MARKETING MANAGEMENT-I

M.Com., I Semester

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FOREWORD

Acharya Nagarjuna University, since its establishment in 1976, has been moving ahead in the path of academic excellence, offering a variety of courses and research contributions. The University achieved recognition as one of the eminent universities in the country by gaining “A” grade from the NAAC 2016. At present Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels to students of 447 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University had started the Centre for Distance Education in 2003-04 with the aim to bring Higher Education within the reach of all. The Centre has been extending services to those who cannot join in college, cannot afford the exorbitant fees as regular students, and to housewives desirous of pursuing higher studies to study B.A., B.Com, B.B.A., and B.Sc., Courses at the Degree level and M.A., M.Com., and M.S.W courses at the PG level.

For better understanding by students, self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been approved with care and expertise. However constructive ideas and scholarly suggestions are welcome from students and teachers. Such ideas will be incorporated for the greater efficacy of the distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes are arranged at UG and PG levels respectively.

I wish the students who purse higher education through Centre for Distance Education will not only be personally benefited by improving their qualifications but also strive for nation’s growth by being a member in knowledge society. I hope that in the years to come, the Centre for Distance Education will grow in strength by introducing new courses, catering to the needs of people. I congratulate all the Director, Academic coordinators, editors, lesson writers and Academic Counsellors and No-Teaching Staff of the Centre who have been extending their services in these endeavours.

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Paper title: Marketing Management-I

Paper number	Paper - 3
Maximum marks	70

1. FOUNDATIONS OF MARKETING: Marketing Concept –The Marketing Orientation Vs production orientation – Production concept – Selling concept – societal dimensions of Marketing – The marketing concept as applied to Marketing Management. Marketing and Social Responsibility: Social pressures on marketing.
2. MARKETING ENVIRONMENT: Company's – Micro Environment: Company – suppliers – Intermediaries – customers – competitors and Publics – Marketing organisation and Interface with other departments in a Company Company's Macro Environment (with special reference to India)
3. ANALYSIS OF THE MARKET PLACE: Marketing Planning – Strategic Marketing Planning – Product Portfolio – Analysis – Investment opportunity chart – PIMS Analysis – Competitive Strategies : Market leader, challenger, follower, niche strategies Components of marketing plan – Marketing budget – market segmentation.
4. UNDERSTANDING THE CONSUMER: Consumer Behaviour – Determinants : Social – Cultural – Group Factors – Psychological factors – Consumer Behaviour Models: Marshallian – Freudian – Pavlovian – Vilonia – Howard – Sheth – Consumer decision-making : Dimensions – problems – Pre-purchase and post-purchase behaviour –
5. PRODUCT CONCEPT AND STRATEGY: Concept of product – concept of augmented product – Product-Mix Strategy: Dimensions – Product-line decisions – Product Life Cycle (PLC). Introducing new Products: Pressures – Problems – Product Planning process Managing Existing products.

SUGGESTED READINGS:

1. Gandhi J.C. "Marketing – A Managerial Introduction" Tata McGraw – Hill Publishing Co. Ltd., New Delhi, 1989.
2 Stantor, J. William and Futrell, Charles "Fundamentals of Marketing "(8th Edn.) McGraw Hill International Editions, 1987.
3. Kotler, Philip "Principles of Marketing" (3rd Edn.) Prentice hall of India Pvt. Ltd, New Delhi, 1987.
4. Mandell, I. Maurice and Rosenberg , J. Larry "Marketing (2nd Edn) Prentice Hall of India, New Delhi, 1987.
5. Amarchand D. and Varadharajan B. "An Introduction to Marketing" Vikas Publishing House Pvt Ltd, New Delhi, 1986.
6. Jha and Shah "Marketing Management in Indian Perspective" Himalaya Publishing House, New Delhi, 1986.
7. Taylor, Jr., L. Jack and Robb, F. James "Fundamentals of Marketing: Additional Dimensioins" (Selections from the Literature) (2nd Edn) Tata McGraw Hill Publishing Company Pvt. Ltd,

MARKETING MANAGEMENT-I

CONTENTS

Lesson - I

MARKETING MANAGEMENT : AN INTRODUCTION

OBJECTIVES

After studying this lesson, you should be able to :

- explain the meaning of Market and Marketing.
- differences between Marketing and Selling.
- functions of Marketing.
- definitions of Marketing.
- concepts of Marketing.

STRUCTURE

1.1 INTRODUCTION

Market provides a mechanism for the sale of goods. According to Prof. Philip Kotler market is an area or atmosphere for a potential exchange. Marketing includes all activities involved in the production and distribution of goods and services. Marketing concept refers to the philosophy of an organisation in relation to marketing of a product of service.

1.2 MEANING OF MARKET

The term market is derived from the Latin word 'Marcatus' which means merchandise, trade i.e. purchasing and seling of gods. It is a place where buyers and sellers meet together for the exchange of title to goods. i.e. it is a place where business is conducted. The market provides a mechanism for the sale of goods, but the actual delivery of goods may not take place in all the cases. However, for the students of marketing market refers to any region in which buyers and sellers are brought in contact with one another, and by means of which the prices of goods and services are finalised easily and quickly. According to Prof. Mitchel market is not a geographical meeting place but as any getting together of buyers and sellers, in person, by mail, telephone, telegraph and internet or any other means of communication. Prof. Philip Kotler expressed in his famous book 'Marketing Management', the term 'market' as area or atmosphere for a potential exchange.

Market is an arrangement that provides opportunity of exchanging goods and services for money or money's worth. Thus in market there are two groups of persons, one group holding the goods which they want to sell and another group of prospective buyers who want to pay for the goods they are going to buy. It means that three points are interlinked namely place, atmosphere, and demand. Place stands for a convenient place for the buyers and sellers to come together for the exchange of goods and sevices; atmosphere stands for the contact between the buyers and sellers; demand stands for the people with needs and wants to satisfy and purchasing power.

1.2.1. CLASSIFICATION OF MARKETS : Markets can be classfied in several ways from different approaches.

I. On Geographic or Area Basis : From the stand point of geographical area, markets are divided into (a) Local Markets, (b) National Market and (c) International Market.

- **a) Local Market :** These markets relate to a partiular locality. In the case of these markets, commodities sold within geographical limits. Such commodities are difficult to be sold outside local limits. Generally, commodities which are heavy and perishable have local markets. For example bricks, vegetables, fruits, milk etc have local markets.
- **b) National Market :** The growth of industries has widened the scope of market on national level. Wiht the growth of transporation and communication, most of the goods are marketed at national level.
- **c) International Market :** These are known as foreign markets where goods are sold beyond national boundaries. With the growth of transportation and communication systems, a number of products have acquired and international level.

II. On the Basis of Importance : On the basis of importance markets may be divided into

- (d) Primary Market.
- (e) Secondary Market.

(f) Terminal Market.

(a) Primary Markets : In primary markets, primary producers of agricultural products or manufactured goods sell to wholesalers, who assemble the goods from different sources of production. These markets are generally found in villages.

(b) Secondary Markets : In the secondary markets, wholesalers sell the goods to retailers for further selling. Semi - processed and Semi - manufactured goods are generally sold and purchased in secondary markets E.g. Yarn market.

(c) Terminal Market : It is the market where final products are sold to final consumers i.e. consumers purchase goods in the terminal markets from the retailers.

III. On The Basis Of Business : On the basis of volume of business, the market may be divided into

(a) Wholesale Market.

(b) Retail Market.

(a) Wholesale Market : In wholesale market goods are bought and sold in huge quantities. In these markets sellers are wholesalers and the buyers are retailers. Wholesalers purchase goods in bulk quantities and sell the same to retailers in small quantities.

(b) Retail Market : In this market retailers who puchase goods from wholesalers, sell to ultimate consumers in individual units i.e. very small quantities.

IV. On Economic Basis : In economics markets are classified into

(a) Perfect Market

(b) Imperfect Market.

(a) Perfect Market : In perfect market there will be perfect competition between buyers and sellers who have full knowledge of other buyers and sellers. Due to this only one price will prevail in the market for the commodity. The following are the essential features of perfect market.

(i) Group of buyers and sellers.

(ii) Effective competition between buyers and sellers.

(iii) One price for the commodity throughout the market.

(b) Imperfect Market : Imperfect market is a market which is not a perfect market. In this market we find some kind of maladjustment in demand and supply; buyers and sellers have no knowledge of other buyers and sellers.

V On Time Basis : On the basis of time markets may be classfied into

(a) Very Short Period Markets.

(b) Short Period Markets and

(c) Long Period Markets.

(a) Very Short Period Markets : It refers to markets which exist for a very short period normally a day. Such markets generally sell fruits, flowers, vegetables, milk etc.

(b) Short Period Markets : These markets include weekly markets held in villages. Fairs are also included in this category.

(c) Long Period Markets : Durable goods are purchased and sold in long period markets. In these markets goods may be held for a long period without any deterioration in quality.

VI On The Basis Of Nature Of Goods : On the basis of the nature of goods that are purchased and sold, markets may be divided into

(a) Commodity Markets.

(b) Capital Markets.

(c) Foreign Exchange Markets.

(a) Commodity Markets : These markets deal in different commodities. Consumer goods are purchased by ultimate consumers and industrial goods are purchased by manufacturers.

(b) Capital Markets : These include money markets, stock markets etc. In money markets borrowing and lending take place. In stock market shares, debentures, bonds etc are brought and sold.

(c) Foreign Exchange Markets : Foreign exchange markets deal in currencies of different foreign countries. These markets arrange foreign currencies to make payments for the imports from other countries. They convert home currency into currencies of foreign countries.

1.2.1. MEANING OF MARKETING : In the ordinary sense, marketing and selling are used in the same sense but strictly speaking they are not synonymous, they differ in their meaning. There is a line of demarcation between marketing and selling.

Meaning of Marketing : Marketing includes all activities involved in the production and distribution of goods and sevices desired by the consumers. Marketing occupies an important place in all business activities. According to modern marketing concept, marketing is essentially consumer oriented and it starts with product idea and ends with customer satisfaction. Acoording to William Stanton "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential customers". Thus the main idea of modern marketing concept is customer - satisfaction.

1.2.3. MEANING OF SELLING : Selling is concerned with the transfer of goods and services to the consumers. It is mainly concerned with the plans to get the customers to exchage his money to goods and services. It is primarily concerned with the seller's interest.

1.2.4. DIFFERENCES BETWEEN MARKETING AND SELLING : The main difference between marketing and selling lies in their approach. Marketing is basically consumer - oriented. Selling on the other hand is product-oriented.

1. **Scope :** The scope of the term 'marketing' is much wider than that of the term "selling". Selling is one of the activities performed in marketing. Marketing includes all activities starting with the idea of producing a commodity in accordance with the needs of the customers and ending with the satisfaction of customers even after selling the commod-

ity. On the other hand selling refers to distribution of products already manufactured by the firm. Selling focuses on Sellers needs of converting his goods into cash.

2. **Object of Profit :** The object of marketing is to earn profits through satisfaction of customer's needs and desires. The profitability of a marketing oriented firm mainly depends on production of qualitative products to win the appreciation of consumers. Selling concentrates on earning profit on sale of more quantity of products.

3. **Orientation :** Marketing is consumer oriented and therefore it includes pre - production and post sale activities. Selling is basically production oriented and concentrates much on production.

4. **Emphasis :** Emphasis is given on product planning and development to match products with markets. It emphasises as introducing new technology. Whereas in selling, emphasis is placed on sale of goods already produced. It emphasizes on reducing cost of production with a view to maximize profits.

5. **Principle :** In marketing the principle of caveat vendor (let the seller beware) is followed, whereas in selling the principle of caveat emptor (let buyer beware) is followed.

6. **Importance :** The consumer occupies the prime of place in marketing process. He is given supreme importance by treating customer as a king. Product occupies pride of place in selling i.e. product enjoys supreme importance.

1.2.5. DEFINITIONS OF MARKETING :

- "Marketing includes all the activities involved in the creation of place, time and possession utilities" Professor Converses, Huegye and Mitchell.
- "Marketing is that phase of business activity through which human wants are satisfied by exchange of goods and services" - Pyle . J.F
- "Marketing is the business process by which products are matched with market and through which transfers of ownership are effected" - Prof. Cumdiff and Still.
- "Marketing is the process of getting the right goods to the right consumes at the right place and time and at the right price" - Prof. Benerjee.
- "Maketing in the creation and delivery of a standard of living" Malcom Menair.
- "Marketing is concerned with all the resources and acitvities involved in the flow of goods and services from producer to consumer" - Wheeler.

1.3. FUNCTIONS OF MARKETING

Prosperity of every business depends on the efficiency with which its products are marketed. To shift goods from a producer to an ultimate consumer a number of activities are performed which are called marketing functions. A marketing function is an act or operation or service by which the original producer and final sonsumer are linked together. If marketing functions are not properly carried out, the business unit may not be in a position to dispose off its products and all the efforts made for production may not bear fruits. The prime objective of marketing is to take the goods from the producer and perform all functions necessary to make them available to the ultimate consumers. In the process of marketing place, utility is created when goods and services are available at the places where they are needed, time utility when they are needed and possession utility when they are transferred to those people who need them.

All the marketing functions can be divided into two types viz (i) Concentration and (ii) Dispersion. The process of concentration is concerned with gathering raw materials, manufactured goods at a central place namely market. Dispersion means distribution of goods to final consumers. Concentration involves a number of marketing functions like (a) Buying (b) Trading (c) Storing (d) Grading (e) Financing etc.

The process of distribution may include the following.

(a) Selling (b) Transportation (c) Grading, (d) Risk bearing etc.

Another classfication of marketing functions is given by Professors Clark and Clark, which is widely accepted by one and all.

Marketing functions

Functions Exchange	Functions Physical Supply	Facilitating Functions
a. Buying and Assembling	a. Transportation	a. Financing
b. Selling	b. Storage and warehousing	b. Risk Trading
		c. Market information
		d. Standardization etc...

1.3.1. FUNCTIONS OF EXCHANGE : Exchange refers to transfer of goods and services form money's worth. This process can be divided into (a) Buying and assembling and (b) Selling.

A. Buying And Assembling : Buying is the first step in the ladder of marketing functions. A manufacturer has to buy raw materials for production, wholesaler has to buy finished goods for the purpose of sale to the retailers, a retailer has to buy goods for resale to the consumers. Efficient buying is essenttial for successful selling. Large sized business concerns maintain a separate department namely purchasing department for the purpose of buying.

Modes Of Buying : Goods may be purchased in any of the ways given below.

i) By inspection : Under this method goods are bought after examining the goods by the buyer in the seller's premises.

ii) By Sample : A purchase by sample is made after the buyer examines the sample of goods supplied by the seller.

iii) By Description : Some sellers issue catalogues containing description of goods offered for sale. The intending buyer places an order specifying a particular number mentioned in the catalogue.

iv) By Grading : This refers to standard quality of goods. Under this method purchase can be made by telegram, telephone, or mail.

Assembling begins after the goods have been purchased. It refers to gathering of goods already purchased form different places at one central place. Assembling facilitates transporatation and storage, It is significant in case of seasonal goods and agricultural products.

2. **Selling :** The ultimate aim of every business is to earn profits and in realising this aim selling plays an important role. Nothing really happens until somebody sells something. Selling enables a firm to satisfy the needs of consumers. It is the process through which ownership of goods is tranferred from the seller to the buyer. Sales are the source of income for the manfacturers, wholesalers and retailers.

