon, Surf Excel and Tide, etc.

Errors in product positioning

Positioning Errors

- **Over Positioning**: When a brand differentiates itself to the extent that its products only appeal to a section of the target audience due to the over emphasis of certain aspects of the product.
- **Under Positioning**: When a brand has failed to communicate a compelling position due to which consumers are unclear about the key benefits of their brand.
- **Double Positioning**: When customers do not believe or accept the claims of the brand.

- **Confused Positioning**: When a brand's positioning efforts result in their customers having a confused image of the company and/or its products.

Positioning Strategy - Developing and communicating a positioning strategy

- Positioning according to Ries and Trout
- Positioning according to Treacy and Wiersema

Positioning according to Ries and Trout

According to Trout and Ries, "positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is you position (place) the product in the mind of the potential buyer". Since that time in marketing, positioning is the technique in which marketers try to create an image or identity for a product, brand, or company in the perception of the target market. What matters is how potential buyers see the product. It is expressed relative to the position of competitors. Typical positioning tools include graphical perception mapping, market surveys and certain statistical techniques.

A competitor has three strategic alternatives:

1. Strengthen its own current position in the consumers mind
2. To grab an unoccupied position
3. De- position or re-position the completion in the customers mind

Positioning according to Treacy and Wiersema

According to Treacy and Wiersema, there are three different value discipline strategies that organisations can implement in order to create added value and distinctive character relative to its competitors. They distinguish the following strategies:

- Operational Excellence
- Product Leadership
- Customer Intimacy

Operational Excellence

An organization that focuses on cost leadership will always aim at providing its customers with high quality products or services at competitive prices and ease of purchase. The organization focuses internally on the streamlining of processes. Making as few errors as possible, minimizing superfluous service, standardizing and increasing (economies of scale) are part of this procedure.

Examples of such organizations are: Dell, Walmart, American Airlines, Federal Express, EasyJet and RyanAir.

Customer Intimacy

The organization feels that its customers are the most important aspect of its organization. The organization is continuously working to meet the customer's requirements and delivers mainly tailor-made work and one-on-one solutions in which the organization focuses on a long-term customer relationship. Obtaining a once-only (large) transaction is subordinate to creating a long-lasting intimacy bond.

In order to excel in this strategy, organizations often use an intensive Customer Relations Management (CRM). Examples of such organizations are: Home Depot, Staples in office-supply retailing, Ciba-Geigy in pharmaceuticals, Kraft and Frito-Lay in consumer packaged goods.

Product Leadership

An organization that focuses on product leadership will always strive for product development and product innovation and want to be market leader of the specific product and/ or service (state-of-the-art products). They strive to create a continuous stream of innovation that is in demand with both loyal and new buyers. The organization invests much in Research & Development.

This organization has a flexible structure and stimulates the performance and creativity of its employees. The new and innovative products are often *'better, smaller, faster, trendier and cheaper'* than their previous products. Examples of leading companies are: Apple, Bang & Olufsen, Philips.

Treacy and Wiersema's theory is a convenient aid in formulating strategy for a business (per SBU). The choice of a valuating strategy to be followed plays an important role in strategic marketing plan.

In order to take up a good value position, Michael Treacy and Fred Wiersema mention four rules of procedure an organization has to observe:

Rule no. 1: Try to be the best by excelling in one of the value disciplines.

Rule no. 2: Maintain threshold standards on other value disciplines.

Rule no. 3: Control the market by improving value year after year.

Rule no. 4: Support the value discipline you have opted for by delivering a well-chosen (operating) organizational model.

Communicating a positioning strategy:

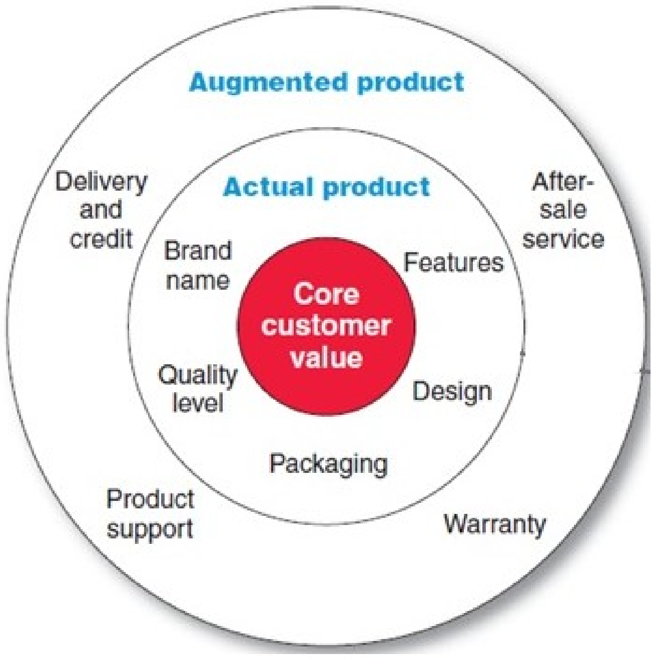
Once the company has developed a clear positioning statement, it must communicate that positioning effectively through all the elements of the marketing mix.

Constituents of a product

The following are the Constituents of a product

1. Core product
2. Actual product
3. Augmented product

The following diagram represents the Constituents of a product



1.Core Benefits

The core product itself is the benefit the customer receives from using the product. People make buying decisions to satisfy their needs.

Example: Washing machine: The core need is to clean the cloths

Hotel: The core need is to provide rest sleep when away from home.

Consequently, at the very heart of all product decisions is determining the key or core benefits a product will provide. From this decision, the rest of the product offering can be developed.

2.Actual Product

The core benefits are offered through the components that make up the actual product the customer purchases.

For instance, when a consumer returns home from shopping at the grocery store and takes a purchased item out of her shopping bag, the actual product is the item she holds in her hand.
Within the actual product is the consumable product, which can be viewed as the main good, service or idea the customer is buying.

3.Augmented Product

Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase.
While these factors may not be key reasons leading customers to purchase (i.e., not core benefits), for some the inclusion of these items strengthens the purchase decision while for others failure to include these may cause the customer not to buy.
Items considered part of the augmented product include:

- Guarantee
- Warranty
- Customer Service
- Complementary Products
- Accessibility

levels of a Product (by Philip Kotler)

The Five Product Levels model provides a way to show the different levels of need customers have for a product. These needs range from core needs to psychological needs. At each product level, more customer value is added.

History

The Five Product Levels model was developed by Philip Kotler in the 1960s. Kotler's book, Marketing Management (15th Edition), was voted one of the 50 best business books of all time in the mid-1990s by the Financial Times.
Before Kotler, marketing existed within a silo, the marketing department. Kotler was instrumental in making marketing an organization-wide activity.

What is a Product?

For Kotler, the definition of a product goes way beyond being a physical object or a service. Kotler defines a "product as anything that can meet a need or a want".

The kotler 5 levels model considers that products are a means to an end to meet the various needs of customers. The model is based on there being three ways in which customers attach value to a product:

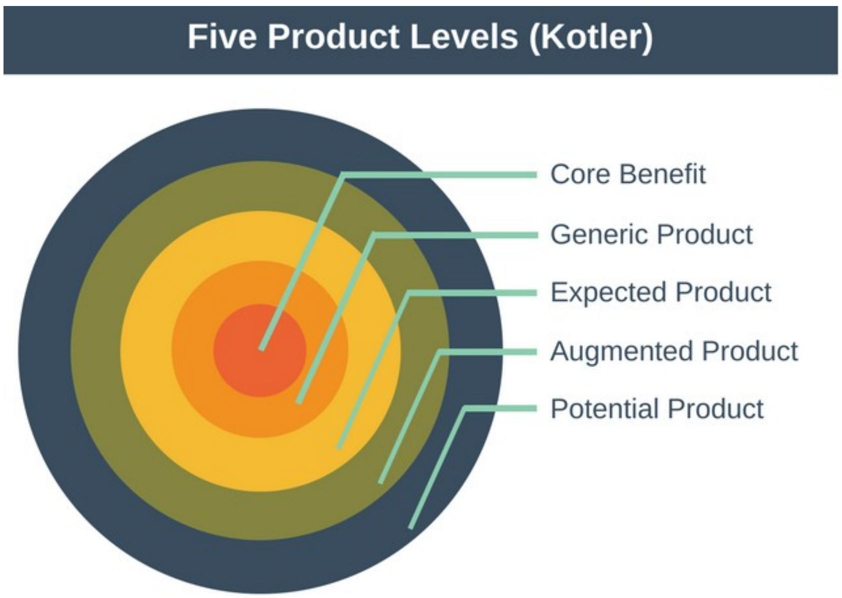
Customer Need: the lack of a basic requirement.

Customer Want: a specific requirement for a product or service to meet a need.

Customer Demand: a set of wants plus the desire and ability to pay to have them satisfied.

Customers will choose a product based on their perceived value of it. The customer is satisfied if the product's actual value meets or exceeds their expectations. If the product's actual value falls below their expectations they will be dissatisfied.

The Five Product Levels



1. **Core Benefit**

The core benefit is the fundamental need or wants that the customer satisfies when they buy the product.

Example: the core benefit of a hotel is to provide somewhere to rest or sleep when away from home.

2. **Generic Product**

The generic product is a basic version of the product made up of only those features necessary for it to function.

In our hotel example, this could mean a bed, towels, a bathroom, a mirror, and a wardrobe.

3. **Expected Product**

The expected product is the set of features that the customers expect when they buy the product.

In our hotel example, this would include clean sheets, some clean towels, Wi-fi, and a clean bathroom.

4. **Augmented Product**

The augmented product refers to any product variations, extra features, or services that help differentiate the product from its competitors.

In our hotel example, this could be the inclusion of a caretaker service or a free map of the town in every room.

5. **Potential Product**

The potential product includes all augmentations and transformations the product might undergo in the future. In simple language, this means that to continue to surprise and delight customers the product must be augmented.

Example: In a hotel, this could mean a different gift placed in the room each time a customer stays. Like, it could be some chocolates on one occasion, and some luxury water on another. By continuing to augment its product in this way the hotel will continue to delight and surprise the customer.

UNIT -3

Topic: **Product Line**

<u>What is product line?</u>

A product line is a group of products that a company creates under a single brand.

<u>Definition:</u>

"Product Line can be understood as an array of related products, under a specific brand, offered by a particular company to its customers".

<u>For example:</u>

Amul offers a series of closely related products such as

- ➔ Milk,
- ➔ Butter,
- ➔ Ghee,
- ➔ Dahi,
- ➔ Yoghurt,
- ➔ Ice cream,
- ➔ Srikhand,
- ➔ Gulab jamun,
- ➔ Flavored milk,
- ➔ Chocolate, etc.

The products are similar and focus on the same market sector. Maybe their function or channel distribution are the same or similar. Perhaps their physical attributes prices, quality, or type of customers are the same. We call the activity product lining.

A company can have more than one product line. The number of product lines it has reflects its resources, i.e., how powerful it is.

Product line numbers might also show the other players in the marketplace how competitive the company is?

Product Line Extension

When a new product is introduced by the company which is a quite different from the company's current range of products is called **Product line extension**. It expands the choice of the customers under a single brand.

The **merits** of product line extension are:

Risk: The risk of new product development reduces when the new variant is launched to the existing product line. The present customers are familiar with the existing product line and if a new product offers the same quality and fulfils the needs of the customers, that it claims, then it results in the reduction of risk

Customer Loyalty: When a company extends its product line by introducing a varied product, the customers will choose the company's product over its competitors which will help in maintaining customer loyalty.

Market expansion: It is obvious that the extension in the product line will widen the choice of customers and thus increase market share. The company can also offer higher and low price version to cater different customer segments, which meets customer requirements.

Branding: Customers are likely to buy the product offered by an existing and familiar brand. Nevertheless, branding becomes difficult when the company offers low-priced line products, as it may harm the parent brand if less quality is offered. In such a case it is better to offer a low-priced product with different brand name.

Product versions: Introducing a number of versions of a single product, is considered as low-risk strategy, wherein each version may have some additional or reduced features, as compared to the basic one. This may help in attracting more and more customers.