   The importance of selling has increased significantly with an increase in the number of articles offered for sale by a large number of producers. When the production was on a small basis the producers had no problem to dispose off their products. But now, with the increase in the volume of production, selling has become a problem and the producer has to induce people to sell his products.

1.3.2. FUNCTIONS OF PHYSICAL SUPPLY : There are two important functions under this classification (a) Transpotation and (b) Storage and ware housing.

A. Transportation : Trasport means carrying of goods, materials and men from one place to another. It plays an important role in marketing. It creates place utility by moving goods from the place where they are available in plenty, to places where they are needed. Both assembling and distribution of goods are done by using transport. Transportation facilitates not only movement of goods from the places of production to the places of consumption but it also enables the consumers to go to marketing areas where there is wide choice of goods than in the places where they like. Transporatation is also useful in stabilizing the prices of various commodities by moving them from the areas where they are in surplus to the areas where they are scarce. Various types of transport are used for carrying goods like (a) Land transport, (b) Water transport and (c) Air transport.

B. Storage And Ware Housing : Storage is another function of marketing process and it involves the holding and preservation of goods from the time they are produced to the time they are consumed. Generally, there is a time gap between the production and consumption of goods. Therefore, there is need for storing so as to make the goods available to the consumers as and when they are required. By bridging the gap between production and consumption, storage creates time utility. It also creates place utility by holding goods at different places.

The importance of storage can be studied as follows.

(i) Generally, goods are produced in anticipation of demand of the product in future market. All the goods are not sold immediately after production. For the unsold stock of goods storage is indispensable.

(ii) Some goods are produced throughout the year but demad for them is only in a particular season. For example rain coats, umbrellas, diwali crakers etc. These commodities are to be stored till the arrival of the season.

(iii) Many commodities are produced during a particular season but they are used throughout the year. Such goods have to be stored so as to make them available throughout the year. For example agricultural products.

(iv) Certain products which can get higher prices in future market are stored for a longer period. For example, tobacco, liquor, rice, chillies etc.

Warehouse is a place for storage of goods. The function of storage can be carried successfully with the help of warehouses. Warehouses create time utility by storing the goods throughout the year and releasing them as and when they are needed. Several types of warehouses are used for storage of goods, which are as follows.

(i) Private Warehouses : Private warehouses are owned by big business units for the storage of their own goods. Only big business houses can afford to have such type of ware houses.

(ii) Public Warehouses : These are the business concerns which offer storage space on rent. These ware houses are licenced by the Govt. They are helpful to businessmen who cannot afford to maintain their own warehouses. These warehouses are generally located near railway lines and main roads.

(iii) Bonded Warehouses : These are located near the ports for the storage of imported goods. When the importer cannot pay customs duties immediately on the goods imported by him, he can store them in bonded houses. Importer can remove the goods in parts after paying import duty.

1.3.3 Facilitating Functions :

There are the functions which help or facilitate in the transfer of goods and services from the producer to the consumer. They are not directly connected with the transfer of goods. Under this category the following functions are included.

a. Financing : Finance is the life blood of every business. It is needed for marketing of goods and services. The goods produced or purchased cannot be sold immediately to the ultimate consumers and much time is involved in marketing process. Hence there is need for finance for the purchase of raw materials, meeting transportation, storage costs, insurance etc. Further, generally goods are passed on from manufacturer to wholesaler and from wholesaler to retailer on credit basis. Ultimate consumers also prefer to purchase goods on credit. Therefore, all agencies engaged in marketing have to make some arragement for finance. Prof J.F. Pile has rightly stated that "finance is the lubricant of marketing machinery".

There are three main sources of finance. They are as follows.

(i) Long - Term Finance : It is needed for puchasing fixed assets like land, building, Plant & machinery, furniture etc. The main sources of this finance are shares, debentures, financial institutions.

(ii) Medium - Term Finance : It is needed for raising working capital. The main sources are financial institutions and commercial banks.

(iii) Short - Term Finance : It is mainly required for meeting short term payment normally for less than one year. It can be raised from commercial banks and trade creditors.

b. Risk Bearing : Risk means the possibility of loss due to some unforeseen circumstances in future. Marketing process is confronted with risks of many kinds at every stage. Risk may arise due to changes in demand, a fall in price, bad debts, natural calamities like earthquakes, rains etc. The marketing risks may be classified under the following heads.

(i) **Time Risk :** Goods are bought by the business with a view to sell them at a profit out of anticipated rise in prices in future. During the time lag conditions might change and the price my fall. Thus time risk is involved in marketing.

(ii) **Place Risk :** Place risk arises when the prices of the same product are different in different places. The businessmen may purchase goods in market where prices are low with a view to sell them at other places where the prices are high. But the price in the other market may come down causing loss.

(iii) **Competition Risk :** Businessmen have to face risk arising from the forces of competition. The competing firms may introduce modern methods of production due to which quality may be improved or cost of production may be reduced. Under such circumstances, a firm may be forced to sell at a loss which is called risk of competition.

(iv) **Risk of Change in Demand :** The manufacturers produce goods on large scale in anticipation of demand in future. But, sometimes the demand of the product may not come to expectations resulting in losses.

(v) **Risk Arising from Natural Calamities :** Risks from natural causes are beyond human control. These include rains, earthquake, floods, heat and cold. These risks cause heavy loss.

(vi) **Human Risks :** These risks arise due to adverse behaviour of human beings like theft, strikes, lockouts, bad debts etc.

(vii) **Political Risks :** Political risks arise due to change in political factors such as changes of government / changes in government policies etc.

c. **Market Information :** According to Clark and Clark market information means "all the facts, estimates, opinions, and other information used in marketing of goods". The main object of any business is to create and maintain demand for the product produced. For this purpose market information is useful. On the basis of information the seller can know what type of goods are needed by the consumer, when and where they are needed and in what quantity.

d. **Standardisation :** Standardisation means establishment of certain standards based on intrinsic qualities of a commodity. The quality may be determined on the basis of various factors like size, colours, taste, appearance etc. It is helpful to the consumers as they can safely rely on the quality of the standardised products.

e. **Grading :** Grading means classification of standardised products in to certain well defined classes. In the words of Clark and Clark "It involves the division of products into classes made up of units possessing similar characteristics of size and quality". Grading is very important for agricultural products like Wheat, Cotton etc.

Grading is of two types, fixed and variable. Fixed grading refers to the grading of goods according to fixed standards whereas variable grading refers to the application of varying standards.

f. **Branding :** Branding means giving a name or symbol to a product in order to differentiate it from cmpetitive products. It helps the consumers in identifying their products. Branding may be done by selecting symbols and marks such as Charminar cigarettes, Camel inks, Binny textiles, or by using the name of manufactures such Ford cars, Godrej steel furnniture. A good brand should be brief, simple, easy to spell and remember.

g. **Packing :** Packing means wrapping and crating of goods before distribution. Goods are packed in packages or containers in order to protect them against breakage, leakage, spoilage and damage of any kind. It consists of placing the goods in boxes, tins, bottles, cans, bags, barrels of convenient size to the buyers.

1.4. MARKETING CONCEPT

'Concept' refers to philosophy, an idea, an attitude or a not on relating to any aspect. Marketing concept means the philosophy of an organisation in relation to marketing of a product or service. According to Prof. Robert F Hartley marketing concept is "an integration of marketing activites directed towards customer satisfaction". Prof Philip Kother defines it as "a customer orientation backed by integrated marketing aimed at - generating customer satisfaction, as the key to satisfying organisational goals".

The marketing concept greatly influences the management of marketing efforts. The management of an undertaking can adjust its ways of selling as per the marketing philosophy. The traditional objective of marketing is to make the goods available at the places where they are needed. This idea was later on changed by shifting the emphasis from 'exchange' to satisfaction of human wants.

1.4.1 EVOLUTION OF MARKETING CONCEPT : There are various stages in the evolution of marketing concept, which are as follows.

1) **Self - Sufficient stage :** In the olden days each family was a self - sufficient unit as far as production and consumption functions are concerned. They produced as per their requirements i.e, practically there was no surplus for exchange. Therefore, the concept of marketing was absent in this stage.

1.4.2. EXCHANGE ORIENTED STAGE : In this stage the families produced more than their requirements leaving some surplus. This necessitaited exchange of surplus products with others. For exchanges 'Barter System' came into existance. Under barter system goods are exchanged for goods. The greatest draw back of barter system is absence of double coincidence of wants. To over come this defect - goods are brought to a central location so that exchange will take place smoothly. Thus 'Markets' came into existance.

1.4.3. PRODUCTION - ORIENTED STAGE : Under production oriented stage there is no need of any marketing effort if the product is good and its price is reasonable. This marketing concept was built on "Good wine needs no bush". That is if the product is of good quality and the price in reasonable there is no need of any special marketing efforts. It implies for good products, customer response is bound to be favourable. It appears that producers gave more emphasis to production than consumption. Under this concept, production is the starting point.

1.4.4. SALES - ORIENTED STAGE : Industial revolution brought technological changes in industrial activites. Cosequently drastic changes were reflected in the buying patterns and behaviour of consumers. There were revolutionary changes in the growth of transport and communications. All these changes compelled the manufacturers to realise the importance of marketing.

According to this marketing concept mere making available the best product in not enough. High pressure salesmanship and heavy doses of advertising are essential to move the products in the market. Even the best product can not be sold out in the market with out the help of sales promotion and aggressive salesmanship. The essense of this concept is "Goods are not bought but sold". This concept states that goods are not bought but they have to be sold with the help of salesmanship, advertising and publicity. This philosophy has been prevailing since 1940. It is popular in selling all kinds of insurance policies, durable products, automobiles etc.

1.4.5. (5) CONSUMER ORIENTED STAGE : It is also called customer oriented stage. This philosophy was introduced after 1950. According to this the main task of any business unit is to study the needs, desires, wants of the consumers and produce goods accordingly. Here the starting point is consumer or customer than the product. All Business operations revolve around customer satisfaction and service. Marketing research provides information relating to wants, desires, aspirations etc of the consumers.

Two radical changes were brought about when this marketing concept was introduced.

(1) Move from production to market orientation.

(2) Gradual shift from caveat emptor (buyer beware) to caveat vendor (seller beware)

1.4.6. (6) SOCIAL ORIENTED STAGE : It is the broadest marketing concept. It takes into consideration not only consumer satisfaction but also social welfare. Social welfare speaks of pollution - free environment and quality of human life. Every organisation should adopt socially responsible marketing policies and plans in order to assure social welfare in addition to consumer welfare.

The socially responsible marketing concept is based on the following assumptions.

(1) The manufacturer is to produce, those goods which are wanted by the consumers.

(2) The manufacturer shall not offer a product to the consumer if it is not in the best interest of consumer.

(3) He should offer long - run public welfare.

(4) The firm should discharge its social resoponsibilities.

1.5. SUMMARY :

Market is a place where buyers and sellers meet together for the exchange title to goods.

Marketing includes all activities involved in the production and distribution of goods and services desired by the consumers. Marketing occupies an important place in all business activities.

The activities performed to shift goods from produce to ultimate consumers are called marketing functions.

Marketing concept refers to an idea or philosophy of an organisation in relation to marketing of a product or service.

According to consumer oriented stage of marketing concept, a business unit should sell those products which are actually neeeded by the consumers.

1.6. KEY WORDS

1. **Market :** Market refers to a place where goods are purchased and sold, e.g. Cotton market, Fruit market, cloth market etc. It is a place where buyers and sellers meet to effect purchases and sales.
2. **Marketing :** Marketing in a process which carries goods from orginal producer to ultimate consumer. It bridges gap between producer and consumer. Marketing is concerned with handling and transportation of goods from the point of production to the point of consumtion.
3. **Selling :** Selling refers to transfer fo goods services to the consumers. It is mainly concerned with the plans to get the customers to exchange their money to goods and services.
4. **Marketing Functions :** The activities or operations which are mainly concerned with taking the goods from producer to ultimate consumer are called marketing functions. These are necessary to make the goods and services available to the consumers.
5. **Marketing Concept :** It refers to an idea or philosophy or attitude of an organisation in relation to marketing of a product or service. It influences the management of marketing efforts.
6. **Self - Sufficient Stage :** Under this stage each family produces as per its requirements i.e. there cannot be any surplus for exchange.
7. **Exchange Oriented Stage :** In this stage the families produce more than requirements. There will be some surplus meant for exchange.
8. **Product Oriented Stage :** Here producers give more emphasis to production than consumption.
9. **Sales Oriented Stage :** Accoriding to this concept products cannot be sold automatically immediately after production. High pressure salesmanship and heavy doses of advertisement are essential to sell the goods in the market.
10. **Consumer Oriented Stage :** The main task of any business unit is to know the needs, wants, desires and fashions of the people and produce goods accordingly.
11. **Social Oriented Stage :** It is based on the assumption that a business unit should offer long run public welfare. It should discharge its social responsibilities.

1.7. SELF ASSESSMENT QUESTIONS

(1) What's 'market' and 'marketing' ?

(2) Define 'marketing' and distinguish from selling.

(3) Explain briefly various functions of marketing.

(4) What is 'marketing concept' ? Outline the evolution of 'marketing concept' from early days to date.

(5) Explain the importance of 'branding', 'grading' and packing as marketing functions.

(6) Write short notes on the following

(a) Market

(b) Branding

(c) Importance of transport in marketing

(d) Kinds of business risks

(e) National market

(f) Commodity markets

(g) Exchange markets

(h) Capital markets

(i) Perfect markets

(j) Time and Place utiilties.

1.8. FURTHER READINGS

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Lesson - II

MARKETING AND SOCIAL RESPONSIBILITY

OBJECTIVES

The objectives of this lesson are to enable you to :

- understand the application of Social Responsibility of marketing
- evaluate the progress of consumerism in India.
- discuss the concept of marketing ethics and highlight the implications.

STRUCTURE

2.1 INTRODUCTION

Marketing is understood as a social institution. Hence it is subjected to various pressures from society. Marketing has to respond to the pressures from society. Besides social pressures, the marketing also faces environmental pressures from the society. Marketing as it has been understood as a social institution has been subjected to regulations from the public. The public reaction to marketing can also be observed from the growth of consumenism. In addition ethics also play an important role in marketing.

2.2 SOCIAL PRESSURES ON MARKETING

Responsible marketers discover what consumers want and respond with right products, priced to give good value to buyers and profit to the producers. The marketing concept is a philosophy of customer service and mutual gain. Its practice leads the company by an invisible hand to satisfy the many and changing heads of millions of consumers. All the companies do not follow marketing concept. The practices of some of the companies are questionable which strongly affect the interests of larger society. For ex: the production and sale of cigarattes which have many implications like.

a) The health of the smoker is affected

b) Smoking causes a financial burden on the family.

c) Other people around the smoker are affected by the smoking

d) The young people are also attracted to use cigarattes.

All these implications together with the following opinions place social pressures on marketing.

1) Impact on individual consumers :

The individual consumers complain on the following aspects relating to marketing

a) charging high prices
b) high cost of promotion and distribution.
c) excessive profit margins
d) deceptive practices in advertising and packaging
e) offer unsafe products.
d) poor services to poor consumers

2) Impact on Society:

The following are the complaints normally lodged by society on marketing :

a) Increase in the materialism, resulting in offering products, which are materialistic in nature.

b) Poor concentration on social products (like air pollution, traffic blocks etc.,)

c) Imitation of culture resulting in mixing up of cultural products.

d) Political influences also affect the societal welfare.

3) Impact on other businesses :

The criticism levelled against the marketing which had an impact on other businesses may be as under.

a) acquisitions and mergers to obstruct competition.

b) marketing practices that create barriers to entry

c) unfair marketing practices.

2.3 MARKETING RESPONSES TO SOCIAL PRESSURES

For the criticisms levelled against marketing by various groups (individual consumers, society and other business) the marketers took a number of steps at national and international level. Some of the illustrations can be given as under :

1. Zenith set up a Customer Relations Department in 1968; Motorola opened an office of consumer affairs in 1970; General Electric runs a GE Answer Centre which handles consumer phone enquiries throughout the day.
2. A company of Johnson & Johnson introduced a meter to measure to monitor sugar levels. It was found that one meter was found to be defective. The company withdrew all the meters from the market immediately.
3. In India many trade associations were formed like FICCI, ASSOCHAM etc., and associations at local and regional levels.
4. Many of the manufacturers in India have been spending on research and development cost. In the automobile sector, fuel efficiency cars and motor cycles have been produced.
5. On all the products, MRP (Max. Retail Price), contents, price, date of package, batch no. etc., are printed.
6. In service organisations (like banks, insurance companies) the firms are providing their services to the door steps of the customers. Many of the Star Hotels introduced cards to receive comments and suggestions from customers. Consumers day, weeks are aslo being observed by organisations.

2.4 SOCIAL RESPONSIBILITY OF MARKETING

The concept of social responsibility is understood as the obligation to implement those policies, decisions and to follow those lines of action which are desirable in terms of the objectives and values of the society. As stated by Paul Mazur "Marketing is the creation and delivery of standard of living to the society." Hence marketing is expected to improve the quality of life of the society by not only providing qualitative products and services but to enrich the quality of environment.

From a marketing perspective, social responsibility also encompasses the socio - ecological view of marketing. According to this view, firms, their customers, and others should consider all the stages in a product's life span in developing, selling, purchasing, using and disposing of that product. These are times when social responsibility poses dilemmas for firms because popular goods and services may have potential adverse effects on consumer or social well being. Ex: Tobacco products, liquor, food with high taste appeal but less nutritional content.

Until 1960's, it was generally felt that marketing's role was limited to satisfying consumers and generating profits. Such resources as air, water, and energy are seen as limitless. Responsibility to the general public was rarely considered. Many firms now realise that they should be responsive to the general public, environment, employees, channel members, stock holders, competitiors as well as customers.

Since marketing is understood as a social institution, it has to discharge many obligations towards a number of groups. The obligations of the marketing to the various groups may be summarised as under :

1. General Public and Environment :

a) Community involvement

b) Contributions to nonprofit organisations

c) Product recycling

d) Eliminating offensive signs and bill boards

e) Proper disposing of waste materials

f) Using goods and services requiring low levels of environmental resources.

2. Regarding employees

a) Provide flexible internal communications

b) Employee empowerment

c) Employee training about social issues

d) Recognising socially responsible employees

3) Channels of Distribution

a) Honour both oral and written commitments

b) Fairly distributing scarce goods and services

c) Accepting reasonable requests by channel members

d) Encouraging channel members to act responsibly

e) No coercion of channel members.

4) Competition

a) Adhere to high standards of performance

b) No illegal or unethical acts to obstruct competition

c) No actions that would lead competition to waste resources.

5) Stock holders

a) Honest reporting and financial disclosure

b) Publicity about company activities

c) Stockholder participation in setting socially responsible policy

d) Explaining social issues affecting the company

Reasons for social responsibility of marketing :

The reasons which favour social responsibilities of marketing can be advocated as under :

1) Achieve long term objectives :

Every company attempts to achieve both short term and long term goals. The short term goals are related to profit maximisation and long term goals are related to wealth maximisation. To achieve these, the companies have to discharge certain activities which are social in nature.

2) Improve Organisational Image :

It is very much necessary that organisational image is to be improved in order to sustain the market and to generate an image in the view of the public. Social obligations in various forms are necessary for enhancing image.

3) Awareness among consumers :

The reason increase in the awareness of consumers who are expecting qualitative products at responsible prices, The consumers have organised themselves into a number of associations to fight against malpractices, blackmarketing and adulteration etc.,

4) Avoid Government intervention :

If the business is resorting to anti social activities the Government will intervene through legislative and administrative measures. Hence the business has to undertake social responsibilities and retain the credibility in the society.

2.5 PUBLIC ACTIONS TO REGULATE MARKETING

There have been many social movements which are undertaken by various associations to regulate marketing. The movements resulted in the following two public actions :

1) Actions to protect environment which is known as environmentalism.

2) Actions to protect and educate consumers which is known as consumerism.

These two actions are explained as under :

2.6 ENVIRONMENTALISM

Environmentalism is an organised consumer movement of concerned citizens, businesses and Government agencies to protect and improve people's living environment. They want people and organisation to operate with more care for the environment. The objective of marketing is to improve quality of life of the people and not to maximise profits. The environmental movement in the world can be observed as under :

a) The first stage of environmental protection measures were forced by consumer groups and environmental groups during 1960's and 1970's.

b) The second stage of measures were driven by Government through regulations and legislations during 1970's and 1980's.

c) The third stage of measures were initiated by companies themselves when they shifted from protest to prevention, regulation to responsibility.

Most of the organisations in the world face challenges from environmentalisam. As international trade barriers have been reduced and global markets expanded, environmental issues have a greater impact as the international trade countries in North America, Western Europe have developed strict environmental standards. More than 24 legislations were introduced in USA on the environmental aspects. Countries like China, India, Russia etc., are in the early stages of the development of policies relating to environment. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another country for ex: PVC Softdrink bottles cannot be used in Switzerland or Germany whereas they are preferred in France.

Efforts in India to protect environment :

The following are some of the efforts by voluntary orgnisations and Government in India to protect environment :

1. The Ganga cleaning project is an attempt to clean the river Ganges of the air and water pollution created by industries in the area.
2. Many of the transport departments in India have introduced necessary steps to replace old vehicles whith certain high percentage of carbon dioxide.
3. Another movement called 'Chipko' was also organised to protect trees and forests in India.
4. Recycling of used material has also been under taken by many marketing companies through the use of paper cartons, polythene etc.
5. Planned obsolescence is a marketing practice that capitalises on short run material wear out, style changes and functional product changes.
6. Environment protection Act 1986 was passed by Government to initiate actions against the companies involved in environment pollution.

2.7 CONSUMERISM

Consumerism encompasses the wide range of activities of Government, business and independent organisations that are designed to protect people from practices that infringe upon their rights as consumers. In the developed countries, the interests of the consumers was widely recognised and a series of measures have been taken up. In the developing countries, the measures to protect the interests of consumers are at the introductory stages.

The growth of consumerism can be observed from the following :

1. In the first stage during the 1900's the emphasis was on protection against unfair trade practices.
2. In the second stage during 1930 - 1950's, consumer groups and consumer were unions formed to highlight the problems of consumers.
3. In the third stage during 1960 - 1980, US President John F. Kennedy introduced consumer bill of rights in USA and these rights have been accepted in most of the countries.
4. In the fourth stage during the 1980's, consumerism entered a mature phase and the emphasis was on business deregulation and self regulation.
5. In the fifth stage during the 1990's, the consumer laws have been balanced with business laws.

Need for consumer protection :

The need for consumer protection arises because of the following important reasons :

1. Consumer needs physical protection against products and services that are unsafe and endanger health and property of the consumers.
2. Consumer needs protection against deceptive and unfair trade practices followed by business sector. Today the consumer is the victim of business mal-practices and frauds.
3. Consumer needs protection against the abuse of monopoly and restrictive trade practices. It is also known that monopoly is a source of consumer exploitation in terms of higher prices and lower quality.
4. Consumer needs protection against non-commitment of sellers. In many cases, it was exhibited that goods once sold will not be taken back. Many sellers are selling defective goods and do not take them back.

5. Consumer needs protection against pollution of all kinds. For ex: Chemical factories, fertiliser plants are producing more items of air and water pollution affecting the health of people.

   The Consumerism is that philosophy which forces the marketing managers to look at the goods and services from the view of consumers. A satisfied customer is the real asset for a marketer and the marketer should use consumer satisfaction for their benefits. Consumerism as a protest against unfair business practices aims at removing them or reducing them to enhance consumer acceptance of the products.

Consumer rights :

It was John F. Kennedy, the Former-President of America who spelled out the consumer rights in the year 1962. These six rights can be outlined as under :

1. **Right to protection of Health and Safety :**

   There are many products which cause physical danger to consumer health, lives and property. They contain potentially harmful substances that are dangerous from the consumer welfare point of view. For ex: food addictives, colours, preservatives etc., The health hazards that are likely to arise are to be eradicated or reduced considerably. In case of food items, drugs, home appliances etc., their safety is to be guaranteed. There is a need to protect the consumers from false, misleading and deceptive advertisements. The consumers who rely on the advertisement and buy the products find themselves cheated are to be protected.

2. **Right to be informed :**

   This implies that the manufacturer and the dealer are expected to disclose all the material facts that are going to affect the economic and social interests of consumers. The supply of information must be adequate, accurate, verifiable and legal sanctions. Such an information provides wide choice to the consumers in making sound decisions on buying. The package of the product must provide full details relating to name and place of the manufacturer, date of packing, date of expiry contents, batch no etc., This information saves the consumer from loss of time and effort in decision making

3. **Right to Choose :**

   Consumer satisfaction is the final aim of marketing and is the philosophy of marketing concept. Consumer satisfaction can be increased by providing wide choice to the consumer. Right to choose implies the monopoly is set aside by the consumers. It means that consumers encourage competition among the producers and dealers, so that there will be improvements in quality, reduction in costs, and increase in quantity produced so that maximum number of consumers can be benefitted.

4. **Right to be heard :**

   Consumer has the rigth to ventilate and register his dissatisfaction, disagreement, and get his complaint heard. This gives power to the Government to intervenue between the buyers and sellers and thus grant the justice to the aggrieved party. This right is very important and in the absence of this right, all other rights tend to be useless.

5. **Right to be redressed :**

   The aggrieved buyer should be granted compensation by bringing due adjustment in the transaction. There should be fair and just settlement of cases. As per the terms and conditions of sales, the customer is to be compensated through warrantees and guarantees. These types of adjustments attempt to reduce the post - purchase dissatisfaction. This right ensures existence of an acceptable mechanism for asserting the rights.

6. Right to quality of life :

Quality of life refers to the perceived well being of people in groups and individually, and the well being of the environment in which these people live. Recently, consumerism has been defined as "improvement in equality of life." The consumers should be left free from all types of pollution to make a happy and healthy living.

Measures to promote consumer protection in India :

The different measures to promote consumer protection in India are the following.

1. Voluntary organisations :

There are many organisations which are formed to protect the consumers. These organisations include.

a) Associations formed by Business :

These include Chambers of Commerce and trade, Federation of Indian Chamber of commerce and industry, Manufacturers Associations, Management Associations etc., which are formed voluntarily to plan and implement measures relating to protection of business and consumers.

b) Consumer Associations :

There are a number of consumer associations which are formed at National and local levels. These are Consumer Guidance Society of India at Bombay, Consumer Education and Research Centre at Ahmedabad, Consumer Action Forums, and Consumer Service Societies. However, these organisations suffer from lack of persistent and motivated members, inadequate finance and over shadowed by the influence of politicians.

2. Legislation by Government :

The Government introduced a number of legislations which include the following.

i. The Essential Commodities Act 1955

ii. Weights and Measures Act 1956

iii. The Drugs and Cosmetics Act 1954

iv The Preventation of Adulteration Act 1954

v. The Environment Protection Act 1986

vi. The Consumer Protection Act 1986

The Consumer Protection Act 1986 is the most specific and relevant act for today. Under the Act, three-tier Quasi-judicial machinery was set up.

i. District Forums at the district headquarters.

ii. State Commission at the state Capital

iii. National Commission at Delhi

These three institutions are authorised to deal with consumer grievances at different levels. Both the Central and State Government are given powers to appoint members of these commissions. While appointing the members of these commissions, the Governments consider experts in the field of law, economics, commerce, industry accountancy, and public administration etc., The cases referred to the above commissions are based on the amounts of compensation claimed.

2.8 MARKETING ETHICS

Ethics in marketing is concerned with the moral standards used to influence the behaviour of managers and to determine what is right or wrong. In the decisions related to marketing, the following guidelines are to be observed :

a) It should aim to have fair dealings with every one dealing with it.

b) It should be based on broad guidelines of what should be done and what should be avoided.

c) Any violation of ethical behaviour should be detected and rectified at the earliest possible time.

The following are the various decisions related to unethical behaviour in marketing:

1. The decisions related to product include brand similarity and packaging. There have been many occasions where there are similarities among the competition products.
2. The decisions related to price includes price collusions, price discrimination and unfair pricing. The competition in pricing has become a potential strategy to counter competitions.
3. The decisions related to distribution include some of the segments which are unprofitable are not taken up, and the distributors resorting to collusion among them by tie up arrangements.
4. The decisions related to promotion include gifts and bribes offered for sale.

2.9 SUMMARY

There have been many social pressures on marketing. The marketing has been responding to social pressures in different ways. Social responsibility is one of the important strategies adopted by marketers. There have been two important public actions to regulate marketing. They are environmentalism and consumerism. In India, the Government has been taking a series of measures to protect environment and consumers. The marketers are also expected to demonstrate ethical behaviour in their decisions.

2.10 SELF ASSESSMENT QUESTIONS

1. Write an Essay on the Social Responsibility of Marketing?
2. What is consumerism? How is consumerism implemented in India?
3. What are the efforts to protect environment in India.

2.11 FURTHER READINGS

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Lesson - III

MARKETING ENVIRONMENT

OBJECTIVES

The objectives of this lesson are to make you understand the

- concept of environment and the need for study of marketing environment
- influence of various types of environment on marketing decisions.
- importance of environmental analysis on marketing of various products and services.

STRUCTURE

3.1 Concept of Environment

3.2 Need for Environmental analysis

3.3 Marketing Environment - Classification

3.4 Influence of environment on marketing

3.5 Importance of environment analysis

3.6 Summary

3.7 Self Assessment Questions

3.8 Further Readings

3.1 CONCEPT OF ENVIRONMENT

Environment in general can be defined as "surroundings which influence a particular activity". The market is also influenced by a number of forces which are part of the marketing environment. Marketing Environment can be defined as the forces and actors that affect the ability of a company to develop and maintain successful relationships with its target customers. The organisations which are producing a number of products, services are influenced by a group of factors which are operating within and outside the organisation. The environment within which the organisations are operating is dynamic and uncertain. The different forces of environment provide a number of opportunities and threats to the organisations. Hence, a marketer must develop marketing mix decisions as per the changes in the marketing environment.

3.2 NEED FOR ENVIRONMENTAL ANALYSIS

Environmental analysis attempts to give an extensive insight as the current market conditions as well as of impact of external factors that are uncontrolled by marketers. These variables play an important role in convincing potential customers regarding changes in market trends, market conditions etc., For ex: Tamil Nadu is considered as a favourite place for the establishment of car projects as the Government provided a five year tax holiday for them. The changes in the Indian economy after 1991 resulted a drastic change in the Indian marketing environment. Electronics, Soft ware, Passenger Cars, Telecommunications etc., are the various sectors which are affected by the changes in the Indian economy.