Ways to stretch the product line

There are three approaches to stretching the product line, namely:

1. Stretching downwards
2. Stretching upwards
3. Stretching both ways

<u>1. Stretching downwards</u>

A downward stretch of the product line is when a firm introduces lower quality products that they are normally associated with

Firms would engage in downward stretching of their product line for several reasons:

1. To block competitor activities and competitive product offerings
2. To compete in the budget end of the market, particularly if it is a high volume part of the market
3. To help broaden their brand's positioning to be seen as a more affordable brand overall.

<u>2. Stretching upwards</u>

An upward stretch of the product line is the opposite to the downward stretch. Here the firm introduces products that are of high quality as compared to the normal offerings

Firms often target high quality products and stretch their product line upwards because of several reasons, including:

1. High quality products often have a higher unit margin and can be quite profitable at a relatively low turnover
2. Offering high-quality products helps position the overall brand towards being a status brand, which often enables price premiums to be charged across the full product line.

3.Both upward and downward stretching at the same time

Occasionally, firms may look to extend their product line both upwards and downwards – although this is generally rare and more likely in new/growth markets.

This would happen when firms are rapidly expanding their product line and trying to offer a full range of product offerings in order to reduce the incentive for new competitors. Therefore, the intention of this product line approach is to try and own/dominate the product category.

Product line filling

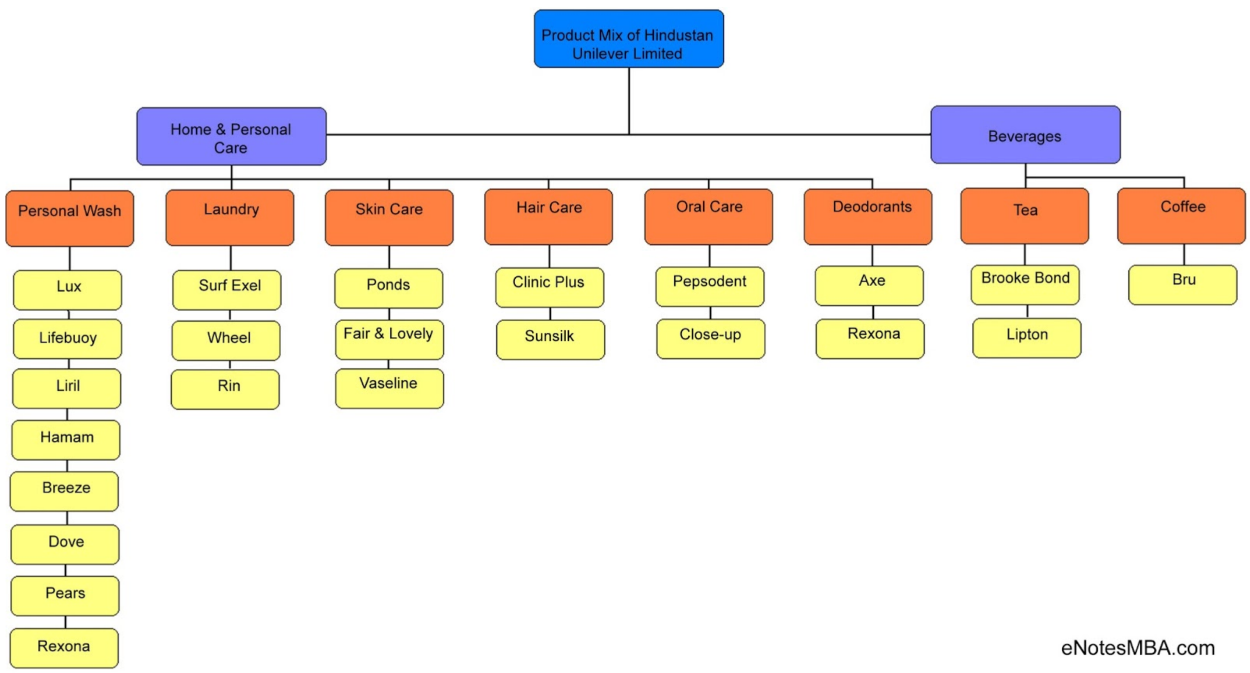
A more common approach to product line extensions is to introduce new products that are consistent with the brand's initial positioning. So rather than expanding into the higher or lower quality end of the marketplace, the brand simply introduces more variations. This is common in fast-moving consumer goods where, snack foods in particular, have a variety of similar products.

PRODUCT MIX

The total range of products offered by a company.
Product mix, also known as product assortment, refers to the total number of product lines a company offers to its customers. For example, your company may sell multiple lines of products. Your product lines may be fairly similar, such as dish washing liquid and bar soap, which are both used for cleaning and use similar technologies. Or your product lines may be vastly different, such as diapers and razors. The four dimensions to a company's product mix include width, length, depth and consistency.

The four dimensions to a company's product mix include

- ➔ width,
- ➔ length,
- ➔ depth and
- ➔ Consistency



Width: Number of Product Lines
The width, or breadth, of a company's product mix pertains to the number of product lines the company sells. **example**, Hindustan Uni Lever offers wide width of its home care, personal care and beverage products. Width of HUL product mix includes Personal wash, Laundry, Skin care, Hair care, Oral care, Deodorants, Tea, and Coffee.
Length: Total Products
The product mix length is the total number of products or items in your company's product mix. As in the given diagram of Hindustan Uni Lever product mix, there are 23 products, hence, the length of product mix is 23
Depth: Product Variations
Depth of a product mix pertains to the total number of variations for each product.

Variations can include size, flavor and any other distinguishing characteristic.
example, Close-up, brand of HUL is available in three formations and in three sizes. Hence, the depth of Close-up brand is 3*3 = 9.
Consistency: is Relationship
Product mix consistency describes how closely related product lines are to one another--in terms of use, production and distribution. Your company's product mix may be consistent in distribution but vastly different in use.

<u>Classification of new products</u>

There are several accepted categories for classifying new products within a company, these are:

1. New-to-the-world products
2. New category products
3. Product line extensions
4. Product improvements
5. Product repositioning
6. Cost reductions

1. NEW-TO-THE-WORLD PRODUCTS

As suggested by the name, the category of new-to-the-world products is essentially a brand-new invention. It has never been brought to market before and the company who has developed it essentially has a short-term monopoly.

2. NEW CATEGORY PRODUCTS

A new category product is when a company diversified his product range into a product area which it has never operated before. There is nothing new about these types of products to the market; they are only new to the company.
A simple example here could be Coca-Cola. As we know, Coca-Cola is primarily a beverage manufacturer throughout the world. Let's assume that they decide to diversify into snack foods and cookies. Then these types of new products would be a new category entry for Coca-Cola.

3. PRODUCT LINE EXTENSIONS

Product line extension is when the company introduces an additional product which is similar to its existing range of products.
A common example of a product line extension is when a well-known brand brings out a variation of its product in terms of size, color, taste, and so on.

4. PRODUCT IMPROVEMENTS

A product improvement is making one or more changes to an existing product that is already in the marketplace. The change may be minor or more significant and typically involves only one or two of the product features, in an attempt to either update the product or make it more competitive or offer a greater array of consumer benefits.
You would probably be aware of the phrase "new and improved" which sometimes

appears on product packaging – which clearly highlights a product improvement has taken place.

5. PRODUCT REPOSITIONING

A product repositioning involves taking an existing product in the marketplace and substantially changing its image (that is, it communicated range of benefits) or its target market. On occasion, product repositioning is also supported by the change in the product design and/or product packaging.

Product repositioning is a little bit less common and usually undertaken when the underlying product is poorly performing but has significant potential benefits for consumers.

EXAMPLE: Magi Noodles

6. COST REDUCTIONS

The final new product category really has no impact in the marketplace, as it is a cost reduction of the existing product. This may be achieved by changing manufacturing or suppliers or ingredients/components. In some cases, the savings is passed on to consumers in the form of a lower price, in other cases the firm’s profit margin will increase.

NEW PRODUCT DEVELOPMENT

What is new product?

The term new product includes an original product, an improved product with new features and quality, a modified product and a new brand.

Why New Product?

The companies need to make continues endeavor towards product development to cope up with rapid changes in consumer tastes, technology and competition.

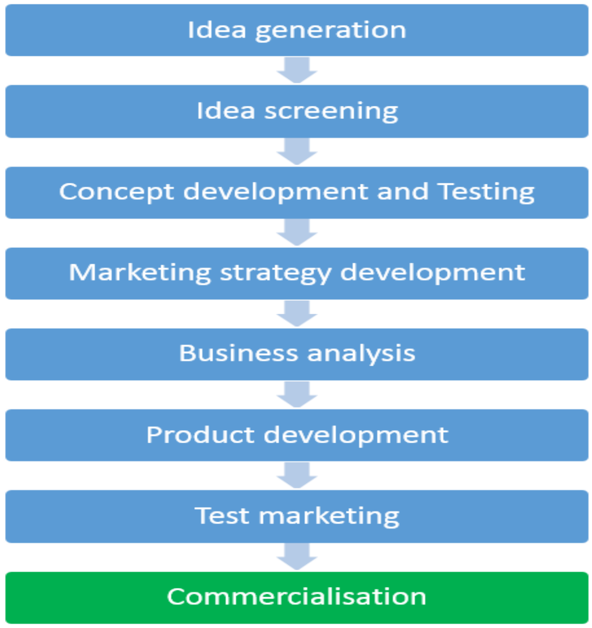
New product development process

The first step towards product development understands the nature of market, the competitors and needs and wants of the consumer. A new product is the result of a series of steps taken by a company, beginning with the conception of a new idea to its successful commercial exploitation. If the idea is commercially viable, the production and marketing of the product on a full scale are undertaken.

The new product development process starts from idea generation and ends with product development and commercialization.

The steps involved in the new product development process are as follows:-

1. Idea Generation
2. Idea Screening
3. Concept Development and Testing
4. Marketing Strategy Development
5. Business Analysis
6. Product Development
7. Test Marketing
8. Commercialisation/Launching of Products.



1. Idea Generation

The first stage of the New Product Development is the idea generation. Ideas come from everywhere, can be of any form, and can be numerous. This stage involves creating a large pool of ideas from various sources like internal and external sources, which include –

- Internal sources – many companies give incentives to their employees to come up with workable ideas.
- SWOT analysis – Company may review its strength, weakness, opportunities and threats and come up with a good feasible idea.
- Market research – Companies constantly reviews the changing needs, wants, and trends in the market.
- Customers – Sometimes reviews and feedbacks from the customers or even their ideas can help companies generate new product ideas.
- Competition – Competitors SWOT analysis can help the company generate ideas.

2. Idea screening

The next step in the new product development process is idea screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance.

Many factors play a part in screening ideas, these include –

- ➔ Company's strength,
- ➔ Company's weakness,
- ➔ Customer needs,
- ➔ Ongoing trends,
- ➔ Expected ROI,
- ➔ Affordability, etc.

3. Concept Development & Testing

The third step of the new product development includes concept development and testing. A concept is a detailed strategy or blueprint version of the idea. Basically, when an idea is developed in every aspect so as to make it presentable, it is called a concept.

All the ideas that pass the screening stage are turned into concepts for testing purpose. Organizations will not launch a product without its concept being tested.

The concept is now brought to the target market. Some selected customers from the target group are chosen to test the concept. Information is provided to them to help them visualize the product. It is followed by questions from both sides. Business tries to know what the customer feels about the concept.

Does the product fulfill the customer's need or want?

Will they buy it when it's actually launched?

Their feedback helps the business to develop the concept further.

4. Marketing strategy development

The next step in the new product development process is the marketing strategy development. When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market.

The marketing strategy statement consists of three parts and should be formulated carefully:

- A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years
- An outline of the product's planned price, distribution and marketing budget for the first year
- The planned long-term sales, profit goals and the marketing mix strategy.

5. Business analysis

Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. All the sales and costs figures together can eventually be used to analyse the new product's financial attractiveness.

6. Product Development

Once all the strategies are approved, the product concept is transformed into an actual tangible product. This development stage of new product development results in building up of a prototype or a limited production model. All the branding and other strategies decided previously are tested and applied in this stage.

7. Test Marketing

Unlike concept testing, the prototype is introduced for research and feedback in the test marketing phase. Customer's feedbacks are taken and further changes, if required, are made to the product. This process is of utmost importance as it validates the whole concept and makes the company ready for the launch.