In analysing the environment five important stages are indentified for the pupose of analysis.

1. Audit of Environment :

This involves vouching, checking and inspection of the various forces of environment. The various elements of marketing environment are to be identified and a clear examination of these elements is to be undertaken.

2. Assess Nature of Environment :

The assessment of the environment has to be undertaken with reference to identification of the nature in terms of micro, macro, controllable and uncontrollable etc.,

3. Key Environmental Factors :

The key environmental factors which will have a significant impact on marketing decisions are to be identified. Some of them are resources, men, technology etc.,

4. Identify opportunities and threats :

In view of the changes in the variables of environment, the various opportunities and threats are to be identified. The opportunities may come in the form of improved sales, markets, increased customer satisfaction etc.,

5. Strategic Decision making :

The decisions are to be taken in view of the analysis of the nature of variables of environment, and the potential opportunities and threats etc. The decisions are related to changes in the combinations of product line and mix, pricing, promotion and distribution etc.,

3.3 MARKETING ENVIRONMENT - CLASSIFICATION

The marketing environment may be classified as under :

1. Internal
2. External

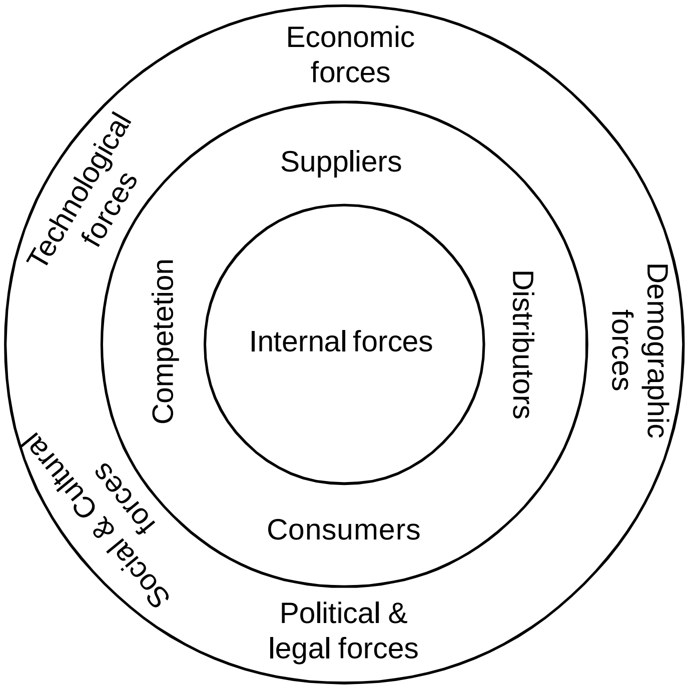
It can also be classified as

1. Micro
2. Macro

Further, another classification is as under :

1. Controllable forces
2. Uncontrollable forces

The various forces of marketing environment may be shown in the following diagram :



Source : Dr RL Varshney & Dr SL Gupta Marketing Management - An Indian Perspective p - 24

3.4 INFLUENCE OF ENVIRONMENT ON MARKETING

The influence of environmental factors on marketing can be discussed as under :

1. Micro Enviromnent :

   The following are the components of micro environment :

a) Internal factors :

The organisations internal environment cosists of policies, financial and human resources, production technology, and capacity etc., The decisions related to product planning, branding, packing, pricing, promotional budgets etc., are influenced by the policies and attitude of top management. Any decision in relation to marketing is also based on the availability of financial and human resources. The adequate supply of capital, continuous flow of resources, availability of skilled, qualified and talented employees will influence the decisions in the field of marketing. The use of technology (traditional and modern) and the capacity installed and use of the plant and machinery will have a considerable influence on the marketing decisions. The marketing managers should take the appropriate decisions on the basis of over all objectives of the organisation and the objectives of marketing department.

b) Influence of other groups :

The influence of other groups as a component of micro environment can be analysed as under:

i) Suppliers :

The organisations require a variety of raw materials, inputs, finance for a continuous flow of their activities. The services of suppliers is of great significance as they affect the company's flow of production, delivery plans, production cost and marketing efforts. A co-operative environment is to be created between the suppliers and the organisation. The agencies which supply raw material, banks and other financial institutions which supply necessary flow of credit tothe orgnisation play a vital role in the marketing decisions of any organisation.

ii) Intermediaries :

Much of the marketing activity in being influenced by the intermediaries in the marketing. The intermediaries include firms and people involved in physical distribution of products and services (agents, distributors, stockists etc.,) who provide time, place and ownership utility for the products and services. The other types of intermediaries are wholesalers, retailers etc., who provide the necessary link between organisations and consumers. The marketing activities are also undertaken by transport firms, warehousing organisations. Transport firms include rail, road, air, water transport agencies which are owned by Government and private organisations. Other service organisations including advertising agencies, insurance companies etc., are also involved as intermediaries in marketing. These intermedianes provide qualitative service in an efficient and effective manner.

iii) Customers :

Another important group in the micro environment are customers. The customers constitute a very important aspect in the micro environment of an organisation as they are the central point for the marketing activity. The customers may be classified into final users or consumers, industrial users, Government, resellers etc., The needs, requirements and expectations of each of the groups is different and hence the organisations have to implement different marketing policies to satisfy these different groups. The marketing concept emphasises that consumer satisfaction is the key for the success of any marketing activity.

iv) Competetion :

The marketing decisions of any organisation are influenced by the competetion existing in the market. The competetion may be in the form of perfect competetion, monopolistic competetion etc., Today many of the organisatins force oligopolistic competetion. The features of this type of competition are no different in the case of products, services, same price for all products of same category. Advertising and sales promotion play an important role in influencing consumers. For ex: in case of tooth pastes, soaps, TV's, refrigerators, automobiles etc., the type of competetion existing is oligopoly. The competetion for attracting consumers money also exists between non-similar products and services.

v) Other Public Organisations:

The marketing decisions are also influenced by a number of public organisations. These include Government departments, consumer councils, stock exchanges, media, etc., These different groups always watch the decisions of the organisations and interpret them from the view point of providing societal welfare. The reports which appear in the newspapers and TV on the progress of each industry provide frame work for improving their functioning.

2) Macro Environment

The variables of Macro environment may be classified as

a) Economic Environment

b) Demographic Environment

c) Socio - Cultural Environment

d) Political & Legal Environment

e) Technological Environment

These can be analysed as under :

1. Economic Environment

Economic environment is the most significant component of the marketing environment. The economic factors can be subdivided into economic conditions prevailing in a country, industrial conditions and availability of resources for production.

a) Economic Conditions :

The economic conditions prevailing in a country are related to the different components like economic system, per capita income trends, pattern of income distribution, pattern of savings and expenditure price levels, employment trends, agricultural and industrial output trends, impact of Government policies etc.,

b) Industrial conditions :

The organisations have to understand the influence of industrial conditions which include market growth of the industry, demand patterns of the industry, and stage in product life cycle.

c) Availability of resources for production :

Supply of resources are required for production determine inputs which are available for production. The most important resources required for production are land, labour, capital, machinery and managers.

The economic environment describes the overall economic situation in a country and helps in analysing GNP per Capita, rate of economic growth, inflation rate, interest rates, unemployment etc., Therefore it is necessary to examine the economic environment carefully before taking any decision.

2) Demographic environment

This environment explains the pattern and changes in economy based on population, city size, nationality, age, sex, education, marital status, family size, religion, family life style etc., The variables of demographic environment is useful for market segmentations targeting and positioning. The environment also provides quantitative and qualitative aspects of the population. The demographic features of Indian environment can be presented as under : (2001 census)

a) Population - 102.70 crores

b) Male -53.1 crores; Female - 53.1 49.6 crores

c) The heavily populated the cities are Calcutta, Chennai, Mumbai, Hyderabad, Delhi, Chandigarh, Mahe, Howrah, Kanpur and Bangalore

d) Literacy rate - 65.38%

e) People living in urban - 25.7%, and rural areas 74.3%

f) The division of poulation according to education is on the basis of Primary, Seconday, College, Post-Graduation and Professional courses.

g) Religion wise India has many religions including Hinduism, Islam, Christianity, Buddhism, Jainism etc.,

h) Age wise, people belong to different age groups Viz., 0-4, 5-14, 15-59, 60 plus etc.,

The other variables like family size like people with one child, two children and more than two children etc., life style in terms of attitudes, interests, opinions etc., will also play a significant influence on marketing environment.

3. Socio - Cultural Environment :

The social environment of a country influences the value system of the country which affects the marketing of products. The social factors which influence the marketing environment are caste, customs, conventions, cultural heritage, etc. In the Indian social environment, the changes that took place are as under :

a) Break up of the joint family system
b) Women employment
c) Changes in the attitude towards physical fitness.
d) Increase in the attitude towards education.

The change in the quality of life of the people also brought about many changes in the purchase of goods and services. For Ex: The people are preferring various automobile products like Motor Cycle, Car etc., Products like washing machines have also become very popular products now - a - days.

The social environment has the following directions :

a) Change in life style of people

b) Increasing concern for social problems

c) Growth of consumerism.

The marketing decisions are based on recogniton of needs and wants of the customers. These help in understanding of lifestyles and behaviour patterns as they have grown in the society in which the individuals have been groomed. Each society contains sub-cultures, various groups with shared values emerging from their special life experience or circumstances. There are some core cultural values which are found in the society deep rooted and stable and hence change very little.

4. Political & Legal Environment

Marketing decisions are also affected by the forces of political and legal environment. The political changes may take the following forms :

a) Stability of tenure of Government
b) Political parties and their philosophies.

Political factors play a major role in in shaping the environment in which business organisations operate. Thus a marketer has to study and analyse risks and opportunities involved in political changes. The political factors which are to be considered are :

i) Role of public and private sector in the economy.

ii) Changes in Government policy

iii) Importance of small scale industry

iv) Growth of service sector int he economy

Marketing decisions are strongly influenced by laws relating to competetion, price, advertising etc., It is necessary for a marketer to understand the legal environment in the country. The following laws are important :

1. Essential Commodities Act 1955
2. Weights & Measures Act
3. Drugs & Cosmetics Act
4. Trade and Merchandise Marks Act 1958
5. Monopolies & Restrictive Trade Practices Act 1969
6. Environment Protection Act 1986
7. Consumer Protection Act 1986
8. Tax Laws (Direct and Indirect taxes Acts)
9. The water (Prevention and control of Pollution) 1974

The legislations and judicial rulings given by the courts influence the marketing environment of any organisation.

5 Technological Environment :

The technological environment provides on opportunity and a threat for the growth of the organisation. The factors to be considered in technological environment include:

a) Expenditure on research and Development

b) Concentration on product improvements

c) Unlimited innovations in technology

d) Emphasis on regulation of technological change.

The technological environment in India is influenced by the technology policy which is formed by the Government of India and updated from time to time. The new economic policy covers the following aspects :

a) Selecting the few areas where research is to be concentrated

b) Open systems are required to assimilate the advances achieved.

c) Technology is an area of planning initiatives that India cannot afford to neglect.

Advances in technology are however difficult to predict. However, the marketer should consider potential, technological developments determined from resources committed by major industries or the Government. Being in a market, that is rapidly changing due to technological development, will require the marketer to make careful short-term marketing decisions as well as being prepared with contigency plans given, any new technological developments that may affect product or services.

3.5 IMPORTANCE OF ENVIRONMENT ANALYSIS

The marketing manager needs to understand the challenges of environment and the following benefits will be obtained by environmental analysis :

1. It helps to create a general understanding about changes in the environment to face challenges.
2. It guides to better planning of strategies relating to Government and other departments.
3. It also suggests necessary changes in the allocation of scarce resources and to plan for necessary diversifications.
4. It also helps to identify various opportunities and threats which are posed by environment.
5. It provides a base for qualitative and objective information about the environment and helps to design necessary marketing strategies.
6. It provides a broad and general education for managers to implement necessary strategies.

The marketing management is concerned with matching of the requirements of the organisation with the factors of business environment. The environmental forces faced by the organisation vary in their complexity and reflect on the decisions of the orgnisation.

3.6 SUMMARY

The marketing environment is the sum total of internal and external factors which the organisation operates. Some of the factors of the environment are controllable and some of them are uncontrollable. The marketing manager must obtain deep and up-do-date knowledge of all these forces as his marketing strategy is influenced by these at every step. The four P's namely product, price, place and promotion are forced to change as per the changes in the environmental forces.

3.7 SELF ASSESSMENT QUESTIONS

1. Define marketing environment. Explain the need for understanding marketing environment.
2. What are the forces of economic, socio-cultural environment on the marketing decisions?
3. How do political, legal and technological environments affect the marketing decisions?

3.8 FURTHER READINGS

1. Dr RL Varsheny & Dr SL Gupta "Marketing Management - An Indian experience" Sultan Chand & Sons, New Delhi 2000
2. Dr C. N. Sonlakki "Marketing Management" Kalyni Publishers, New Delhi.
3. Ramaswamy & Narimakuma "Marketing Management - Planning, Implementation and control "Macmillian India New Delhi - 2002.
4. Philip Kotler "Marketing Management" Pearson Education Pvt. Ltd., New Delhi, 11th edition 2003.

Lesson - IV

STRATEGIC MARKETING PLANNING

OBJECTIVES

The objectives of this lesson are to enable you to:

- appreciate the importance of strategic marketing planning;
- distinguish between strategic marketing and marketing management;
- understand the steps involved in the marketing process;
- analyse different approaches to marketing planning;
- identify the competitive strategies adopted by different players in the marketplace; and
- know the components of marketing plan.

STRUCTURE

4.1 Strategic Marketing
4.2 Need for Strategic Planning
4.3 Strategic Marketing Vs Marketing Management
4.4 The Marketing Process
4.5 Approaches to Marketing Planning
4.6 Competitive Analysis and Strategies
4.7 Components of Marketing Plan
4.8 Summary
4.9 Key words
4.10 Self Assessment Questions
4.11 Further Readings

4.1 STRATEGIC MARKETING

One of the major challenges facing today's enterprises is how to build and maintain viable businesses in a fast changing marketplace and business environment. In the West, in the 1950s, the answer was thought to lie in increasing production efficiency. In the 1960s, and 1970s, despite the opening up of the Western economies, companies sought growth and profits through vigorous acquisition and diversification programmes. They saw their businesses as constituting an investment portfolio to which they added promising businesses and removed faltering businesses. In the 1980s, however, the agenda shifted to strategic marketing. Market segmentation, market targeting, differentiating and positioning the market offering, etc., dominated the agenda.

The conditions that existed in the developed economies about two decades ago are becoming increasingly relevant in India todays. With the opening up of economy, the survival of any business lies with the successful management of its markets. Thus, a changing environment is a necessary presumption for a strategic marketing context. Discounting certain situational factors, whether it is in the West or in India or elsewhere environmental change was influenced by:

- A loose regulatory environment leading to free enterprise and resultant fierce competition;
- Availability of a wide variety of good quality products to consumers;
- Adequate supply at the consuming points to meet demand as it arose;
- Income and savings reached a wide population;
- Communication technology broke many barriers and the information search was greatly facilitated.