8. Commercialisation

Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialisation. Commercialisation means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

Product life cycle as a tool for marketing strategies

The **product life cycle** contains four distinct stages: introduction, growth, maturity and decline. Each stage is associated with changes in the product's marketing position. Company can use various marketing strategies in each stage to try to prolong the life cycle of products.

1. Introduction stage strategies

Marketing strategies used in **introduction stages** include:

- ❖ Rapid skimming - launching the product at a high price and high promotional level
- ❖ Slow skimming - launching the product at a high price and low promotional level
- ❖ Rapid penetration - launching the product at a low price with significant promotion
- ❖ Slow penetration - launching the product at a low price and minimal promotion

During the introduction stage, company should aim to:

- ❖ establish a clear brand identity
- ❖ connect with the right partners to promote company's product
- ❖ set up consumer tests, or provide samples or trials to key target markets
- ❖ price the product or service as high as company believe company can sell it, and to reflect the quality level company are providing

Company could also try to limit the product or service to a specific type of consumer - being selective can boost demand..

2. Growth stage strategies

Marketing strategies used in the **growth stage** mainly aim to increase profits. Some of the common strategies to try are:

- ❖ Improving product quality
- ❖ Adding new product features or support services to grow company's market share
- ❖ Enter new markets segments
- ❖ Keep pricing as high as is reasonable to keep demand and profits high
- ❖ Increase distribution channels to cope with growing demand
- ❖ Shifting marketing messages from product awareness to product preference
- ❖ Skimming product prices if company's profits are too low.

Growth stage is when company should see rapidly rising sales, profits and market share. company's strategies should seek to maximise these opportunities.

3. Maturity stage strategies

When company's sales peak, product will enter the maturity stage. This often means that company's market will be saturated and company may find that company need to change marketing tactics to prolong the life cycle of company's product. Common strategies that can help during this stage fall under one of two categories:

- Market modification - this includes entering new market segments, redefining target markets, winning over competitor's customers, converting non-users
- Product modification - for example, adjusting or improving company's product's features, quality, pricing and differentiating it from other products in the marking

4. Decline stage strategies

During the end stages of product, company will see declining sales and profits. This can be caused by changes in consumer preferences, technological advances and alternatives on the market. At this stage, company will have to decide what strategies to take. If company wants to save money, company can:

- reduce promotional expenditure on the products
- reduce the number of distribution outlets that sell them
- implement price cuts to get the customers to buy the product
- fin another use for the product
- maintain the product and wait for competitors to withdraw from the market first
- harvest the product or service before discontinuing it
- Another option for company is to discontinue the product from company's offering. Company may choose to:
- sell the brand to another business
- significantly reduce the price to get rid of all the inventory

Many businesses find that the best strategy is to modify their product in the maturity stage to avoid entering the decline stage.

UNIT -4

UNIT- IV: Pricing and Distribution Management: Objectives of Pricing, Setting Pricing Policy, Methods of Pricing, Adapting Price, Initiating and Responding to Price Changes.

Distribution Management: Channel Function and Flows, Channel Levels, Channel Management Decisions- Retailing- Types, Functions-Wholesaling- Types, Functions.

Pricing

Introduction to price

The price is a critical element of the marketing mix. Price is the amount of money charged for a product or a service. Speaking broadly, the price is the sum of all the values that a customer gives up to gain the benefits of having or using a product or service. Thus, customers exchange a certain value for having or using the product – a value we call price.

Definition: Pricing is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer's offerings relevant to both the producer and the customer.

Factors considered while pricing?

Every business operates with the primary objective of earning profits, and the same can be realized through the Pricing methods adopted by the firms.

While setting the price of a product or service the following points have to be kept in mind:

- ✓ Nature of the product/service
- ✓ The price of similar product/service in the market
- ✓ Target audience i.e. for whom the product is manufactured (high, medium or lower class)
- ✓ The cost of production viz. Labor cost, raw material cost, machinery cost, inventory cost, transit cost, etc.
- ✓ External factors such as Economy, Government policies, Legal issues, etc

Importance of pricing

Price is an important element of the marketing mix for the following reasons:

i. Price is the most important factor for a consumer when it comes to making a purchase decision. Rarely will it be otherwise. As such, the right kind of pricing strategy can help achieve organisational goals.

ii. Price can be easily changed and is flexible thereby helping the organisation to respond quickly to marketplace changes.
iii. Price can also be used as a differentiating factor to set aside the said product from other products in the same category.
iv. Price is also often used to target a particular segment of customers.
v. And, last but not the least; price is the only element of the marketing mix that fetches revenue for the organisation.

Objectives of pricing

The objective once set gives the path to the business i.e. in which direction to go. The following are the pricing objectives that clear the purpose for which the business exists:

1. **Survival**: The foremost Pricing Objective of any firm is to set the price that is optimum and help the product or service to survive in the market. Each firm faces the danger of getting ruled out from the market because of the intense competition, a mature market or change in customer's tastes and preferences, etc. Thus, a firm must set the price covering the fixed and variable cost incurred without adding any profit margin to it. The survival should be the short term objective once the firm gets a hold in the market it must strive for the additional profits. The New Firms entering into the market adopts this type of pricing objective.

2. **Maximizing the current profits**: Many firms try to maximize their current profits by estimating the Demand and Supply of goods and services in the market. Pricing is done in line with the product's demand in the customers and the substitutes available to fulfill that demand. Higher the demand higher will be the price charged. Seasonal supply and demand of goods and services are the best examples that can be quoted here.
3. **Capturing huge market share**: Many firms charge low prices for their offerings to capture greater market share. The reason for keeping the price low is to have an increased sales resulting from the Economies of Scale. Higher sales volume leads to lower production cost and increased profits in the long run. This strategy of keeping the price low is also known as Market Penetration Pricing. This pricing method is generally used when competition is intense and customers are price sensitive. FMCG industry is the best example to supplement this.
4. **Market Skimming**: Market skimming means charging a high price for the product and services offered by the firms which are innovative, and uses modern technology. The prices are comparatively kept high due to the high cost of production incurred because of modern technology. Mobile phones, Electronic Gadgets are the best examples of skimming pricing that are launched at a very high cost and gets cheaper with the span of time.
5. **Product –Quality Leadership**: Many firms keep the price of their goods and services in accordance with the Quality Perceived by the customers. Generally, the luxury goods create their high quality, taste, and status image in the minds of customers for which they are willing to pay high prices. Luxury cars such as BMW, Mercedes, Jaguar, etc. create the high quality with high-status image among the customers.

Thus, every firm operates with the ultimate objective of earning profits and, therefore, the price of a product must be set keeping in mind the cost incurred in its production along with the benefits it offers for which people are ready to pay extra.

Setting Pricing Policy

- ✓ Meaning of Pricing Policy
- ✓ Considerations Involved in Formulating the Pricing Policy
- ✓ Objectives
- ✓ Factors Involved.

Meaning of Pricing Policy

A pricing policy is a standing answer to recurring question. A systematic approach to pricing requires the decision that an individual pricing situation be generalised and codified into a policy coverage of all the principal pricing problems. Policies can and should be tailored to various competitive situations. A policy approach which is becoming normal for sales activities is comparatively rare in pricing.

Most well managed manufacturing enterprises have a clear cut advertising policy, product customer policy and distribution-channel policy. But pricing decision remains a patchwork of ad hoc decisions. In many, otherwise well managed firms, price policy have been dealt with on a crisis basis. This kind of price management by catastrophe discourages the kind of systematic analysis needed for clear cut pricing policies.

Considerations Involved in Formulating the Pricing Policy

The following considerations involve in formulating the pricing policy:

(i) Competitive Situation:

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special significance only under imperfect competition.

(ii) Goal of Profit and Sales:

The businessmen use the pricing device for the purpose of maximising profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

(iii) Long Range Welfare of the Firm:

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

(iv) Flexibility:

Pricing policies should be flexible enough to meet changes in economic conditions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

(v) Government Policy:

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

(vi) Overall Goals of Business:

Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firms overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

(vii) Price Sensitivity:

The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product, importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimise it.

(viii) Routinisation of Pricing:

A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinised pricing.

Objectives

Objectives of Pricing Policy:

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on.

Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product. For pricing decision, one has to define the price of the product very carefully.

Pricing decision of a firm in general will have considerable repercussions on its marketing strategies. This implies that when the firm makes a decision about the price, it has to consider its entire marketing efforts. Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

While setting the price, the firm may aim at the following objectives:

(i) Price-Profit Satisfaction:

The firms are interested in keeping their prices stable within certain period of time irrespective of changes in demand and costs, so that they may get the expected profit.

(ii) Sales Maximisation and Growth:

A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, it can achieve growth.

(iii) Making Money:

Some firms want to use their special position in the industry by selling product at a premium and make quick profit as much as possible.

(iv) Preventing Competition:

Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

(v) Market Share:

The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximisation will lead to long run profit maximisation and market share growth.

(vi) Survival:

In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from the rivals.

(vii) Market Penetration:

Some companies want to maximise unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

.(viii) Marketing Skimming:

Many companies favour setting high prices to 'skim' the market. Dupont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

(ix) Early Cash Recovery:

Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against uncertainty of the future.

(x) Satisfactory Rate of Return:

Many companies try to set the price that will maximise current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

Factors Involved.

Factors Involved in Pricing Policy:

The pricing of the products involves consideration of the following factors:

(i) Cost Data.

(ii) Demand Factor.

(iii) Consumer Psychology.

(iv) Competition

(v) Profit.

(vi) Government Policy.

(i) Cost Data in Pricing:

Cost data occupy an important place in the price setting processes. There are different types of costs incurred in the production and marketing of the product. There are production costs, promotional expenses like advertising or personal selling as well as taxation, etc.

They may necessitate an upward fixing of price. For example, the prices of petrol and gas are rising due to rise in the cost of raw materials, such as crude transportation, refining, etc. If costs go up, price rise can be quite justified. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices apart from costs, a number of other factors have to be taken into consideration. They are demand and competition.

Costs are of two types:

Fixed costs and variable costs. In the short period, that is, the period in which a firm wants to establish itself, the firm may not cover the fixed costs but it must cover the variable cost. But in the long run, all costs must be covered. If the entire costs are not covered, the producer stops production.

Subsequently, the supply is reduced which, in turn, may lead to higher prices. If costs are not covered, the producer stops production. Subsequently, the supply is reduced which, in turn, may lead to higher prices. If costs were to determine prices why do so many companies report losses?

There are marked differences in costs as between one producer and another. Yet the fact remains that the prices are very close for a somewhat similar product. This is the very best evidence of the fact that costs are not the determining factors in pricing.

In fact, pricing is like a tripod. It has three legs. In addition to costs, there are two other legs of market demand and competition. It is no more possible to say that one or another of these factors determines price than it is to assert that one leg rather than either of the other two supports a tripod.

Price decisions cannot be based merely on cost accounting data which only contribute to history while prices have to work in the future. Again it is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price.

The management has to assume some desired price-volume relationship for determining costs. That is why, costs play even a less important role in connection with new products than with the older ones. Until the market is decided and some idea is obtained about volume, it is not possible to determine costs.

Regarding the role of costs in pricing, Nickerson observes that the cost may be regarded only as an indicator of demand and price. He further says that the cost at any given time represents a resistance point to the lowering of price. Again, costs determine profit margins at various levels of output.

Cost calculation may also help in determining whether the product whose price is determined by its demand, is to be included in the product line or not. What costs determine is not the price, but whether the production can be profitably produced or not is very important.

Relevant Costs:

The question naturally arises: "What then are the relevant costs for pricing decision? Though in the long run, all costs have to be covered, for managerial decisions in the short run, direct costs are relevant. In a single product firm, the management would try to cover all the costs."

In a multi-product firm, problems are more complex. For pricing decision, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover all direct costs that are attributable to a product. In addition, it must contribute to the common cost and to the realisation of profit. If the price, in the short run, is lower than the cost, the question arises, whether this price covers the variable cost. If it covers the variable cost, the low price can be accepted.

But in the long run, the firm cannot sell at a price lower than the cost. Product pricing decision should be lower than the cost. Product pricing decision should, therefore, be made with a view to maximise company's profits in the long run.

(ii) Demand Factor in Pricing:

In pricing of a product, demand occupies a very important place. In fact, demand is more important for effective sales. The elasticity of demand is to be recognised in determining the price of the product. If the demand for the product is inelastic, the firm can fix a high price. On the other hand, if the demand is elastic, it has to fix a lower price.

In the very short term, the chief influence on price is normally demand. Manufacturers of durable goods always set a high price, even though sales are affected. If the price is too high, it may also affect the demand for the product. They wait for arrival of a rival product with competitive price. Therefore, demand for product is very sensitive to price changes.

(iii) Consumer Psychology in Pricing:

Demand for the product depends upon the psychology of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity. There are consumers who buy a product provided its quality is high.

Generally, product quality, product image, customer service and promotion activity influence many consumers more than the price. These factors are qualitative and ambiguous. From the point of view of consumers, prices are quantitative and unambiguous.

Price constitutes a barrier to demand when it is too low, just as much as where it is too high. Above a particular price, the product is regarded as too expensive and below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.

With an improvement in incomes, the average consumer becomes quality conscious. This may lead to an increase in the demand for durable goods. People of high incomes buy products even though their prices are high. In the affluent societies, price is the indicator of quality.

Advertisement and sales promotion also contribute very much in increasing the demand for advertised products. Because the consumer thinks that the advertised products are of good quality. The income of the consumer, the standard of living and the price factor influence the demand for various products in the society.

(iv) Competition Factor in Pricing:

Market situation plays an effective role in pricing. Pricing policy has some managerial discretion where there is a considerable degree of imperfection in competition. In perfect competition, the individual producers have no discretion in pricing. They have to accept the price fixed by demand and supply.

In monopoly, the producer fixes a high price for his product. In other market situations like oligopoly and monopolistic competition, the individual producers take the prices of the rival products in determining their price. If the primary determinant of price changes in the competitive condition is the market place, the pricing policy can least be categorised as competition based pricing.

(v) Profit Factor in Pricing:

In fixing the price for products, the producers consider mainly the profit aspect. Each producer has his aim of profit maximisation. If the objective is profit maximisation, the critical rule is to select the price at which MR = MC. Generally, the pricing policy is based on the goal of obtaining a reasonable profit. Most of the businessmen want to hold the price at constant level.

They do not desire frequent price fluctuation. The profit maximisation approach to price setting is logical because it forces decision makers to focus their attention on the changes in production, cost, revenue and profit associated with any contemplated change in price. The price rigidity is the practice of many producers. Rigidity does not mean inflexibility. It means that prices are stable over a given period.

(vi) Government Policy in Pricing:

In market economy, the government generally does not interfere in the economic decisions of the economy. It is only in planned economies, the government's interference is very much. According to conventional economic theory, the buyers and sellers only determine the price. In reality, certain other parties are also involved in the pricing process. They are the competition and the government.

The government's practical regulatory price techniques are ceiling on prices, minimum prices and dual pricing. In a mixed economy like India, the government resorts to price control. The business establishments have to adopt the government's price policies to control relative prices to achieve certain targets, to prevent inflationary price rise and to prevent abnormal increase in prices.

Pricing Methods

Introduction:

Pricing method can be seen as the process of ascertaining the value of a product or service at which the manufacturer is willing to sell it in the market. The cost, market competition and demand are the three significant factors which influence a product's price.

Pricing of products or services is a crucial decision-making strategy of the firm, since it has a long-lasting impact over the business and its existence. Hence, a suitable pricing method needs to be adopted for this purpose.

Pricing Methods

The following are the various models developed over the years for price determination, based on cost, demand and market determinants:

1. Cost-Oriented Methods

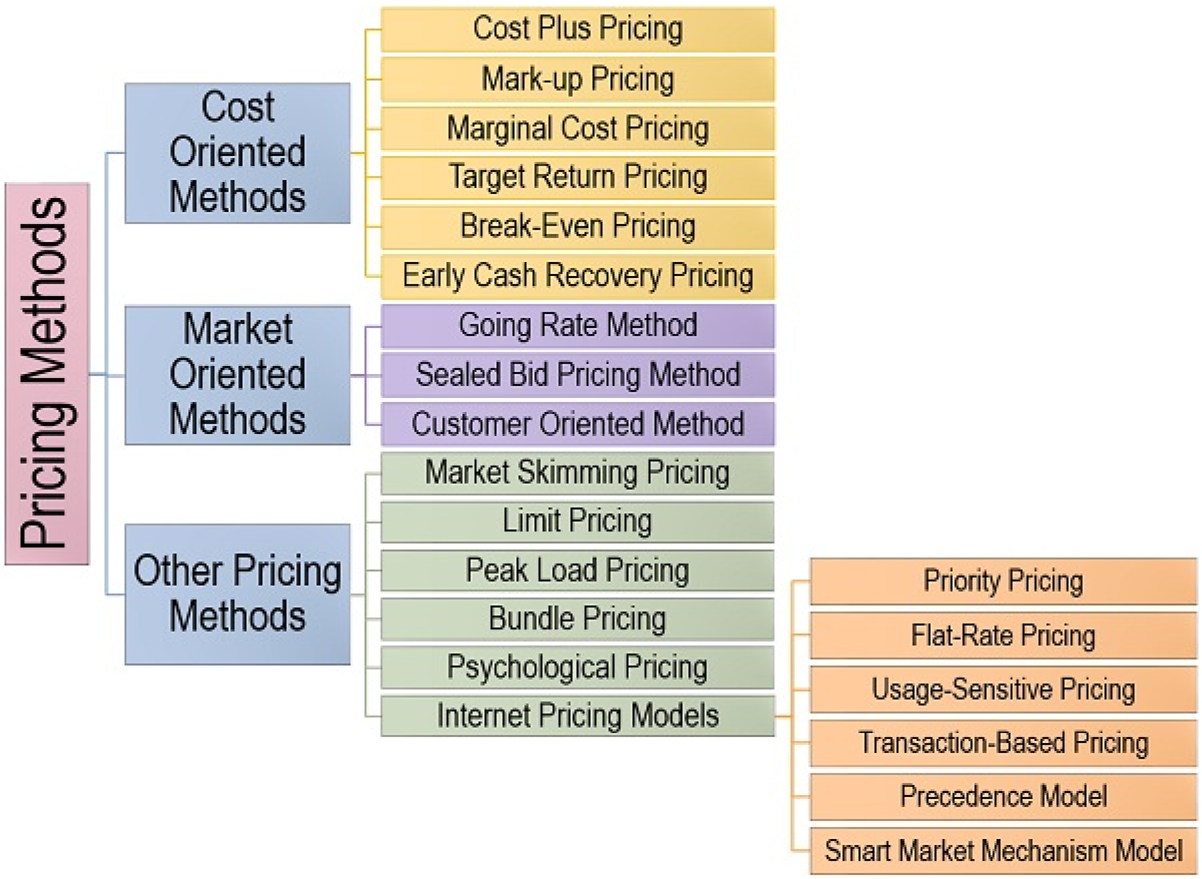
- Cost Plus Pricing
- Mark-up Pricing
- Marginal Cost Pricing
- Target Return Pricing
- Break-Even Pricing
- Early Cash Recovery Pricing

2. Market Oriented Methods

- Going Rate Method
- Sealed Bid Pricing Method
- Customer-Oriented Method

3. Other Pricing Methods

- Market Skimming Pricing
- Limit Pricing
- Peak Load Pricing
- Bundle Pricing
- Psychological Pricing
- Internet Pricing Models



Cost-Oriented Methods

These are the traditional methods of product pricing. The major factors which influence the product price are the fixed cost, variable cost other overheads incurred in manufacturing the products.

Different cost-oriented pricing models below:

1.Cost Plus Pricing

Cost-plus pricing is one of the simplest ways of price determination. A certain percentage of cost is added as a profit margin to the value of the product to acquire the selling price.

2. Mark-up Pricing

It is a form of cost-plus pricing, but here the profit margin is presented as a percentage of expected return on sales. The formula for mark-up pricing is:

$$\text{Mark} - \text{up Price} = \frac{\text{Unit Cost (Fixed + Variable)}}{1 - \text{Percentage of Expected Return on Sales}}$$

Example: If the unit cost of manufacturing a bag is Rs.100 and the expected return on sales is 25%, determine the mark-up price.

Mark-up Price=Unit Cost (Fixed + Variable) / (1-Percentage of Expected Return on Sales)
Mark-up Price=100/1-25%
Mark-up Price=Rs.133.33

3. Marginal Cost Pricing

The primary aim of the company adopting this pricing method is to meet its marginal cost and overheads. The marginal costing method is suitable for entering the industries which are dominated by giant players, posing a fierce competition for the organization to sustain in the business.

4. Target Return Pricing

The pricing objective in target return method is to attain a certain level of ROI (Return on Investment). The formula for determining the target return price is:

$$\text{Target Return Price} = \frac{\text{Total Cost + Desired Return on Investment}}{\text{Total Sales in Units}}$$

To find out the desired return on investment:

$$\text{Desired Return on Investment} = \text{Desired \%ROI} \times \text{Total Investment Value}$$

Example: If the total business investment is Rs.80000, the desired ROI is 25%; the total cost incurred is Rs.30000 and the expected sales are 5000 units, determine the target return price.

Target Return Price = (Total Cost + Desired Return on Investment) / Total Sales in Units
Desired Return on Investment = Desired %ROI ×Total Investment Value
Desired Return on Investment=25%×80000
Desired Return on Investment=Rs.20000
Target Return Price=(30000+20000)/5000
Target Return Price=Rs.10

5.Break-Even Pricing

This method is similar to break-even analysis; here the company needs to price the products such that it generates profit after recovering the fixed and variable costs. The selling price should be equal to or more than the break-even price (the point at which the sales revenue matches the cost of goods sold).

The formula for ascertaining the break-even limit is:

$$\text{Break} - \text{Even Limit} = \frac{\text{Total Fixed Cost}}{\text{Selling Price Per Unit} - \text{Variable Cost Per Unit}}$$

For instance, a company incurs Rs.500000 as fixed cost and Rs.25 as a variable cost. If the selling price is Rs.75, find out the break-even limit.

Break-Even Limit=Total Fixed Cost/(Selling Price Per Unit-Variable Cost Per Unit)
Break-Even Limit=500000/(75-25)
Break-Even Limit=10000 Units

Thus, the organization either needs to sell more than 10000 units or price the product higher than Rs.75 to earn a profit.

6. Early Cash Recovery Pricing

When it comes to rapidly growing technological products or the ones with a short life cycle, the cost needs to recover as early as possible. This method is very similar to target return pricing; the only difference is that it considers a high value of return on investment owing to a short recovery period.

Market-Oriented Methods

In a highly competitive market, the company cannot survive with cost-oriented pricing. Hence, it needs to price its products according to the market demand and competitor's pricing strategy.

To understand the three primary market-oriented models of pricing, read below:

1.Going Rate Method

'Follow the crowd' method is based on market competition, where the company price its product similar to the competitor's product price. If the market leader reduces the price of its product, the organization also needs to decrease its product price, even if the latter's cost of production is high.

2. Sealed Bid Pricing Method

When it comes to industrial marketing or government projects, the supplier needs to bid specific product price, which he/she assumes to be the lowest, in a sealed quotation.

In other words, the organization needs to fill a tender, which indicates its costing and competitiveness. The pricing should be done smartly by estimating the profit margin at different price levels and enclosing the most competitive price.

3. Customer-Oriented Method

This method is also called perceived value pricing. It is demand-based pricing where the company determines the product price on value perception in terms of consumer demand for the particular goods or service. This perceived value is based on the following constituents:

- Acquisition Value: The acquisition value is based on the opportunity cost of a product or service, which is estimated through the comparison of the perceived benefit and the perceived sacrifice.
- Transaction Value: The comparison of the customer's reference price (assumed or quoted price) with the actual price paid for the product or service is the transaction value.

The other methods to find out the perceived value are as follows:

- Direct Price Rating Method: The customers need to determine the price of products displayed to them, where each product belong to a different brand.
- Direct Perceived Value Rating: The buyers rate the different brand products on a scale of 0-100 according to their preference. The highest-rated product has the maximum perceived value.
- Economic Value to the Customer: To determine the target market segment, the companies correlate its total product cost to the consumer benefits of the current product.
- Diagnostic Method: The customers evaluate products of multiple brands on various parameters or attributes. Each attribute has an importance weight, and on multiplying it with the given ratings, the perceived value of each brand can be determined.