4.2 NEED FOR STRATEGIC PLANNING

In a changed setting described above, it is interesting to know how the companies compete in a global marketplace. Philip Kotler found that one part of the answer is a commitment to creating and retaining satisfied customers. He added a second part to this answer: Successful companies and high-performance businesses know how to adapt to a continuously changing marketplace. They practise the art of market-oriented strategic planning. According to Philip Kotler, "Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's businesses and products so that they yield target profits and growth." Strategic planning takes place at four levels: Corporate, division, business unit and product.

Strategic planning calls for action in three key areas. The first-calls for managing a company's businesses as an investment portfolio. Each business has a different profit potential, and the company's resources should be allocated accordingly. The second key area involves assessing accurately each business by considering the market's growth rate and the company's position and fit in that market. It is not sufficient to use current sales or profits as a guide. For example, if the Ford Motor Company had used current profits as a guide to investment in the 1970s, it would have continued to pour money into large cars, since that was where it made its money at that time. But Ford's analysis showed that the profits on large cars would dry up. Therefore, Ford needed to reallocate its funds to improving its compact cars, even though the company was losing money on compact cars at that time. The third key area of strategic planning is strategy. For each of its businesses, the company must develop a game plan for achieving its long-run objectives. Because there is no one strategy that is optimal for all companies in that business, each company must determine what makes the most sense in the light of its industry position and its objectives, opportunities, skills and resources.

STRATEGIC LINKAGES

The relationship between strategic planning for the corporation, the business units within the corporation, and marketing strategy is shown in Figure - 4.1.

Marketing plays a critical role in the company's strategic planning process. In the words of a strategic planning manager of General Electric:

"The marketing manager is the most significant functional contributor to the strategic planning process, with leadership roles in defining the business mission: analysis of the environmental, competitive, and business situations; developing objectives, goals and strategies; and defining product, market, distribution, and quality plans to implement the business' strategies. This involvement extends to the development of programmes and operating plans that are fully linked with the strategic plan."

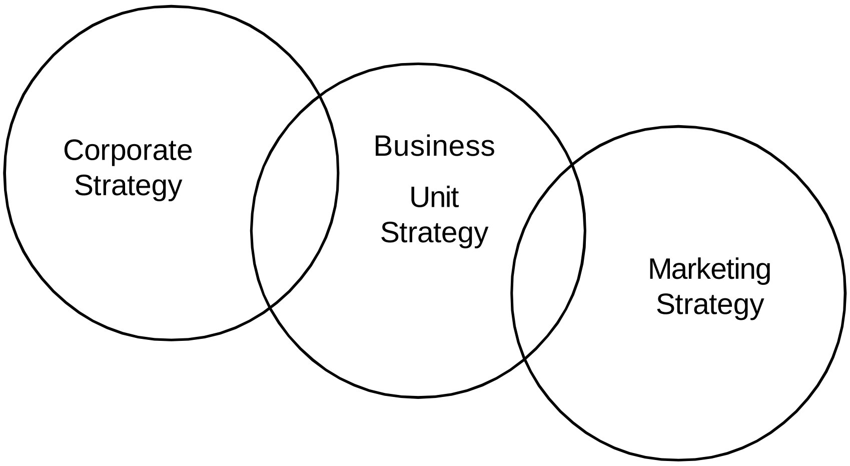


Figure 4.1 Strategic Linkages

Source : David W. Cravens, *Strategic Marketing,* Richard D. Irwin, Homewood, Illinois, 1987, p.12

Thus, the chief marketing executive's strategic planning responsibility includes: (1) participating in corporate strategy formulation, and (2) developing business unit marketing strategies in accordance with corporate priorities. Since these two areas are closely interrelated, it is important to examine marketing's role and functions in both areas to gain more insight into marketing's responsibilities and contributions. Peter Drucker describes this role:

"Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business, on a par with others such as manufacturing or personnel. Marketing requires separate work, and distinct group activities. But it is, first, a central dimension of the entire business. It is whole business seen from the point of view of its final result, that is, from the customer's point of view."

4.3 STRATEGIC MARKETING VS. MARKETING MANAGEMENT

The totality of the marketing management task is to address the customer's needs through the means of the marketing mix and in the context of an environment. In the words of Rakesh Khurana and Ravichandran, "The point at which conventional marketing wisdom tends to become strategic is where the timeframe that is envisioned by the marketer becomes long-term. Any marketing activity invariably takes into account the environment in which the business activity is taking place. It is never independent of it. But the essential difference is that is conventional marketing management the environment is assumed to be given while in a changing environment or in an environment, that is projected to change in a certain manner and over a period of time, it is imperative that marketing becomes strategic." The major difference between strategic marketing and marketing management are explained in Table. 4.1.

Table-4.1 Major Differences Between Strategic Marketing and Marketing Management.

Point of Difference	Strategic Marketing	Marketing Management
Timeframe	Long-range i. e., decisions have long-term implications	Day-to-day; i. e., decisions have relevance in a given financial year
Orientation	Inductive and intuitive	Deductive and analytical
Decision process	Primarily bottom-up	Mainly top - down
Relationship with environment	Environment considered ever-changing and dynamic	Environment considered constant with occasional disturbances
Opportunity sensitivity	Ongoing to seek new opportunities	Ad hoc search for a new opportunity
Organisational behaviour	Achieve synergy between different components of the organisation, both horizontally and vertically	Pursue interests of the decentralised unit
Nature of job	Requires high degree of creativity and originality	Requires maturity, experience, and control orientation
Leadership style	Requires proactive perspective	Requires reactive perspective
Mission	Deals with what business to emphasise	Deals with running a delineated business

4.4 THE MARKETING PROCESS

Marketing managers follow marketing process in order to carry out their responsibilities whether at the corporate, division, business, or product level. According to Philip Kotler,

"The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing, and controlling the marketing effort." The steps involved in the marketing process are discussed hereunder:

Environmental Scanning

The exercise will begin with an assessment of marketing environment through monitoring factors such as political set-up, economic conditions and technology. One must make a thorough scan of the business environment with a view to identifying new opportunities and/or threats. In this connection, marketing research will serve as an indispensable marketing tool for assessing buyer wants and behaviour and assessing market size.

Formulation of Marketing Strategy

An important input at this stage is competitive analysis. A firm must be in a position to identify its own strategic choices against the perspective of the strategies adopted by the competitors. A firm's chosen strategy emphasises every aspect of the marketing mix. Further, it is more likely that one element of the marketing mix may dominate the strategy (called the 'core strategy') and the rest may act as supporting strategies.

Planning Marketing Programmes

Marketing managers, must transform marketing strategy into marketing programmes by making decisions about marketing expenditure, marketing mix and marketing allocation. The company has to decide now to divide the total marketing budget among the various tools in the marketing mix, viz., product, price, place and promotion. It is the responsibility of the marketers to allocate the marketing budget to the products, channels, promotion media and sales areas.

Strategy Implementation and Control

After the details of a chosen strategy have been worked out, it is important to pay attention to continuous implementation. Updating the systems of the organisation, especially the information systems, the management reporting systems and reward systems is a key requirement in strategy implementation. Selecting, training, directing, motivating and evaluating marketing personnel is another key requirement. Because of rapid changes in the marketing environment, each firm needs to reassess its marketing effectiveness periodically.

Figure 4.2 exhibits the factors influencing a firm's marketing strategy.

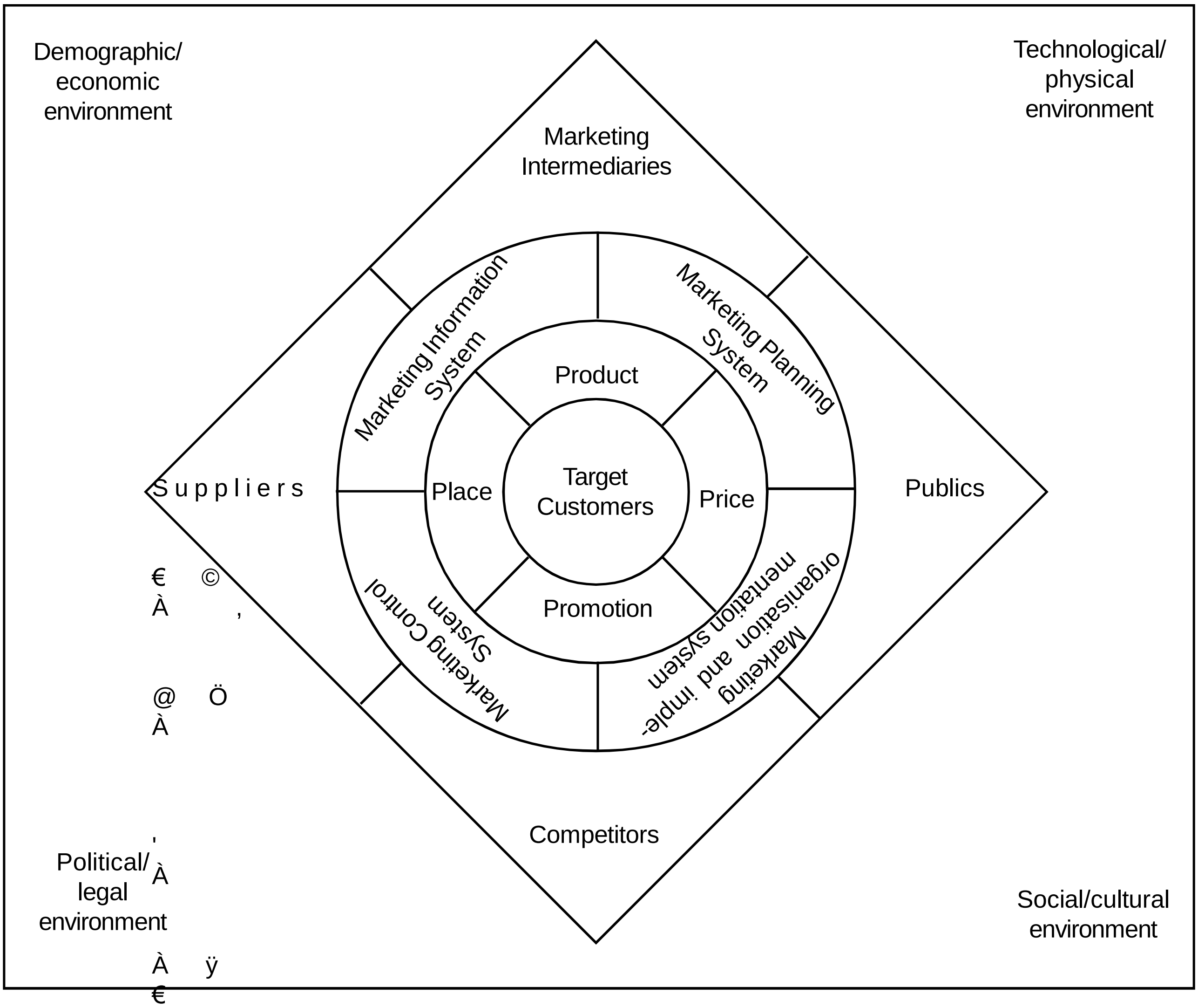


Figure 4.2: Factors Influencing a Firm's Marketing Strategy

4.5 APPROACHES TO MARKETING PLANNING

Different authors and consultant firms have recommended different approaches to marketing planning. Some of the approaches are: Profit Impact of Marketing Strategies (PIMS), portfolio models, and competitive analysis.

4.5.1 Profit Impact of Marketing Strategies (PIMS)

It is one of the path-breaking approaches to strategic planning and competitive strategy development. The Strategic Planning Institute of the USA sought to identify the most important variables affecting the profits by launching a study called Profit Impact of Marketing Strategy (PIMS). For the purpose, it gathered data from hundreds of business units in a variety of industries and identified the most important variables associated with the profitability. Market share is one among the key variables thus identified affecting profitability.

According to a PIMS report, "The average return on investment (ROI) for business with under 10 per cent market share was almost 9 per cent...... on the average, a difference of ten percentage points in market share is accompanied by a difference of about five points in pretax ROI." The PMIS study shows that business with market shares above 40 per cent earn an average ROI of 30 per cent, or three times that of those with shares under 10 per cent. Market shares can improve their profitability further through increasing their market share. In many markets, one share point is worth tens of millions of dollars. For example, in the USA, a one-share-point gain in cofee is worth $ 48 million and in soft drinks $ 120 million.

4.5.2 Portfolio Models

Another approach to marketing planning is the portfolio approach. A number of portfolio models have been proposed by researchers and management consultants. Some of the portfolio models are briefly discussed as follows:

Boston Consulting Group (BCG) Approach

The Boston Consulting Group, leading management consultant firm in the U.S., developed an approach known as the growth share matrix as shown in Figure 4.3. This model uses the market rate

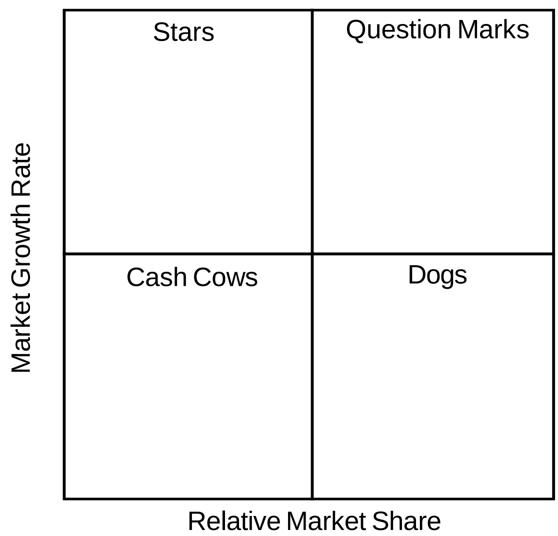


Figure 4.3: The BCG Growth Share Matrix

growth (vertical axis) as the indicator of the industry's attractiveness and a firm's market share (horizontal axis) as its competitive positive in that industry. The BCG matrix categorised the firm's SBUs into four groups, viz., Stars, Cash Cows, Question marks and Dogs.

Stars: These SBUS are supposed to be fast growing and carry the company's future prosperity. As they show a high growth prospect they usually consume the maximum resources, particularly cash and marketing efforts to maintain their positions.

Cash Cows: These SBUs earn the highest revenues for the firm. Management should carefully protect the profitability of these SBUS.

Question marks: These SBUS are low performers compared to the industry average. Management has to decide whether by putting in more resources it can bring these products into the high market share or "star" level or else to withdraw from those businesses in view of continuous below-average performance.

Dogs: These SBUs are performing poorly from the stand point of both the industry growth rate and the company's market share position. Therefore, unless the company is hopeful of turning them into a "high position" on any of the two axes, they have to be wound up.

The BCG model is based on the premise that a high market share and profitability are interrelated, because a high market share will mean (a) greater economies of scale (b) greater market power vis-a-vis consumers as well as input suppliers, (c) better quality management, which is generally a characteristic of market leaders.

GENERAL ELECTRIC (GE) MODEL:

The General Electric (GE) model is an improvement over the BCG model. It relates to *market attractiveness* to the SBU and *firm's strengths,* which will make it competitive in the marketplace. Factors that determine market attractiveness are: nature of competition, government policy, Return on Investment (RoI), technology, market size, rate of market growth and so on. On the other hand, the strengths of any SBU or firm may lie in R&D, finance, distribution, market share, product quality, customer service, etc. To measure these two dimensions, managers must identify the factors underlying each dimension and find a way to measure them and combine them into an index.