Other Pricing Methods

There are specific other methods for determining the price of a product or service, other than considering the cost or market competition as the basis. These are explained in detail below:

1.Market Skimming Pricing

The skimming method is usually implemented in case of speciality, luxury or innovative products.

Here, the company avails the profit opportunity in the initial stage of marketing by selling the products at a high price in a non-price-sensitive market segment. Later, the prices are dropped down gradually to sustain in the market.

2.Limit Pricing

This is defensive pricing strategy. The company price its products immensely low (and this price is known as entry forestalling price), to retain the monopoly in the market. It is done to discourage the entry of competitors by presenting the business as unattractive and non-profitable.

3.Peak Load Pricing

The peak load method is demand-based pricing, where the companies charge high prices in the peak seasons or period when the demand for the product is quite high. However, in the off-peak time or season when the demand falls, the prices are kept low.

It is applied for seasonal product pricing, airline travel pricing, tourism package pricing, etc.

4.Bundle Pricing

Bundling refers to compiling of two or more products together and selling it as a single product. The company prices the complete bundle at a single price known as the offer price.

An organization can either opt for pure bundling, where the products in a bunch are strictly not available individually. Or it may go for a mixed bundling, i.e. the products in a bundle can be sold separately but at a higher price.

5.Psychological Pricing

This pricing method aims to influence the consumers mentally by posing a low product price.

Here, the product is priced slightly less than a round figure, for instance: a product is priced at Rs.99 instead of Rs.100 or 1.98$ instead of 2$. This makes the consumer assume that the product price lies within the range of Rs.100 or 2$ and therefore it is worth buying.

6.Internet Pricing Models

Internet is a modern communication platform and therefore, provides vast scope for carrying out marketing activities. The different pricing methods for internet services (as a product) are as follows:

6.1 Priority Pricing: The consumer's priority for service quality determines the price of internet services; thus, the price increases with the quality of internet service.

6.2 Flat-Rate Pricing: The consumer is charged a fixed amount for availing the internet services for a defined period irrespective of the sage.

6.3 Usage-Sensitive Pricing: The utility tariff is divided into two sections, the provider first charges for the service connection and then for the usage in terms of price per unit (bit).

6.4 Transaction-Based Pricing: Here, the price is first charged for service connection and then each transaction is separately chargeable.

6.5 Precedence Model: The pricing here, is based on the security provided to the existing customers by setting up the priority of different applications. Data packets are formed based on network preference and are given different precedence numbers. In case of congestion, the packets are sent in the sequence of their assigned precedence numbers.

6.6 Smart Market Mechanism Model: This model is purely dependent on network congestion. It functions through a dynamic bidding system where the bit price fluctuates with the level of congestion or traffic in the network. The bidder with the highest bit or unit price wins the deal.

Every business organization has a different objective; not all the companies aim at profit-making. Some may look forward to capturing the market and others may focus on long term existence.

Thus, these organizational goals determine the pricing methods to some extent. However, the prevailing market trends or industry type also influence these decisions massively.

Adapting price:

Introduction: Price adaptation is the ability of a business to change its pricing models to suit different geographic areas, consumer demands and prevailing incomes.

Marketing plays a significant role in price adaptation because pricing strategy is one of the four main components in determining product positioning, which is how a company chooses to present products to consumers and generate interest. The more adaptability a business has, the better chance it has of appealing to more consumers.

Adapting price Strategies

Geographic Pricing and Marketing

Geographic pricing relates to how a business chooses to price its products within different regions. This can mean different parts of a particular state, country or even around the globe. In selecting its product prices for different regions, a business also adapts its marketing strategies to fit those pricing models. For example, a company may increase its product prices in areas where median income among consumers is high, and reduce its prices in areas where median income is low. A business may also keep prices low as a means of generating product interest in areas of the country outside its normal target market areas. This allows a company to spread interest for its products across wider geographic areas and ultimately increase sales.

Geographical pricing takes the following forms:

- Buyback arrangement;
- Compensation deal;
- Barter;
- Offset.

Offering Product Discounts

Adapting pricing models to include product discounts is a marketing strategy used to attract bargain hunting consumers and to fend off new competitors attempting to enter target market areas. Product discounts allow marketing management to create short advertising campaigns to stimulate excitement over a company's brands and individual product offerings. Business marketers can also use discounts to create consumer interest in market areas with traditionally lower median incomes. This allows those consumers to try products they might not otherwise be able to afford on a regular basis.

Types of price discounts: Cash discounts, functional discounts, quantity discounts, allowances, seasonal discounts.

Managing Cost and Demand

The cost to create a company's products plays an integral part in how much adaptability the business has with its product pricing. Usually, goods with low production costs have the largest price flexibility because the organization can accept discounted retail prices and still turn a profit. Higher production costs leave less room for a business to adjust its retail price and still recoup costs. To help with price flexibility, marketing managers create advertising campaigns designed to stimulate demand for a company's products. These campaigns emphasize a variety of product aspects to stimulate consumer interest, including pricing points and attractive features.

Marketing Product Lines

Creating product lines composed of items with different features and target audiences provides a business with a wide range of price adaptability. The business can create an item to fit each target market area and assign a price to match the median incomes in those areas. Marketing managers within the business can develop promotional campaigns to emphasize the different strengths of these products to various target consumer groups. For example, emphasizing the durability of items within a product line can appeal to consumers who search for bargains, while pushing the high end features of products can attract consumers who always purchase products from industry leaders.

Initiating and Responding to Price Changes

Initiation Price Changes:

Companies are bound to face market situations where they are required to initiate price changes. It means, either they are to cut the prices or increase the present prices to survive, maintain status quo or further growth.

Initiating price changes involves two possibilities

- ➔ Price cuts and
- ➔ Price increases

Initiating Price Cuts:

There are good many circumstances where a firm is to resort to price cuts.

<u>There are genuine reasons for cutting prices:</u>

1. **Excess capacity**: First may be existence of excess capacity. In such situation the firm is badly in need of additional business and cannot generate it through increased sales efforts, product improvement or even price rise.
2. **Dominate the market:** Second reason for initiating price cut is a drive to dominate the market through lower costs.

Problems with price cuts or disadvantages

Either the company starts with lower costs than its competitors or it initiates price cuts in the hope of gaining the market share and lower costs to price cutting policy involves the following possible traps:

1. **Low-quality trap:**

   Consumers will assume that quality is low.

2. Fragile-market share trap:

A low price buys market share but not market loyalty. The same customers will shift to any lower- priced firm that comes along.

3. Shallow-pockets trap:

The higher priced competitors may cut their prices and may have longer staying power because of deeper cash resources.

Initiating Price Increases:

Price increase is a source of maximising the profit or maintaining it if done carefully. Say a company earns 3 percent profit on sales, and one percent price increase will increase profits by 33 per cent if sales volume is not affected.

The factors leading to price increase can be:

1. Increase in **cost inflation**. That is raising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their by more than the cost hike, in anticipation of further inflation or government price controls, in a practice called anticipatory pricing.

2. Over **demand** can be another cause that leads to price increase. When the company cannot supply all of its customers, it can raise its prices, ration or cut supplies to customers or both.

The price can be increased by at least four ways:

1. Delayed quotation pricing:

The company does not set final price until product is finished or delivered. This pricing is prevalent in industries with long production lead times like construction and heavy industrial equipments.

2. Unbundling:

The company under this plan maintains its price but removes or prices separately one or more elements that were part of the former offer, such as free delivery or installation.

Automobile companies, sometimes, add antilock brakes and passenger-side air-bags as supplementary extras to their whiles.

3. Escalator clauses:

Under this, the company asks the customer to pay today’s price and all or part of any inflation increase that takes place before delivery. This hike based on specified price index. These escalation clauses are quite common in construction line whether it is a house or industrial project or air-craft and ship building.

4. Reduction of discounts:

The company asks the sales force to offer its normal cash and quantity discounts at reduced rate. To gain four such attempts, the company must avoid looking like a price gouger. Companies also think of who will bear the brunt of the increased prices.

It is so because, customer memories are long, and they can turn against the company which is perceived as price gauger.

Reactions to Price Changes:

Naturally any price change provokes response or reaction from customers, competitors, distributors and suppliers and even the government. Here, we shall touch only the reactions of consumers and competitors.

Customer Reactions:

Consumers are more interested in knowing the cause or causes of price change.

A price cut can be interpreted in several ways:

1. The item or product is about to be replaced by a new model.
2. The item is faulty and it is not selling well.
3. The firm's financial position is badly affected.
4. The price will come down further.
5. The quality has been reduced.

A price hike may have some positive meanings:

1. The items is 'hot'
2. It has a high value because of quality.

Competitor Reactions:

Competitors are most likely to react when the number of firms is few, the product is homogeneous, and buyers are highly informed. Competitor reactions can be a special problem when they have a strong value proposition. The price hike them to take steps based on objectives of such price hike where they will resort to advertising and product improving efforts.

In case of price cuts, they have different interpretations:
1. That the company’s trying to steal the market
2. That the company is doing poorly and trying to boost its sales
3. That company wants the whole industry to reduce prices to stimulate total demand.

Distribution Management

What is Distribution Management?

Distribution management refers to the process of overseeing the movement of goods from supplier or manufacturer to point of sale.

It is an overarching term that refers to numerous activities and processes such as packaging, inventory, warehousing, supply chain, and logistics.

Distribution management is an important part of the business cycle for distributors and wholesalers. The profit margins of businesses depend on how quickly they can turn over their goods. The more they sell, the more they earn, which means a better future for the business. Having a successful distribution management system is also important for businesses to remain competitive and to keep customers satisfied.

Objectives of Physical Distribution Management

The principal objectives of physical distribution are to deliver the right goods to the right customer at the right time and place.

Channel functions and flows

Marketing Channel Functions

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place and possession gaps that separate gaps that separate goods and services from those who would use them.

Marketing channels, such as distributors, wholesalers and retailers, provides business with three kinds of functions:

1. Buying products for resale to customers,
2. Distributing products to customers and
3. Supporting sales to customers through financing and other services.

Members in the marketing channel perform a number of key functions and participate in the following marketing flows:

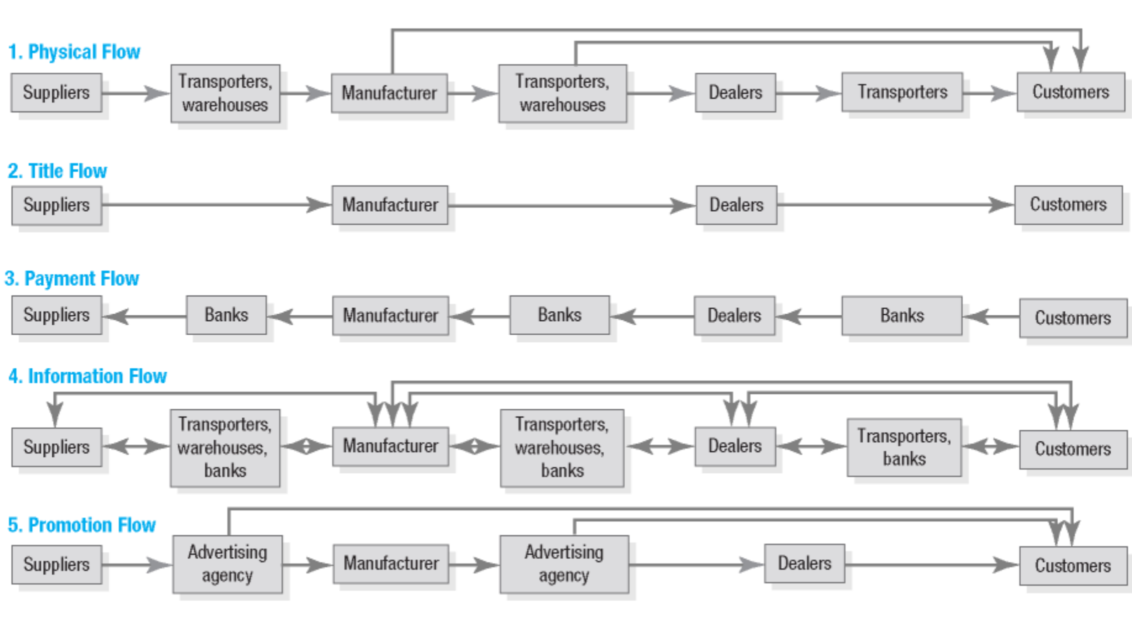
- **Information**: The collection and dissemination of marketing research information about potential and current customers, competitors, and other actors and forces in the marketing environment.

- **Promotion**: The development and dissemination of persuasive communications about the offer designed to attract customers.
- **Negotiation**: The attempt to reach final agreement on price and other terms so that transfer of ownership or possession can be effected
- **Ordering**: The backward communication of intensions to buy by the marketing-channel members to the manufacturer
- **Financing**: The acquisition and allocation of funds required to finance investors at different levels of the marketing channel
- **Risk Taking**: The assumption of risks connected with carrying out the channel work
- **Physical Possession**: The successive storage and movement of physical products from raw materials to the final customers
- **Payment**: Buyers paying their bills through banks and other financial institutions to the sellers
- **Title:** The actual transfer of ownership from one organization or person to another

Channel flows

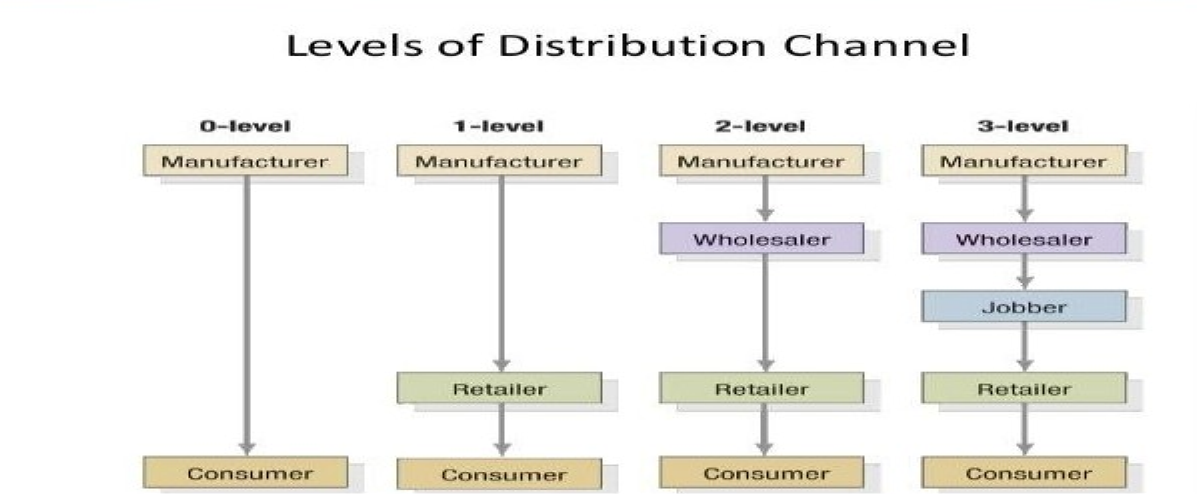
Channel flows refer to the marketing functions performed by manufacturers, wholesalers, retailers, and other channel members within the channel. The channel flows are

1. Physical flow
2. Title flow
3. Payments flow
4. Information flow
5. Promotions


1. Physical Flow
Suppliers
Transporters, warehouses
Manufacturer
Transporters, warehouses
Dealers
Transporters
Customers
2. Title Flow
Suppliers
Manufacturer
Dealers
Customers
3. Payment Flow
Suppliers
Banks
Manufacturer
Banks
Dealers
Banks
Customers
4. Information Flow
Suppliers
Transporters, warehouses, banks
Manufacturer
Transporters, warehouses, banks
Dealers
Transporters, banks
Customers
5. Promotion Flow
Suppliers
Advertising agency
Manufacturer
Advertising agency
Dealers
Customers

Channel Levels:

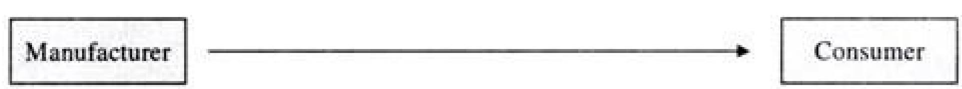
Each layer of distribution intermediaries that performs some work in bringing the product to its final consumer is a channel level.



(i) A Zero Level Channel:

A zero level channel, commonly known as direct marketing channel has no intermediary levels

In this channel framework manufacturer sells merchandise directly to customers. An example of a zero level channel would be a factory outlet store. Many service providers like holiday companies, also market direct to consumers, bypassing a traditional retail intermediary – the travel agent.



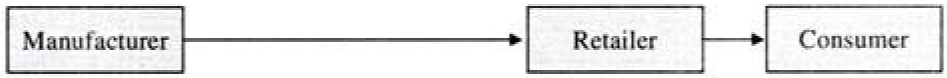
EXAMPLE: Eureka Forbes, leaders in domestic and industrial water purification systems, vacuum cleaners, air purifiers & security solutions is pioneered in direct selling that makes it an Asia's largest direct sales organization

The remaining channels are known as indirect-marketing channels.

(ii) A One Level Channel:

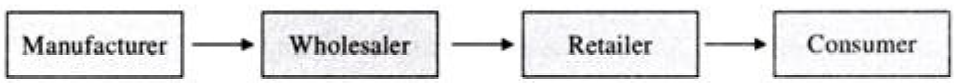
A one level channel contains one selling intermediary. In consumer markets, this is usually a retailer.

Example : The consumer electrical goods market in the United Kingdom is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Comet, Dixons and Currys which then sell the goods to the final consumers.



(iii) A Two Level Channel:

A two level channel encompasses two intermediary levels – a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of merchandise from various manufacturers and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited financial resources and order quantities, the use of wholesalers makes economic sense.



Example: Distribution of drugs/ pharmaceuticals in the Europe and United Kingdom is typical example of such arrangement.

iv) A Three Level Channel:

A third level channel, as the name implies, encompasses three intermediary levels – a wholesaler, a retailer and a jobber.

Example: In the poultry industry, products like mutton, chicken, eggs etc. are first sold to wholesalers; he then sells it to jobbers, who sell to small and unorganized retailers.

One point in this regard, is to be noted that the levels of distribution vary from industry to industry and country to country.

Channel-Management Decisions

What are Marketing Channels?

Sets of interdependent organizations involved in the process of making a product or service available for use or consumption.

Why are They Used?

- Because producers lack resources to carry out direct marketing.
- Because direct marketing is not feasible.
- Because rate of return on manufacturing > rate of return on retailing.
- Because they reduce the amount of work that must be done.

Channel-Management Decisions

After a company has chosen a channel alternative, individual intermediaries must be selected, motivated & evaluated.

The following are the steps in Channel-Management Decisions

1. **Selecting Channel Members**
2. **Motivating Channel Members**
3. **Evaluating Channel Members**
4. **Modifying Channel Arrangements**

1. **Selecting Channel Members**

   For some producers this is easy; for others it's a pain in the ass. Anyway, in order to select them, producers should determine what characteristics distinguish the better intermediaries like

   - ❖ Years in business,
   - ❖ Other lines carried,
   - ❖ Solvency,
   - ❖ reputation, and
   - ❖ experience and track record

2. **Motivating Channel Members**

   Constant training, supervision & encouragement: Producers can draw on the following types of power to elicit cooperation:

- ➔ **Coercive power**. Manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. Produces resentment.
- ➔ **Reward power**. Manufacturer offers intermediaries extra benefits for performing specific acts.
- ➔ **Legitimate power**. Manufacturer requests a behavior that is warranted by the contract.
- ➔ **Expert power**. Manufacturer has special knowledge that the intermediaries value.
- ➔ **Referent power**. Intermediaries are proud to be identified with the manufacturer.

3. Evaluating Channel Members

Underperformers need to be counseled, retrained or re-motivated. If they do no shape up, it might be best to terminate their services.

Manufactures can evaluate the channel members performance against such standards like

- ❖ Sales quota attainment
- ❖ Average inventory levels
- ❖ Customer delivery time
- ❖ Treatment of damaged and lost goods
- ❖ Cooperation in promotional and training program
- ❖ Relationship with customers and clients

4. Modifying Channel Arrangements

Periodic modification to meet new conditions in the marketplace. Modification is necessary when:

- Distribution channel is not working as planned.
- Consumer buying patterns change.
- Market expands.
- New competition arises.
- Innovative channels emerge.
- Product moves into later stages in the product life cycle.

3 levels of channel adaptation can be distinguished:

1. Adding or dropping individual channel members.
2. Adding or dropping particular market channels.
3. Developing a totally new way to sell goods in all markets.

RETAILING

Retail meaning: The sale of goods to the public in relatively small quantities for use or consumption rather than for resale.

What Is Retail?

Retail is the final channel of distribution where small quantities of goods (or services) are sold directly to the consumer for their own use.

Two key-phrases in this definition that separate retail from wholesale are –

- **Small quantities of goods:** Unlike manufacturing or wholesale, the number of goods involved in a retail transaction is very less.
- **Directly to the consumer:** Retail stores are the last channels of distribution where the actual sales to the customer happen.

What is A Retailer?

A retailer is a person or a business who sells small quantities of goods to the customers for the actual use.

Remember –

- Retail is a **channel of distribution**
- Retailing is a **business process**
- Retail is a **business or person**

Importance of Retailing

Retailing is important for the creators, customers, as well as the economy.

Retail stores are the places where most of the actual sales to the customers take place. They act as both a marketing tool for the brands and a support tool for the customers to exchange and communicate important information.

Besides this, retailing is a great asset to the economy. It provides jobs, adds to the GDP, and acts as a preferred shopping channel during the holiday season.

Functions of retailers

Generally, retailers are involved in the following functions:

1. **Function of breaking bulk**: Retailers break up large quantities into smaller units such as individual canes, bottles, packets, appropriate for consumer use.

2. **Function of creating place utility**: Retailers create place utility by transporting goods to the point of consumption.

3. **Stocking Varieties of goods**: Retailers buy varieties of goods from various manufacturers or wholesalers. Thus, a retailer provides a wide range of choice enabling the consumers to select the products of their choice.

4. **Providing credit facilities to customers**: Retailers grant credit facilities to consumers and thus increase their short-term purchasing power.

5. **Providing information to customers and wholesalers**: Retailers act as a link between the buyers and wholesalers / manufacturers. In the distribution channel, retailers are in direct contact with customers. Retailers supply market information to manufacturers either directly or through wholesalers.

6. **Estimating the demand and arranging the purchase of the product**: Retailers create demand for products by communicating with their customers. This demand creation is quite helpful for manufacturers and wholesalers.

7. **Acting as consumer’s agent**: The retailers anticipate the wants of the consumers and then supply them the right kind of goods at a reasonable price. Their job is to make the consumer’s buying as easy and convenient as possible.

8. **Marketing functions**: Retailers perform several marketing functions such as sales promotion, advertising and point of purchase display. They induce customers to buy products of reputed companies.

9. **Connecting link**: The retailers are the connecting link between the wholesaler and the ultimate consumer.

The functions of retailing include :

a.Sorting: The items are arranged in order by the retailers so that the customers are able to locate and pick up their needed goods easily.

b.Storage: The retailer holds stocks of goods and thereby meets the day-to-day needs of the consumer.

c.Channels of communication: The retailer spreads by word-of-mouth communication, valuable information to the customers about the product.

d.Transportation: Nowadays, small grocery stores are undertaking the work of door deliver orders in case of durable goods.

Types of Retail outlets

Department Stores

A department store is a set-up which offers wide range of products to the end-users under one roof. In a department store, the consumers can get almost all the products they aspire to shop at one place only. Department stores provide a wide range of options to the consumers and thus fulfill all their shopping needs.

Merchandise:

Electronic Appliances, Apparels, Jewellery, Toiletries, Cosmetics, Footwear, Sportswear, Toys, Books, CDs & DVDs.

Examples - Shoppers Stop, Pantaloon

Discount Stores

Discount stores also offer a huge range of products to the end-users but at a discounted rate. The discount stores generally offer a limited range and the quality in certain cases might be a little inferior as compared to the department stores.

Wal-Mart currently operates more than 1300 discount stores in United States. In India Vishal Mega Mart comes under discount store.

Merchandise:

Almost same as department store but at a cheaper price.

Supermarket

A retail store which generally sells food products and household items, properly placed and arranged in specific departments is called a supermarket. A supermarket is an advanced form of the small grocery stores and caters to the household needs of the consumer. The various food products (meat, vegetables, dairy products, juices etc) are all properly displayed at their respective departments to catch the attention of the customers and for them to pick any merchandise depending on their choice and need.