As shown in Figure 4.4 the GE matrix is divided into nine cells, which in turn fall into three zones. The three cells in the upper-left corner indicate strong SBUs in which the company should invest or

Market Attractiveness	Strong	Medium	Weak
Strong	Protect Postion	Invest to build	Build Selectively
Medium	Build Selectively	Selectivity/ Manage for Earnings	Limited Expansion or Harvest
Low	Protect and Refocus	Manage for Earnings	Divest

Business Strength

Figure : 4.4 The GE Matrix

grow. The diagonal cells stretching from the lower left to the upper right indicate SBUs that are medium in overall attractiveness. The company should pursue selectivity and manage for earnings in these SBUs. The three cells in the lower-right corner indicate SBUS that are low in overall attractiveness. The company should give serious thought to harvesting or divesting these companies.

Arthur D. Little Life Cycle Portfolio Matrix

This model proposed by Arthur D. Little Inc., a management consulting firm, is built on the assumption that industries, like products, have life cycles. Every industry usually passes through four stages. The characteristics of each stage are as follows:

Embryonic industry: Slow growth, changes in technology, vigorous pursuit of new customers, fragmented and unstable market shares.

Growth industry: Rapid growth, customers exhibit definite purchase patterns, rising market shares of leading competitors, rapid pace of technological developments and negligible barriers to entry.

Mature industry: Stable purchase patterns, technology and market shares.

Aging industry: Falling demand, a declining number of competitors and a narrowing product line.

This model further conjectured that firms can occupy one of the six competitive positions viz., dominant, strong, favourable, tenable, weak and non-viable.

Shell's Directional Policy Matrix:

This model has two dimensions: the business sector's profitability prospects and competitive capability. The profitability dimension has three classifications: unattractive, average and attractive. The competitive dimension is defined as weak, average or strong. As shown in Table-4.2, the model offers nine possible strategies.

Table 4.2: The Shell's Directional Policy Matrix

	Business Sector Prospects		
Company's competitive capabilities	Unattractive	Average	Attractive
Weak	Disinvest	Phased Withdrawal	Double or Quit
Average	Phased Withdrawal	Custodial	Try Harder
Strong	Cash Generation	Growth	Leader

4.6 COMPETITIVE ANALYSIS AND STRATEGIES

This section examines the role competition plays and how companies position themselves relative to competitors.

There are usually four different levels of competition. The first is known as *brand level* competition. Certain brands are targeted at the same segment of customers. For example, Thums up and Pepsi are competitors at the brand level. The second level of competitors is referred to as *product* *category* competition. For example, all companies that are producing a washing product (be it a cake, powder, liquid or other forms) are directly or indirectly competing at the product category level. The third level of competition is known as *generic competition.* Theodore Levitt, in his well-known article 'Marketing Myopia' described of this kind of competition. For instance, the companies producing manual typewriters could not foresee that personal computers would virtually wipe them out. Likewise, viewers of cinema have been greatly invaded by television. It means if one sees the competition only at the brand' or 'product' level, one runs the risk of being outrun by 'generic competition.' The fourth level of competition is '*Budget competition.'* Here marketers are seen to be competing for the same 'consumer's purse.' At a more intensive level, *firms compete for all kinds of resources and skills.* For example, there is competition for shelf space and for obtaining raw materials. Similarly, the Indian industry has started experiencing competition for key manpower resources.

Porter's Model of Competitive Analysis

Michael Porter uses the evolutionary stages of an industry to suggest suitable strategies. Porter argues that it is industry structure as reflected in the strength of just five forces which are universal that determine the state of competition (both the rules of the game and strategies available) and ultimately the profit potential of the industry. A firm should identify the extent to which it can influence or defend itself against these five forces. Under Porter's concept of extended rivalry, all these forces offer competitive threats to the business. His model is shown in Figure. 4.5.These five forces are:

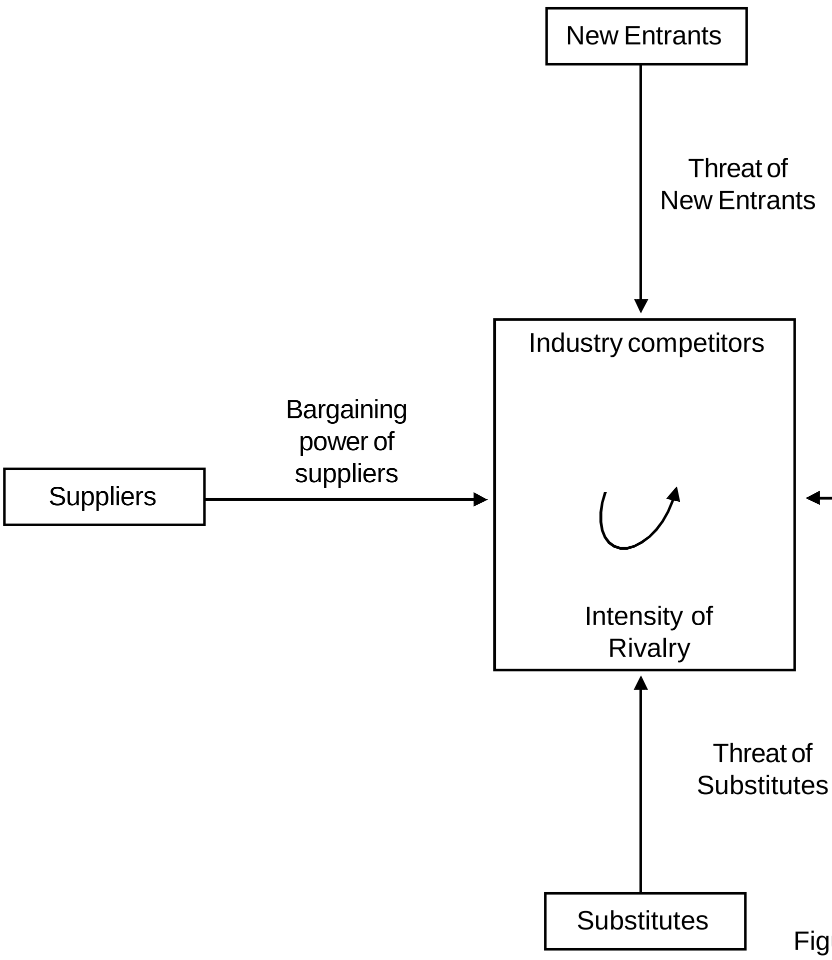


Figure 4.5: Elements of Industry Structure

- Threat of entry
- Rivalry among existing firms
- Threat of substitute products or services
- Bargaining power of buyers
- Bargaining power of suppliers.

Competitive Strategies

We shall now examine how the market leaders, challengers, followers and nichers evolve their strategies.

Market-Leader Strategies:

A market-leader wants to remain number one. This calls for action on three fronts. First, the company must find out ways to expand total market demand. Second, it must protect its current market share. Third, it can try to increase its market share further, even if the total size of the market remains constant. The market leaders try to find out new users, cultivate new applications and encourage more usage of its offering.

Market-Challenger Strategies:

Companies who occupy the second or third position in terms of market share are called market-challengers. The Challenger may adopt a variety of attack strategies such as frontal attack (e.g., Pepsi in the initial years-attacking Thums up), flanking attack (e.g., Nirma against Surf), encirclement attack (Closeup or Pepsodent vis-a-vis Colgate), bypass attack (Maruti in the initial years against the Ambassador), and guerrilla attack (as is done by any milk food company to attack Nestle)

Market-Follower Strategies:

Many companies prefer to follow rather than challenge the market-leader. A market follower must know how to hold current customers and win a fair share of new customers. The follower has to define a growth path, but one that does not invite competitive retaliation. Followership is often not a rewarding path.

Market-Nicher Strategies:

A market -nicher chooses to operate in a small segment of a large market. The key strategy adopted by them is some sort of specialisation. Several specialist roles open to market nichers are to cater to some specific end-user segment, geographic area, unique product feature, price, or superior service.

4.7 COMPONENTS OF MARKETING PLAN

In professionally managed companies, marketing planning is a formal exercise undertaken on an annual basis. There is no uniformity in the contents of marketing plans of different firms. Generally, marketing plans have the following contents:

I. Executive summary: This is an overall bird's eye view of the marketing plan. It tells the focus of the plan and is generally targeted to the top management.

II. Situation analysis: This component presents data on sales, costs, profits, the market, competition and the macro environment.

III. Opportunity analysis: Here the marketer identifies the major opportunities / threats and strengths/ weaknesses.

IV. Objectives: The marketer must decide on the plan's financial and marketing objectives.

V. Marketing strategy: The marketer now outlines the broad marketing strategy.

VI. Action programmes: The marketing plan must specify the broad marketing programmes for achieving the business objectives.

VII. Projected profit and loss account: Action plans allow the marketer to build a supporting budget. The budget becomes the basis for developing plans for material procurement, manpower planning and production scheduling.

VIII. Control systems: In order to ensure that performance is as per planned schedule, it is necessary to evolve control systems which can help management take corrective mid-course action.

4.8 SUMMARY

Marketing plays a crucial role in the company's strategic planning process. The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing and controlling the marketing effort. The steps involved in the marketing process are: environmental scanning, formulation of marketing strategy, planning marketing programmes, and strategy implementation and control.

Different approaches to marketing planning viz., Profit Impact of Marketing Strategies (PIMS) and Portfolio models (BCG matrix, GE model, Arthur D. Little Life Cycle Portfolio matrix and Shell's Directional Policy matrix) have been discussed.

In the section *Competitive Analysis and Strategies,* four different levels of competition are identified. They are: brand level, product category, generic and budget competition. Michael Porter uses the evolutionary stages of an industry to suggest suitable strategies. Porter argues that it is industry structure as reflected in the strength of just five forces which are universal that determine the state of competition and ultimately the profit potential of the industry. The five forces are: threat of entry, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, and bargaining power of suppliers. We have also examined how the market-leaders, challengers, followers and nichers evolve their strategies in brief.

The last section touches upon the contents of marketing plans of professionally managed firms.

4.9 KEY WORDS

Arthur D. Little Life Cycle Portfolio Matrix: This model is built on the assumption that industries, like products, have life cycles. Every industry usually passes through form stages; Embryonic, growth, mature, and aging.

BCG Matrix: This model uses the market rate growth (vertical axis) as the indicator of the industry's attractiveness and a firm's market share (horizontal axis) as its competitive position in that industry. The BCG matrix categorised the firm's SBUs into four groups, viz., Stars, Cash Cows, Question marks and Dogs.

GE Model: It relates to market attractiveness to the SBU and firm's strengths, which will make it competitive in the marketplace.

Marketing Process: It consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing and controlling the marketing effort.

Michael Porter's Model of Competitive Analysis: Michael Porter identified five forces that determine the intrinsic long-run profit attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.

Profit Impact of Marketing Strategies (PIMS): The Strategic Planning Institute of the USA sought to identify the most important variables affecting the profits by launching a study called Profit Impact of Marketing Strategy.

Shell's Directional Policy Matrix: This model has two dimensions: the business sector's profitability prospects and competitive capability.

Strategic Linkages: The relationship between strategic planning for the corporation, the business units within the corporation, and marketing strategy.

4.10 SELF ASSESSMENT QUESTIONS

1. Explain the need for strategic marketing planning for Indian firms in the context of privatisation and globalisation.
2. What are the steps involved in the marketing process? Discuss.
3. Briefly discuss about different approaches to marketing planning.
4. Identify the competitive strategies adopted by the Indian toothpaste marketers.

4.11 FURTHER READINGS

David W. Cravens, Strategic Marketing, Richard D. Irwin, Inc., Illinois, 1987.

Philip Kotler, Marketing Management, Prentice- Hall of India, New Delhi, 1999.

Rajan Saxena, Marketing Management, Tata McGraw-Hill, New Delhi, 1999.

Rakesh Khurana and A.N. RaviChandran, Strategic Marketing Management, Global Business Press, Delhi, 1995

Ramanuj Majumdar, Marketing Strategies, Allied Publishers, New Delhi, 1996.

Lesson - V

SEGMENTING, TARGETING AND POSITIONING

OBJECTIVES

After going through this lesson, you should be able to :

- appreciate the need for segmentation.
- understand the bases for segmenting consumer markets.
- know how the firm can select one or more market segments to enter (market targeting)
- understand how to establish the product's key distinctive benefits in the market (market positioning).

STRUCTURE

5.1 INTRODUCTION

The decade of 1980 must have been a memorable one for Hindustan Levers Ltd., (HLL). For, in a typical David and Goliath war, the giant and an undisputed market leader in consumer non-durables in India suffered a humiliating defeat at the hands of a new and small firm, Nirma Chemicals. Nirma Washing Powder became a national brand soon after 1982, when the Indian television went commercial and started colour telecast. The product immediately caught the fancy of the middle-income customer; who was finding it difficult to make both ends meet with a limited monthly income. Nirma was the lowest priced branded washing powder available in the grocery and co-operative stores. The middle class housewife was more than satisfied, as she could now choose a lower priced washing powder rather than the high priced Surf detergent powder from HLL. Nirma also had an impact on upper middle income and higher income families who used it for washing their inexpensive clothes and linen. Initially, HLL responded by launching sales promotion campaign on Surf - by offering a bucket at subsidised price for every 1 kg of Surf, or by trading premium brands of toilet soap with every kilogram of Surf. These schemes, however, did not halt the decline of Surf. HLL then launched a head-on attack on Nirma. Without naming it (though it was obvious) they came up with an advertising commercial comparing 1 kg of Surf with 1 kg of low-priced yellow washing powder and showed that Surf washed more clothes than the low-priced yellow washing powder - and hence it was economical to buy Surf.

The commercial did not bring in any substantial results. It was at this time (around 1984). that HLL decided to take a fresh look at the market. Research was conducted throughout the country which revealed that different income groups of consumers, had varying expectations from detergents or washing powders. It also showed that different colours of washing or detergent powders were associated with different types of fabrics. For example, yellow coloured washing or detergent powder was mainly bought by middle and lower middle or lower income people. They washed all their fabrics and associated whiteness in clothes to a yellow coloured powder. Also, middle class families used the blue coloured Rin bar for washing their expensive clothes. The research further indicated that blue or white coloured detergent powders were bought by middle to higher income group people, and then colours were also associated with washing clothes clean. In fact, the housewife was known to add "blue" to her laundry to give that extra whiteness to the white clothes. Interestingly, green was also the colour that was perceived to clean extra - dirty clothes. Armed with this research on colour perceptions and income groups, HLL launched the Sunlight (yellow), Wheel (green), Rin (blue) and Surf Ultra (white) detergent powder for different market segments. This strategy of segmenting the markets, understanding its needs and thus evolving a marketing mix to suit segments' needs helped HLL win back part of its lost market. In fact, Nirma made all other consumer product companies sit up and take a fresh look at their markets. It announced, for many, a beginning of an era of low-priced products for a highly price sensitive Indian market, and, to others, an end of mass marketing era. The market was indeed changing, demanding new responses from companies. The latter part of 1980s or early 1990s has taught the firms a lesson - "One cannot be everything to everyone; but one can be everything to a select few." This is the basis of segmentation (Adopted from Rajan Saxena, *Marketing Management*, Tata McGraw-Hill, New Delhi, 1997).

From the above case discussion, it is clear that a company cannot serve all customers in a total market. The customers are different in terms of their buying requirements. The company has to identify the market segments that it can serve more effectively.

In **target marketing**, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

According to Philip Kotler, target marketing requires marketers to take three major steps:

- Identify and profile distinct groups of buyers who might require separate products or marketing mixes (market segmentation).
- Select one or more market segments to enter (market targeting).
- Establish and communicate the products' key distinctive benefits in the market (market positioning).

5.2 MARKET SEGMENTATION

The Concept : Mass marketing is the starting of any discussion on segmentation. In *mass marketing*, the firm engages in the mass production, mass distribution, and mass promotion of one product for all buyers. The sellers practising mass marketing assume that all buyers are alike. At the other extreme, *individual marketing* leads to 'customised marketing'. In individual marketing, the seller will customise the offer, logistics, communications, and pricing for each customer. New technologies such as computers, databases, internet and fax enabled the marketers to adopt customised marketing.

Market segmentation is an approach midway between mass marketing and individual marketing. The buyers of each segment are assumed to be similar in wants, purchasing power, geographical location, or buying attitudes. *Market segmentation* is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. It is a customer - oriented philosopy. The firm's marketing programme is tailored to the specific needs of a segment. It helps matching of market opportunities to the company's resources. To be able to overcome a threat of competition, the marketers attempt to segment their markets, position themselves in a segment they perceive they will be able to defend against competitive attacks. As Michael Porter puts it, the competitive advantage of a firm lies in being everything to select few. To be everything to everyone is a sure recipe for a strategic failure.

Patterns of Market Segmentation : Market segments can be created in many ways. Philip Kotler suggested a way to identify *Preferences segment.* For instance, the buyers of shampoo may be asked as to how much they want of two attributes: foam and fragrance. Three different patterens of preferences can emerge as shown in Figure 5.1.

*** Homogeneous Preferences :** Figure 5.1 (a) exhibits a market where there are no natural segments. All the consumers have more or less the same preference with regard to foam and fragrance.

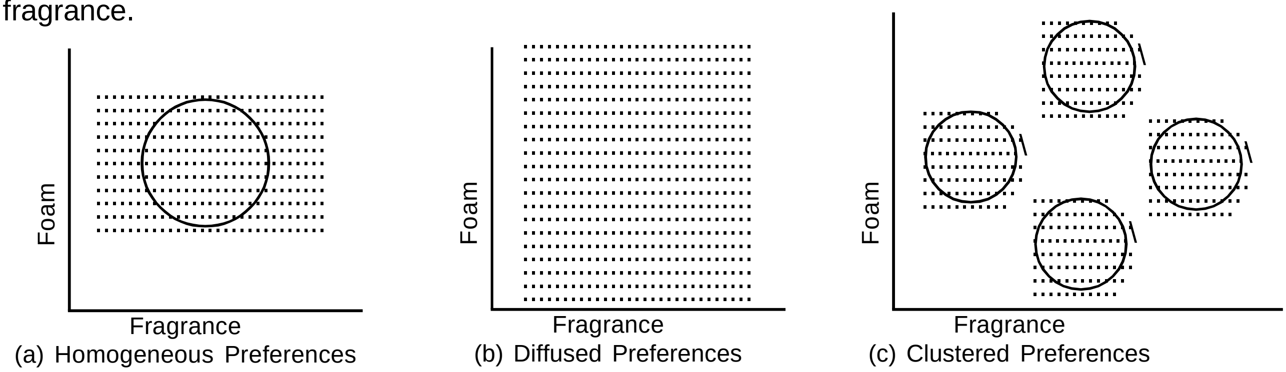


Figure 5.1 Basic Market - Preference patterns

*** Diffused Preferences :** This is the other extreme (Figure 5.1 [b]). Consumers differ greately in their preferences. A brand is likely to be positioned in the centre so that it may be able to appeal to the majority of the customers. A second competition could locate a corner to attract a customer segment that was not satisfied with the centre brand.

Clustered Preferences : Figure 5.1 (c) shows a market which reveals natural market segments. Three options are normally available to the first marketer. It might position itself in the centre with a view to appealing to all the customer groups *(Undifferentiated marketing)*. It might positon itself in the largest market segment *(Concentrated marketing)*. It might offer many brands, each positioned in a different segment *(Differentiated marketing)*.

5.3 BASES FOR SEGMENTING CONSUMER MARKETS

Marketers segment consumer markets by using two broad groups of variables. The market segments can be formed by looking at consumer characteristics, viz., geographic, demographic and psychographic. On the other hand, the marketers attempt to form segments by understanding consumer responses to the market offerings. For example, the marketers try to know whether customers who want "picture quality" versus "easy to use" in buying a camera differ in their geographic, demographic and psychographic makeup. The bases for segmenting the markets - geographic, demographic, psychographic and behavioural - are discussed hereunder:

Geographic Segmentation :

This involves dividing the market into different geographical areas such as nations, states, regions, cities, or villages. A very common base is the rural and urban divide. Geographic segmentation assumes that people in a particular geographic area have similar preferences and consumption behaviour.

Demographic Segmentation :

Demography is the study of population. Demographic variables are the most popular bases for segmenting consumer markets. Some of the demographic bases are: age, family size, family life cycle, gender, income, occupation, education, religion and social class.

Age : Based on age, one can have the (i) infants market (newly born -upto 1 year); (ii) child market (1 year - 12 years); (iii) teens market (13 years - 19 years); (iv) adolescent market (16 years - 19 years); (v) youth market (20 years - 35 years); (vi) middle aged market (36 years - 50 years); and (vii) elders market (50 years and above).

Family size and structure : With the spread of the family planning programmes, the average family size has been declining in India. Further, we can witness the splitting up of joint families. Nuclear families are on the rise. Marketers use family size and structure for evolving marketing programmes. For instance, a 360 litre refrigerator is normally meant for large families and a 165 litre refrigerator is suited for smaller families.

Gender : On the basis of gender, the consumer market may be classified into male market and a female market. A shoe company will have to take a decision whether it wants to offer shoes for men or women or for both.

Social class : Companion design their products and services for particular social classes. Broadly, there are three social classes - upper class, middle class and lower class. A person's social class depends on type of income, type of occupation and place of residence.

Psychographic Segmentation :

Many marketers are turning to psychographic variables to segment their markets. According to Philip Kotler, buyers are divided into different groups on the basis of lifestyle, personality and values.

Lifestyle: The products and services used by the customers exhibit their lifestyles. The marketers of textiles, cosmetics, cigarettes, beer and furniture generally attempt to segment their market on the basis of lifestyle. The Titan watch company has segmented its market for Timex and Titan watches on the basis of lifestyle.

Personality : Marketers try to develop brand personalities that match to consumer personalities. For example, Femina magazine earlier targetted at an older, more traditional and middle class woman. Later, the magazine is repositioned "for the woman of substance". Another women's magazine Savvy is targetted at the highly liberated, independent and strong woman.

Values : Companies that segment by core values try to appeal to people's inner selves in order to influence their outer selves - their purchase behaviour.

Behavioural Segmentation :

The customers can also be divided into certain segments on the basis of their knowledge, attitude, use, or response to a product. Such behavioural variables are discussed below.

Occasions : Marketers attempt to create certain occasions is order to make customers feel to buy a product or service. For instance, many people buy ornaments and clothes at the time of the marriage of a family member and on the festive occasions. Certain occasions such as Mother's Day, Friendship Day and Valentines Day were established partly to increase the sale of certain products.

Benefits sought : The customers can be divided into certain groups on the basis of the benefits sought from a product. For example, in case of toothpastes in India, Colgate and Close-up offers cosmetic benefit (i.e., white teeth stops bad breath); Forhans and Cibaca provides Therapeutic benefit (i.e. protects gums); and Vicco Vajradanti and Neem gives ayurvedic benefit (i.e. without side effects).

User Status : Buyers can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product.

Usage rate : Marketers segment the market into light, medium and heavy user segments on the basis of usage rate. Marketers normally try to attract a few heavy users rather than many light users.

Loyalty Status : The marketers should examine the loyalty patterns of its customers in order to retain the loyal customers or to attract new customers. According to brand loyalty status, customers can be divided into:

Hard-core loyals : Buyers who buy one brand all the time.

Split loyals : Buyers who are loyal to two or three brands.

Shifting loyals : Buyers who shift from one brand to another.

Switchers : Buyer's who show no loyalty to any brand.

Buyer Readiness : Buyers are at different stages of readiness. There may be buyers who are unaware of the product, some are aware, some are informed, some are interested, some desire the product and some interested to buy.

Attitude: Marketers can classify the customers into five attitude groups, viz., enthusiastic, positive, indifferent, negative and hostile.

EFFECTIVE MARKET SEGMENTATION

To be effective, the size of market segments must be large enough. The requisites for successful market segmentation are :

1. Measurability : The segments must be measurable in terms of their size and purchasing power.

2. Accessibility : The market segments should be reached and served through suitable means of distribution and promotion.

3. Substantiality : The segments must be large and profitable enough. It may not be commercially viable to design cars exclusively for Indian women.

4. Differentiability : The segments must be clearly distinguishable. They must respond differently to different marketing programmes. If men and women react similarly to a brand of toilet soap, they do not constitute different segments.

5. Actionability : To be effective, marker of segmentation should be compatible with the manpower, financial and managerial resources.

5.4 MARKET TARGETING

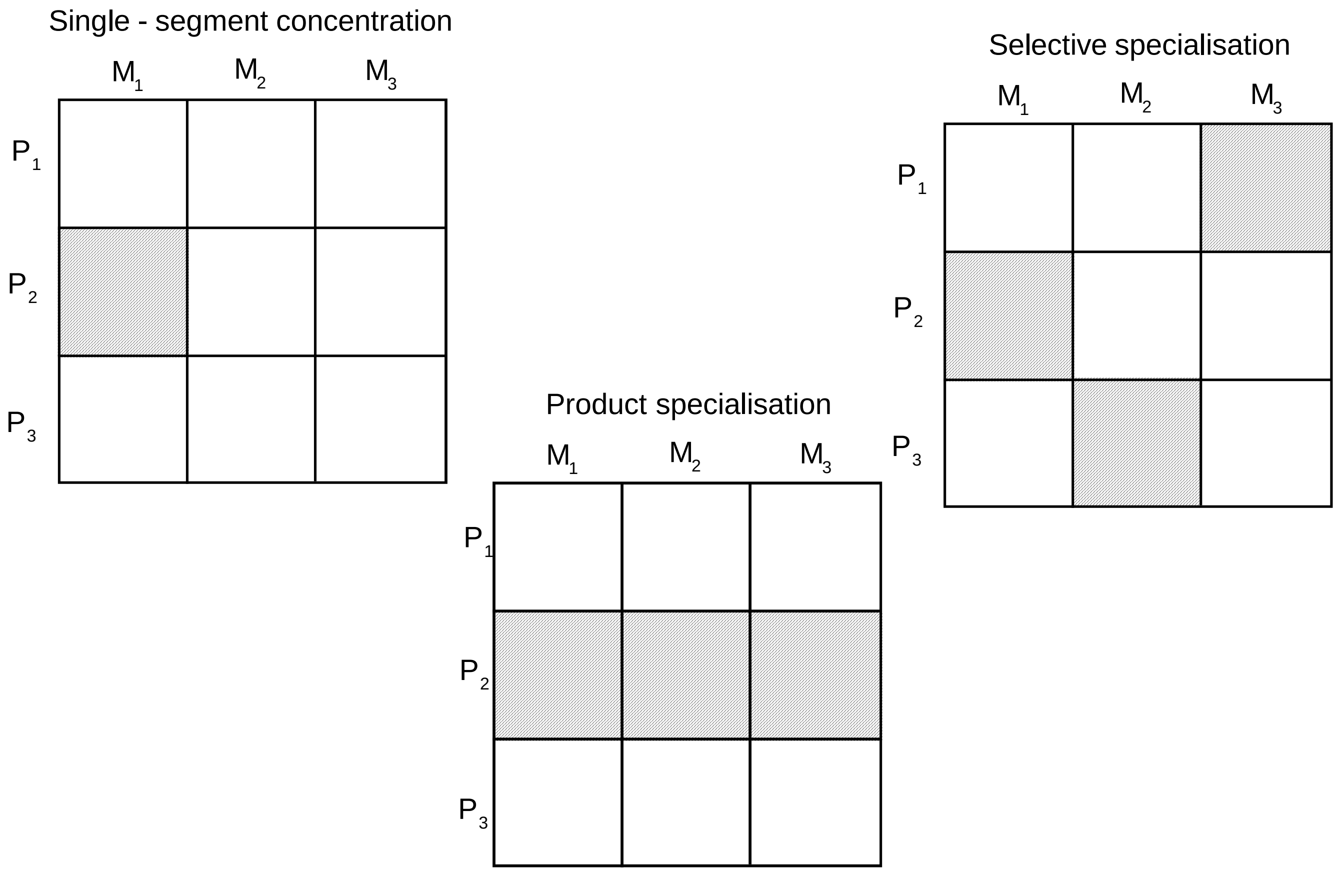
As observed earlier, target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. In market segmentation, the marketer identifies the distinct groups of buyers who might require separate marketing mixes. Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target.

EVALUATING THE SEGMENTS :

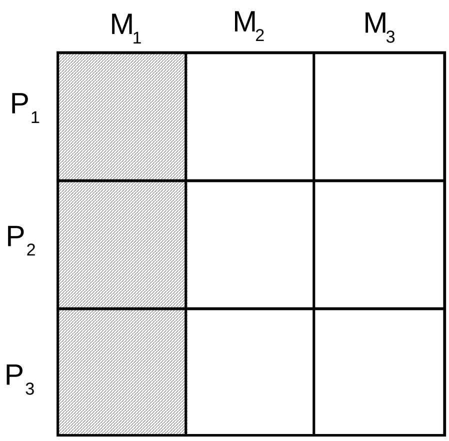
The selection of market segments depends on the segment's attractiveness and the firm's objectives and resources. The company should forecast the sales, growth, profitability and scale economies of each segment. Certain segments could be dismissed if the company lacks resources

SELECTING THE MARKET SEGMENTS :

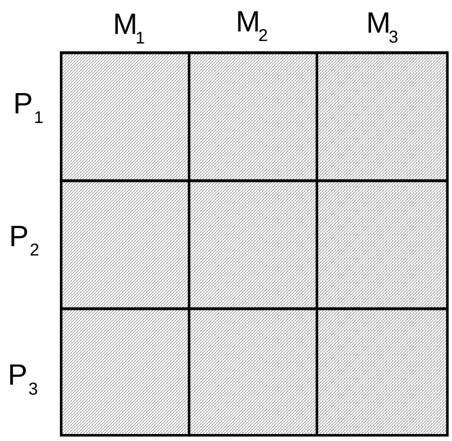
Abell identified five patterns of target market selection. They are shown in figure 5.2.



Market specialisation



Full market coverage



P = Product M = Market

Figure 5.2 Five Patterns of Target Market Selection

Single-segment Concentration : Here the company selects a single segment. For example, Nirma Chemicals selected a price sensitive segment for its washing powder. Through concentrated marketing, the firm can derive operating economies in production, distribution and promotion.

Selective specialisation : The firm can select many attractive segments. This is also known as the multisegment coverage strategy. This strategy will enable the firm to deversify its risk.