Merchandise:

Bakery products, Cereals, Meat Products, Fish products, Breads, Medicines, Vegetables, Fruits, Soft drinks, Frozen Food & Canned Juices

Warehouse Stores

A retail format which sells limited stock in bulk at a discounted rate is called as warehouse store. Warehouse stores do not bother much about the interiors of the store and the products are not properly displayed.

Mom and Pop Store (also called Kirana Store in India)

Mom and Pop stores are the small stores run by individuals in the nearby locality to cater to daily needs of the consumers staying in the vicinity. They offer selected items and are not at all organized. The size of the store would not be very big and depends on the land available to the owner. They wouldn’t offer high-end products.

Merchandise:

Eggs, Bread, Stationery, Toys, Cigarettes, Cereals, Pulses & Medicines

Speciality Stores

As the name suggests, Speciality store would specialize in a particular product and would not sell anything else apart from the specific range.Speciality stores sell only selective items of one particular brand to the consumers and primarily focus on high customer satisfaction.

Example -You will find only Reebok merchandise at Reebok store and nothing else, thus making it a speciality store. You can never find Adidas shoes at a Reebok outlet.

Malls

Many retail stores operating at one place form a mall. A mall would consist of several retail outlets each selling their own merchandise but at a common platform.

E Tailers

Now a days the customers have the option of shopping while sitting at their homes. They can place their order through internet, pay with the help of debit or credit cards and the products are delivered at their homes only. However, there are chances that the products ordered might not reach in the same condition as they were ordered. This kind of shopping is convenient for those who have a hectic schedule and are reluctant to go to retail outlets. In this kind of shopping; the transportation charges are borne by the consumer itself.

Example - EBAY, Rediff Shopping, Amazon

Dollar Stores

Dollar stores offer selected products at extremely low rates but here the prices are fixed.

Example - 99 Store would offer all its merchandise at Rs 99 only. No further bargaining is entertained. However the quality of the product is always in doubt at the discount stores.

What Is Wholesaling?

Wholesaling is the sale of merchandise in bulk to a retailer for repackaging and resale in smaller quantities at a higher price.

The buyer of wholesale merchandise sorts, reassembles, and repackages it into smaller quantities for direct retail sale to consumers. Due to the quantities purchased, the wholesaler can charge less per item. The retailer sells at a price that reflects the overall cost of doing business.

Definition of wholesaler

"A business unit which buys and resells the merchandise to the retailers and the merchants or to the industrial, institutional and commercial users but does not sell insignificant amounts to the ultimate consumers."- The American Marketing Association

Functions of Wholesaling:

Wholesalers carry out tasks ranging from distribution to risk taking.

Following functions are performed by wholesalers:

(i) Enable manufacturers and service providers to distribute locally without making customer contacts.

(ii) Provide a trained sales force.

(iii) Provide marketing and research supports for manufacturers, service providers and retail or institutional consumers.

(iv) Purchase large quantities, thus reducing total physical distribution costs.

(v) Provide warehousing and delivery facilities.

(vi) Provide credit facilities for retail and institutional customers, whenever required.

(vii) Provide adjustments for defective merchandise.

(viii) Take risks by being responsible for theft, deterioration and obsolescence of inventory. Wholesalers who take title of ownership of products and services usually perform all the above tasks.

Types of wholesaling

Although there are a number of ways to classify wholesalers, the categories used by the Census of Wholesale Trade are employed most often. The three types of wholesalers are

1) Merchant wholesalers;
2) Agents, brokers, and commission merchants; and
3) Manufacturers' sales branches and offices.

1. MERCHANT WHOLESALERS

Merchant wholesalers are firms engaged primarily in buying, taking title to, storing, and physically handling products in relatively large quantities and reselling the products in smaller quantities to retailers; industrial, commercial, or institutional concerns; and other wholesalers. These types of wholesaling agents are known by several different names, including wholesaler, jobber, distributor, industrial distributor, supply house, assembler, importer, and exporter, depending on their services.

There are two basic kinds of merchant wholesalers:

a. Service (sometimes called full-service wholesalers) and

Full-service wholesalers usually handle larger sales volumes; they may perform a broad range of services for their customers, such as stocking inventories, operating warehouses, supplying credit, employing salespeople to assist customers, and delivering goods to customers. General-line wholesalers carry a wide variety of merchandise, such as groceries; specialty wholesalers, on the other hand, deal with a narrow line of goods, such as coffee and tea or seafood.

b. Limited-function or limited-service wholesalers.

Limited-service wholesalers, who offer fewer services to their customers and suppliers, emerged in order to reduce the costs of service.

There are several types of limited-service wholesalers.

- ❖ Cash-and-carry wholesalers usually handle a limited line of fast-moving merchandise, selling to smaller retailers on a cash-only basis and not delivering goods.
- ❖ Truck wholesalers or jobbers sell and deliver directly from their vehicles, often for cash. They carry a limited line of semi perishables such as milk,

bread, and snack foods.

- Drop shippers do not carry inventory or handle the merchandise. Operating primarily in bulk industries such as lumber, coal, and heavy equipment, they take orders but have manufacturers ship merchandise directly to final consumers.
- Rack jobbers, who handle nonfood lines such as housewares or personal goods, primarily serve drug and grocery retailers. Rack jobbers typically perform such functions as delivery, shelving, inventory stacking, and financing.
- Producers' cooperatives—owned by their members, who are farmers—assemble farm produce to be sold in local markets and share profits at the end of the year.

2. AGENTS, BROKERS, AND COMMISSION MERCHANTS

Agents, brokers, and commission merchants are also independent middlemen who do not (for the most part) take title to the goods in which they deal, but instead are actively involved in negotiating and other functions of buying and selling while acting on behalf of their clients (commission merchants typically are limited to agricultural goods). They are usually compensated in the form of commissions on sales or purchases.

Agents, brokers, and commission merchants usually represent the non-competing products of a number of manufacturers to several retailers. This category of wholesaler is particularly popular with producers with limited capital who cannot afford to maintain their own sales forces.

3. MANUFACTURERS' SALES BRANCHES AND OFFICES

Manufacturers' sales branches and offices are owned and operated by manufacturers but are physically separated from manufacturing plants. They are used primarily for the purpose of distributing the manufacturers' own products at the wholesale level. Some have warehousing facilities where inventories are maintained, while others are merely sales offices. Some of them also wholesale allied and supplementary products purchased from other manufacturers.

UNIT 5

Unit 5: Marketing Promotion: Role Of Marketing Promotion – Marketing Promotion Mix- Sales Force Management – Online Marketing

Marketing Promotion

Promotion is an attempt by marketers to inform, persuade, or remind consumers.

The concept of promotion means the process of persuading people to accept the products, concepts, and ideas of the company**.**

Promotional marketing is a set of activities to share knowledge about a particular brand, product, or service with as many people as possible with the aim of increasing brand awareness and sales.

Definition: Marketing Promotion

"Promotion includes all the activities the company undertakes to communicate and promote its product to the target market"

----- Philip kotler

"Promotion is an element in the organization's marketing mix that serves to inform, persuade and remind the market of the organization or its products" ----- **J.W Stanton**

Aim or Objectives of promotional marketing

It's vital to determine your promotional marketing objectives so that you can achieve your goals. There are various objectives to bring into focus:

1. **Promotion of new products or services.** It is possible to introduce new products and services to the market against existing ones — a chance to find a place in the niche.
2. **Development of brand image.** Brand image is when people associate a brand with a particular product. For instance, when you think about toothpaste, Blend-a-med and Colgate come to your mind, when you think about tires, it's Pirelli and Bridgestone when you think about soccer — it's Manchester United and Real Madrid. This promotion

objective tends to create or restore the brand image and makes products more recognizable amongst others in the market.

3. **Informing customers.** Marketing promotion is vital for telling people about changes in products or brand's policies. It also helps to describe the features and details of the products.
4. **Showing superiority over competitors.** Everybody uses promotion marketing these days, so to be competitive, each brand needs to apply a long-term promotional strategy.
5. **Turning potential buyers into real customers.** If promotion marketing styles like personal selling, advertising, and others are used appropriately, they stimulate demand for the product.

Aim of promotion is:

• To introduce a new product
• To educate customers about the product usage
• To increase awareness of the product
• To differentiate from competitors
• To achieve increase in product recall
• To build brand value and image
• To encourage people to buy in bulk especially in off season to level the demand
• To encourage people to try their product over their existing products

Role of promotion in marketing

What Are the Roles That Promotion Plays in Marketing

The promotion methods used in achieving organization objectives may vary, depending on an organization's goals, priorities, markets and industries. Promotions typically include advertising, publicity, sales promotions and other tactics. The key to producing results through promotions is ensuring that companies target the right consumers -- those who are more apt to buy their products. Moreover, the promotional message must be convincing and run frequently enough to achieve the desired effects.

1) Sale of the goods in imperfect markets
2) Filling the gap between the producers and consumers
3) Facing intense competition
4) Large sales selling
5) Higher standards of living
6) More employment
7) Increases trade pressure
8) Effective sales support
9) Increase speed of product acceptance

THE ROLE OF PROMOTION IN THE MARKETING MIX

Promotion plays an important role within the marketing mix. Promotion must support the other elements of the marketing mix. Without this support the remaining elements of the marketing mix would not be fully optimised.

Promotion and Product

Promotions role within the product strategy is to communicate the benefit and unique selling point of the product. Promotion may also focus on the features and packaging that are unique to the product. The aim of promotion is to create a strong enough desire (for the product) to generate a purchase.

Promotion and Price

Promotion may communicate the quality and value of the product. Promotions can also highlight special offers such as buy one get one free (BOGOF), free accessories and discounts.

Promotion and Place

If the product is exclusive and only available in certain stores then the objective of promotion is to inform consumers of where they can purchase the product. Promotion may emphasise that the product can be purchased online, mobile phone or in store.

The importance of promotion can be briefly shown below:

Sales of the goods in imperfect market:

Promotion helps in the sales of the goods in imperfect market. In the imperfect market conditions, the product cannot be sold easily only on the basis of price differentiation. It is the promotional activity that provides information about the differences, characteristics and the multi-use of the products of various competition in the market. The customer is attracted to purchase the goods on the basis of such information successfully.

Filling the gap between producers and consumers:

Promotion helps in filling the gap between producers and consumers. Due to the tough market condition, mass selling is quite impossible without promotional activities. The distance between producers and consumers has so widened in present days to get them touched with the product that promotional activities are necessary.

Facing intense competition:

Promotion helps in facing intense competition in the market.When a manufacturer increases his promotional spending and adopts an aggressive strategy in creating a brand image, others are also forced to follow the suit. This leads to 'promotional war. Without promoting the goods, the competition is not possible in the market. So, it is necessary to face the competition in the market with the help of promotional activities.

Large scales selling:

Promotion helps in the large selling of goods and services. Sales promotion is the result of large-scale production. It can be achieved only by appropriate methods of large scale selling. Large scale selling is possible with the help of promotional activity. Due to the large selling of goods, there will be more chance of promotion of goods. So, it is necessary to sell lot of goods in the market for promotional activities.

Higher standard of living:

Promotion helps in the rising standard of the people.The promotional activities increase the standard of living by providing the better goods at a lower rate due to large scale production and selling. It help to increase the standard of living in a good way. People can raise their standard of living with the help of promotional activity. As the promotional activities increases, the standard of living of people also increases. So, the promotional activity has a great role in the increment of a standard of people so that they can live a good and happy life.

More employment:

Promotion helps to create more employment opportunities. People can gain employment opportunity with the help of promotional activities. With the help of promotional activity, many workers get motivated towards the work. Promotional activity helps to increase more employment opportunities to the people who are unemployed, as the promotional activities cannot be performed without the help of an effective sales force and the specialists in various fields.

Increased trade pressure:

Promotion helps to increase trade pressure in the market.The growth of large scales retailer, such as supermarkets, chain stores, etc. has brought greater pressure on manufacturers for support and allowance. Promotional activities help to decrease the trade pressure. There is need for promotional activities to decrease the trade pressure.

Effective sales support:

Promotion helps in the sales support of the product.Sales promotion policies are under the supplement to the efforts and impersonal salesmanship. Good sales promotion materials make the salesman's effort more productive.Promotion helps in the sales of theproduct. It provides good support in selling the different types of goods. Sales of different types of goods in the market are very necessary to increase the market economy.

Increased speed of product acceptance:

Promotion helps to increase the speed of the products acceptance.Most of the sales promotion devices such as contests, premium coupons, etc. can be used faster than other promotion methods such as advertising. The increase in rapid speed of product acceptance has occurred with the help of promotional activities. As the promotional activities are done, there will be direct effect in the increment of a speed of the product. Increase in the speed of product acceptance is very important in the competitive market. So, it is necessary to increase the speed of product.

Promotion Mix

Definition: The **Promotion Mix** refers to the blend of several promotional tools used by the business to create, maintain and increase the demand for goods and services.

The fourth element of the 4 P's of Marketing Mix is the promotion; that focuses on creating the awareness and persuading the customers to initiate the purchase. The several tools that facilitate the promotion objective of a firm are collectively known as the Promotion Mix.

The Promotion Mix is the integration of Advertising, Personal Selling, Sales Promotion, Public Relations and Direct Marketing

Elements of Promotion Mix

1. **Advertising**: The advertising is any paid form of non-personal presentation and promotion of goods and services by the identified sponsor in the exchange of a fee. Through advertising, the marketer tries to build a pull strategy; wherein the customer is instigated to try the product at least once. The complete information along with the attractive graphics of the product or service can be shown to the customers that grab their attention and influences the purchase decision.
2. **Personal Selling**: This is one of the traditional forms of promotional tool wherein the salesman interacts with the customer directly by visiting them. It is a face to face interaction

between the company representative and the customer with the objective to influence the customer to purchase the product or services.

3. **Sales Promotion**: The sales promotion is the short term incentives given to the customers to have an increased sale for a given period. Generally, the sales promotion schemes are floated in the market at the time of festivals or the end of the season. Discounts, Coupons, Payback offers, Freebies, etc. are some of the sales promotion schemes. With the sales promotion, the company focuses on the increased short-term profits, by attracting both the existing and the new customers.

4. **Public Relations**: The marketers try to build a favorable image in the market by creating relations with the general public. The companies carry out several public relations campaigns with the objective to have a support of all the people associated with it either directly or indirectly. The public comprises of the customers, employees, suppliers, distributors, shareholders, government and the society as a whole. The publicity is one of the form of public relations that the company may use with the intention to bring newsworthy information to the public.

   E.g. Large Corporates such as Dabur, L&T, Tata Consultancy, Bharti Enterprises, Services, Unitech and PSU’s such as Indian Oil, GAIL, and NTPC have joined hands with Government to clean up their surroundings, build toilets and support the swachh Bharat Mission.

5. **Direct Marketing**: With the intent of technology, companies reach customers directly without any intermediaries or any paid medium. The e-mails, text messages, Fax, are some of the tools of direct marketing. The companies can send emails and messages to the customers if they need to be informed about the new offerings or the sales promotion schemes.

   E.g. The Shopperstop sends SMS to its members informing about the season end sales and extra benefits to the golden card holders.

Thus, the companies can use any tool of the promotion mix depending on the nature of a product as well as the overall objective of the firm.

Sales Force Management

Introduction:

A company's sales force consists of its staff of sales people. The role of the sales force depends to a large extent on whether a company is selling directly to consumers or to other businesses.

Sales Force Management (SFM) is a sub-system of marketing management. It is Sales Management that translates the marketing plan into marketing performance.

Actually sales force management does much more than serving as the muscle behind marketing management. Sales force management systems are information systems that help automate some sales and sales force management functions. They are often found to be combined with a marketing information system.

Sales Force Objectives

A Sales Force will have one or more of the following tasks.

- Prospecting – search for leads
- Targeting – allocation of time between prospects and customers
- Communicating – info about company and products
- Selling – Approach, presentation, answering objections, closing sales
- Servicing – consulting, technical, financing, etc.
- Info gathering – market research
- Allocating – scarce products to customers.

Sales Force Strategy

Ways sales representatives work with customers to maintain company competitive edge:

- Represent to buyer – discuss issues with a prospect or customer
- Represent to buyer group – representatives gets to know as many members of buyer group as possible
- Sales team to buyer group –
- Conference selling – company sales representatives and resource group to customer to talk big problems or opportunities

- Selling Seminar – Company team to group of buyers/customers
- Once company has strategy can go with direct sales force or contractual force. Direct sales force is standard sales force with office and field representatives, while contractual representatives are purely commission sales forces.

Sales Force Structure

- Territorial – each representative gets own piece of land to work equally divided by workload or potential – result is no customer confusion as to who the representatives is
- Product – generates specific product knowledge
- Market – industry or customer type delineation
- Complex – combination

Sales Force Size

depends upon the no. of customers you want to reach then:

- Group customers into classes by annual sales volume
- Establish desired call frequency
- Classes size time freq. = workload
- Determine number of calls a representative can make a year
- Workload divided by representatives calls per year = number of representatives needed

Sales Force Compensation

- Salary. Straight salary provide representatives secure income, representatives more willing to do non selling activities, representatives have less incentive to overstock customers, lower company administrative activities and lowers turnover.
- Commissions. Straight commission attracts higher sales performers, provides more motivation and requires less supervision, while controlling selling costs.
- Benefits
- Expense allowance

Managing the Sales Force

Recruiting and Selecting Representatives

1. Determine what you want your sales people to be like
2. Recruitment
3. Select the best applicants

4. Train the new representatives – vital to protect company image as well as get orders – Program should have the goals of having representatives:
    - know and identify with the company – what has the company done
    - know the company's products
    - know the customers, and competition characteristics
    - know how to make an effective presentation
    - Understand field procedures and responsibilities – dividing time between active accounts and prospecting etc.

Supervising the Sales Force

- Develop norms for customer calls – and how much sales volume should be generated per call
- Develop Norms for prospect calling – needed to motivate representatives to look for new business
- Ensuring efficient use of time and assets – direct supervision or training

Motivating Sales Representatives – often not too difficult as sellers are usually self motivated. Supervisors must work through expectancy theory:

1) Hard work will get sales

2) Sales will get you a reward, and

3) you will like the reward. All three are linked.

Sales Quotas – three schools: High quotas to spur effort, Modest – to achieve buy-in, Variable – to account for differences between sales people.

Supplemental Motivators – sales meetings and contests provide social occasion to meet, share ideas and accomplishments, or get extra effort from the force.

Evaluating Sales Representatives

Sources of information

- Sales reports – give activity plan and activity results
- Call reports – give activities of representatives and status of various accounts and prospects
- Other reports like expense account info, new bus reports, lost bus report economic conditions.

Formal evaluation

- Current to past Sales performance – did you sell more or less, and of what product.
- Customer Satisfaction reports –
- Qualitative evaluations – representatives knowledge of company or products, personality characteristics of representatives, knowledge of the laws that pertain to the rep.

Online marketing

Definition: “Online marketing is a set of tools and methodologies used for promoting products and services through the internet”.

Online marketing includes a wider range of marketing elements than traditional business marketing due to the extra channels and marketing mechanisms available on the internet.

Online marketing can deliver benefits such as:

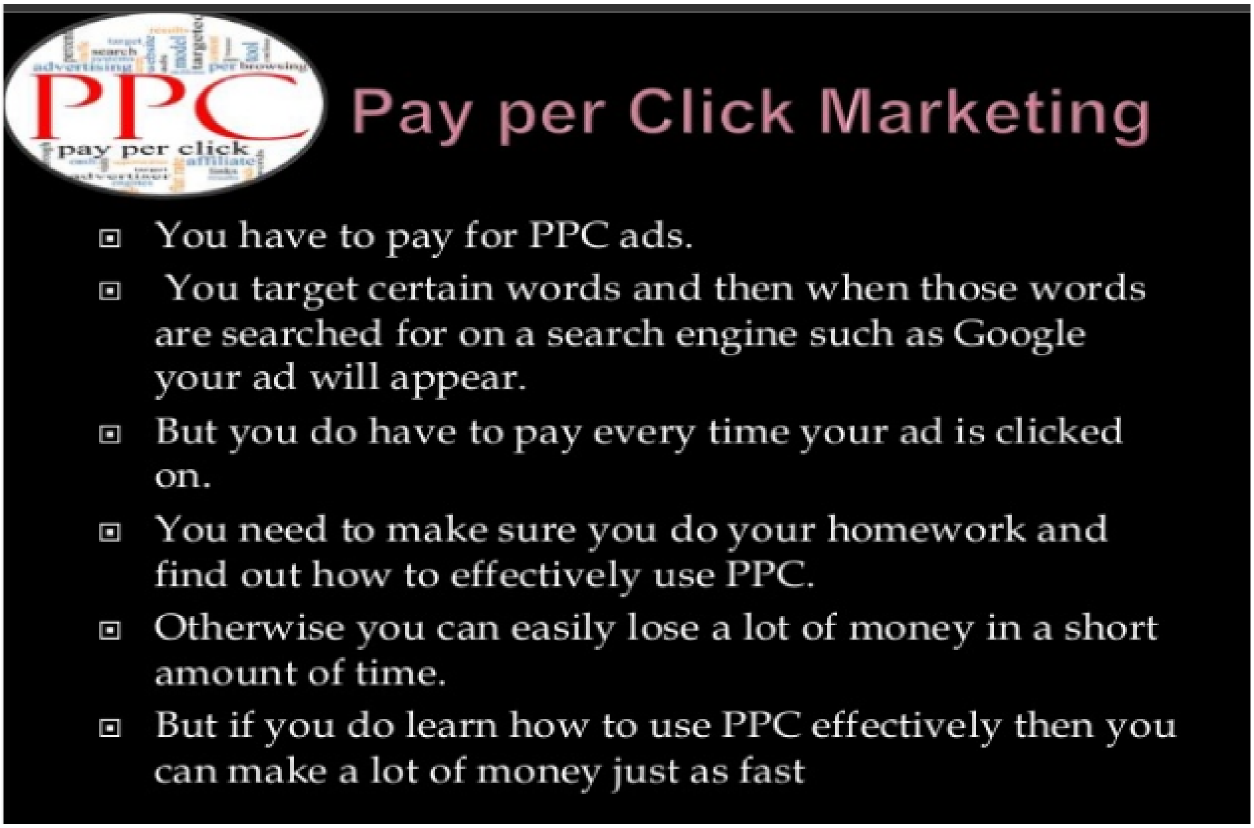
- Growth in potential
- Reduced expenses
- Elegant communications
- Better control
- Improved customer service
- Competitive advantage

Online marketing is also known as internet marketing, web marketing, digital marketing and search engine marketing (SEM).

1. Email marketing

2. Blogging

3. Pay Per Click marketing



4. Social Media marketing

5. Digital marketing

6. Viral Marketing

Advantages of Online Marketing

Online marketing delivers better results and revenues than the traditional marketing channels.

- Wider reach to the customers. The online business is not confined to the limitations of physical place. You can sell the products in any part of the country without actually opening outlets.
- Immediate quantifiable results. Online marketing delivers quantifiable results immediately. You can measure every action from clicks, visits, sign-ups, and purchases.
- Less business overheads. As the business is online, there are less overheads to deal with as compared to investing in offline stores.
- Ability to track customer's preferences. You can keep a track of the customer's past purchases and preferences. This is very helpful to personalize the offers for the customer.
- Customer Relationship. It helps in building strong relationship with customers in real time. You can maintain on-going relationship with customers by sending follow-up emails about offers, new products and services.
- Customers' Convenience. You can run online business round the clock without having to worry about work timings. On the other hand, the customers also can buy the products of their choice at any time throughout a day, without having to physically visit the shops.

Disadvantages of Online Marketing

In spite of so many benefits, online marketing carries negative aspects too.

- Internet Fraud. You may experience unethical and fraudulent practices in internet marketing. Fake trademarks and logos can be used unchecked. This may defame your reputation.
- Ads Placement. It may clutter on a web page and this may turn the customer down.
- Requires Special Expertise. Along with the fundamental marketing, it needs understanding of search engine technology, advertising techniques, content creation, and logics to master the internet marketing.

- **Inaccessible.** It may not be available for rural areas. Also, elderly and illiterates rarely relish the benefits of shopping online.
- **Negative feedbacks about Products.** They can turn your business down drastically.