Product specialisation : Here the firm specialises in offering its products to serveral segments. For example, a computer manufacturer can sell PCs to educational institutions, government offices and individual customers.

Market specialisation : The firm can specialise in serving many needs of a specific group of customers. For example, a software company can concentrate in developing suitable software required by banks.

Full market coverage : If the firm tries to serve all segments with different marketing mixes, it is called full market coverage strategy. This strategy is normally adopted by very big companies Marketers attempt to cover the market through undifferentiated marketing or differentiated marketing.

The firm, in **undifferentiated marketing,** ignores the differences among market segments and attempts to cover the whole market with one market offer. It minimises the costs of production, inventory, distribution and promotion. For instance, Hindustan Motors practised undifferentiated marketing, when it was marketing only one car (Ambassador) to suit all the consumers in one big market. When several firms attempt to practise undifferentiated marketing, it will lead to undersatisfaction of smaller segments. Appealing to the largest market results in what is known as 'majority fallacy'.

Under **differentiated marketing,** a firm operates in several segments and develops different marketing programmes for each segment. BPL offers many models of television sets for different segments. Similarly, Hindustan Lever Limited offers several toilet soaps for different customer groups. By adopting differentiated marketing, the firm hopes to attain higher sales within each market segment. Coca Cola and Pepsi, for instance, could increase the size of soft drinks market as they are being sold in different bottle sizes as well as in cans. However, differentiated marketing increases the costs of: product modification, production, administrative, inventory and promotion.

5.5 MARKET POSITIONING

Positioning is the third step required to be taken for target marketing. Al Ries and Jack Trout popularised the concept of positioning. They said, "Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person... But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.' According to Philip Kotler, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind." In the words of David A. Aaker and Gary Shansby, "marketing programme positioning consists of integrating strategies for products, distribution price, and promotion. The terms 'position' designates how a company's marketing programme is perceived by the buyer in relation to the programmes of key competitors; in other words, how a firm's brand is positioned against its competition with respect to the product offering, distribution approach, prices, advertising, and personal selling. All elements of the marketing programme can potentially affect the position."

Target market and positioning strategies are like the two sides of a coin. They are inseprable; each depends upon the other. Aaker and Shansby identified several positioning approaches. They are:

Attribute : Use of one or more attributes, product features, or customer benefits associated with the firm's product. For example, Garden Varelli offers to the woman the benefit of looking pretty and fascinating the opposite sex ("You fascinate me").

Price/Quality: Various positions on the price/quality scale may be selected depending upon the positioning objective. Examples range from Surf Ultra at the high end and to Nirma at the low end.

Use or Application : This strategy positions the brand according to how the product is used or applied. For instance, Rasna, the soft drink concentrate, offers convenience (that is so simple to make that even a child can do it).

Product user : This type of positioning focusses on the person using the product. Bikes, textiles and watches are positioned in accordance with the lifestyle of target customers.

Product class : This positioning approach involves association with a product-class, such as mobile phone compared to land line phone.

Competitior : This strategy explicitly positions a firm's brand against the competition. For instance, Hindustan Lever's Wheel detergent powder took a head on position with Nirma and claimed that it was better as it washed whiter and was gentle on the hands, a claim which Nirma fights by showing the user using a spoon to take the washing powder from the bag.

Philip Kotler says that a firm must avoid few major positioning errors:

1. **Under positioning:** This occurs when buyers know much less about the brand or do not know anything special about the brand.
2. **Over positioning:** When buyers have too narrow a view of the brand, e.g., buyers may perceive Titan watches as high priced products, when in reality the company now offers affordable watches standing at Rs.400.
3. **Confussed positioning :** Buyers may have a confused image of the brand due to frequent changes in positioning statement.
4. **Doubtful positioning :** This occurs when buyers doubt the credibility of the claims made by the firm.

HOW TO POSITION THE BRAND

To position their brands, marketers use a technique called **perceptual mapping.** It involves understanding the customer perceptions of the competitive brands and identifying vacant slots. To be more specific, perceptual mapping involves:

1. Studying the ideal product perception: The marketer has to identify both tangible and intangible attributes that a customer looks for in a product. The tangible product features include size, colour and packaging. Examples for intangible attributes are: service, quality and manufacturer's prestige.
2. Get the customers' to rank these attributes in order of importance to them.
3. Customers knowledge of the competitors' brands.
4. How do the competitive brands fare on the ideal product map? The customers will assess how close the brands are on each attribute to the ideal product.
5. Marketers identify vacant slots based on the customer's assessment of competitive brands on the ideal product map. Figure 5.3 exhibits the perceptual map of a beer market.

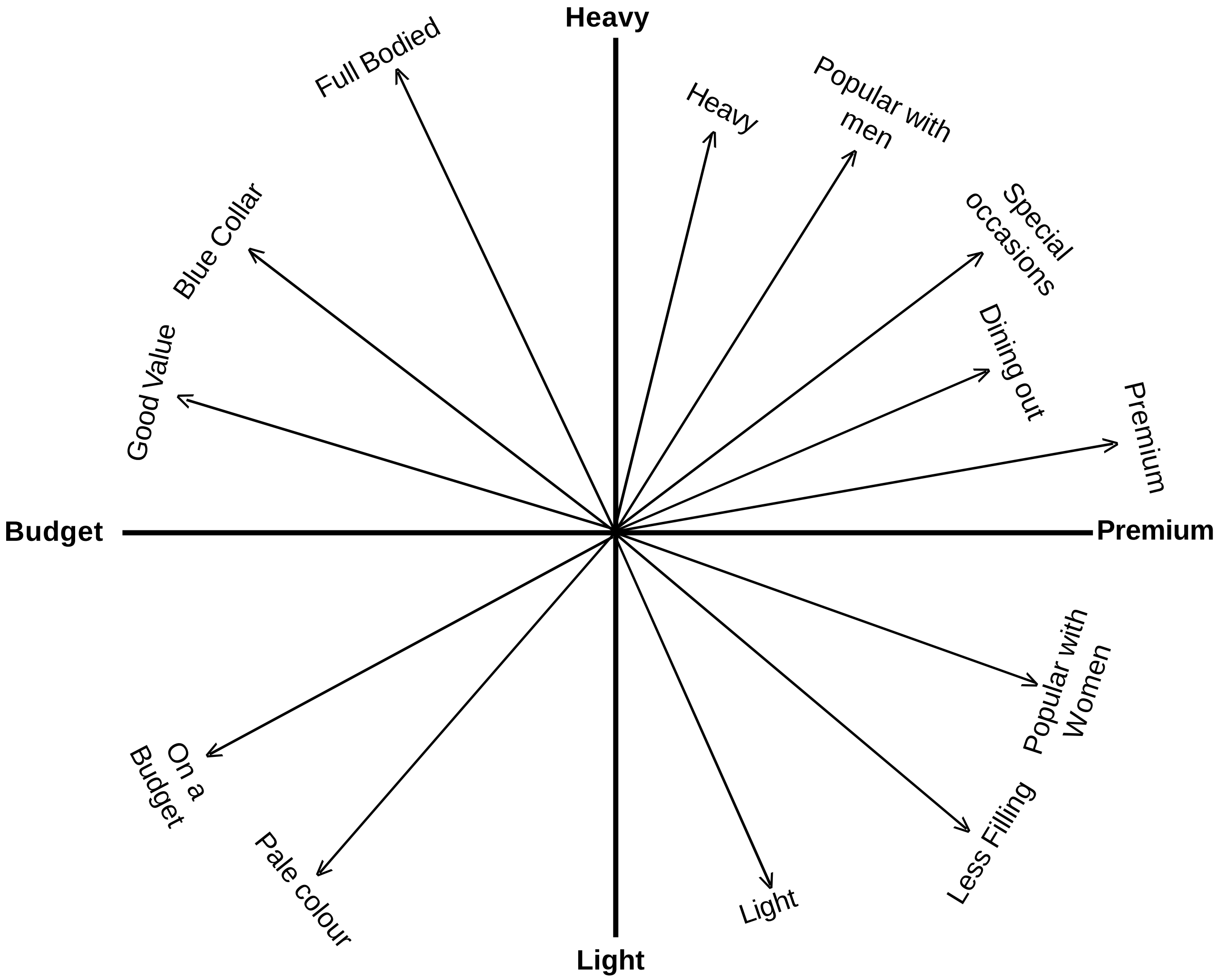


Figure 5.3 Perceptual Map of Beer Market.

Source: Adopted from Rajan Saxena, Marketing Management, Tata McGraw - Hill, New Delhi - p. 202.

5.6 SUMMARY

Target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. Market segmentation is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. The consumer markets can be broadly segmented on the bases of geographic, demographic, psychographic and behavioural variables.

Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target. There are five patterns of target market selection: Single-segment concentration, selective specialisation, product specialisation, market specialisation, and full market coverage.

Positioning is the third step required to be taken for target marketing. It is the act of designing the company's offering and image to occupy a distinctive place in the target customer's mind. To position their brands, marketers use a technique called perceptual mapping. It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

5.7 KEY WORDS

Differentiated marketing : In differentiated marketing, a firm operates in several segments and develops different marketing programmes for each segment.

Market positioning : It is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.

Market segmentation : It is the process of dividing a total, heterogeneous market into homogeneous segments.

Market targeting: It involves selecting one or more market segments to enter.

Mass marketing : In mass marketing, the firm engages in the mass production, mass distribution, and mass promotion of one product for all buyers.

Perceptual mapping : It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

Target marketing : In target marketing, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

Undifferentiated marketing : In undifferentiated marketing, the firm ignores the differences among market segments and attempts to cover the whole market with one market offer.

5.8 SELF ASSESSMENT QUESTIONS

1. What is market segmentation? Explain the bases for segmenting consumer markets.
2. Critically evaluate Hindustan Levers' segmentation strategy with regard to their toilet soaps.
3. What are the different patterns of target market selection? Distinguish between undifferentiated marketing and differentiated marketing.

4. Explain the concept of positioning. What are different positioning approaches? Give suitable examples.

5.9 FURTHER READINGS

1. David W. Cravens, Strategic Marketing, Richard D. Irviwn, Illinois, 1987
2. Philip Kotler, Marketing Management Prentice-Hall of India, New Delhi, 1999
3. Rajan Saxena, Marketing Management Tata McGraw-Hill, New Delhi, 1997
4. S.A. Sherlekar and V.S. Sherlekar, Global Marketing Management, Himalaya Publishing, Mumbai, 2000.

Lesson - VI

UNDERSTANDING CONSUMER BEHAVIOUR

OBJECTIVES

After studying this lesson, you should be able to :

- understand the importance of consumer behaviour.
- identify the determinants of consumer behaviour.
- explain the relevance of models of consumer behaviour.
- describe the stages involved in consumer buying process.
- discuss the consumer adoption process.

STRUCTURE

6.1 CONSUMER BEHAVIOUR

We are all consumers. What we buy, how we buy, where and when we buy depends on our sociocultural and psychographic factors. The study of consumer behaviour enables the marketers to know how consumers make decisions to spend their available resources (time, money, effort) on products and services. For example, the marketers of a personal computer want to know what types of consumers buy personal computers. What features do they look for? What benefits do they seek? How likely are they to replace their old models when new models with added features become available? The answers to such questions can provide personal computer marketers with important input for formulating a suitable marketing strategy.

Consumer behaviour was a relatively new field of study. Marketing theorists borrowed heavily from concepts developed in other disciplines, such as psychology, sociology, social psychology, anthropology and economics to form the basis of this new discipline.

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. It is a complex, dynamic and multidimensional process. All marketing decisions are based on assumptions about consumer behaviour.

The term 'consumer' is used to describe two different types of consuming entities: the individual consumer and the organisational consumer. The individual consumer purchases goods and services for his or her own use (e.g., a two-wheeler), for the use of the family (a TV), or as a gift for a friend (a pen). In each of these contexts, the products are bought for final use by ultimate consumers. The second kind of consumer is the organisational consumer. The organisations buy products and services in order to run their organisations. This chapter will focus on the individual consumer whereas the next chapter is devoted to the organisational buyers.

6.2 DETERMINANTS OF CONSUMERS BEHAVIOUR

The determinants of consumer behaviour can be classified into internal determinants and external environmental determinants.

The internal or individual factors that influence consumer behaviour are :

- Motivation
- Personality
- Self-Concept
- Perception
- Learning
- Attitudes

The external environmental factors are :

- Culture
- Reference groups
- Family
- Social class

6.2.1. INTERNAL DETERMINANTS

Motivation : Motivation is the driving force within individuals that impels them to action. Motivation is the reason for behaviour. Consumer motivation can be described as a process through which wants are satisfied. Human behaviour is goal oriented. Goals are the sought after results of motivated behaviour. Goals are of two types : Generic goals and product-specific goals. A generic goal is a general category of goal that may satisfy a certain need. A product speciic goal is a specifically branded product that the consumer sees as a way to fulfill a need.

Every person has needs : Some are innate, others are acquired. Innate needs are physiologial (biogenic). They include the needs for food, water, clothing, shelter and sex. Acquired needs are those an individual develops after birth. They are primarily psychological (psychogenic) and they include love, acceptance, esteem and self-fulfillment. Maslow's hierarchy-of-needs theory prosposes five levels of human needs: physiological needs, safety needs, social needs, self-esteem and self-actualisation needs. Maslow's theory is a useful tool for understanding consumer motivation and is readily adaptable to marketing strategy.

Personality: The term 'Personality' can be defined as those inner psychological characteristics that determine and reflect how a person responds to his or her environment. The prominent theories of personality in the study of consumer beahvour are: Sigmund Freud's psychoanalytic theory, Neo-Freudian theory and trait theory. **Freud's theory** operates on the premise that human needs are largely *unconscious* in nature. Researchers, therefore, believe that consumers are primarily *unaware* of the true reasons for their buying behaviour. For example, a car can attract someone who seeks status. **Neo-Freudian theory** attempts to emphasise the role of social relationships in the formation and development of personality. For example, some marketers position their products or services as providing opportunity to be appreciated by others. **Trait theory** focuses on the measurement of personality in terms of specific psychological traits. Trait researchers have found that a consumer's personality is linked to the purchase of a broad product category rather than a specific brand. Products generally have personalities which help shape consumer preferences and loyalties.

Self-concept : Self-concept is related to personality. Marketers attempt to develop brand images that match the target customers' self-image. Consumers attempt to maintain, enhance or modify their self-images by purchasing products and shopping at stores they perceive as consistent with their perceived self-concepts.

Perception: Perception is the process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world. Perception has strategy implications for marketers. Consumers make decisions based on what they perceive. They generally evaluate the quality of a product or service on the basis of a variety of informational clues such as colour, size, price and store image. Products that are perceived positively have a much better chance of being purchased than products with negative images. Consumers often rely on price as an indicator of quality. How consumers perceive a price has a strong influence on purchase decisions.

Consumers often perceive risk in making purchase decisions. Consumers seek increased information and search for well-known brands in order to reduce their perceived risk. They also seek reassurance through money-back guarantees, laboratory test results and prepurchase trial.

Learning : Learning involves changes in a person's behaviour due to past experience. Learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement. If a consumer's experience with a BPL colour television is rewarding, his response to other products of BPL will be positively reinforced. Some of the measures of consumer learning are: recall and recognition tests, attitudinal and behavioural measures of brand loyalty.

Attitudes : As consumers we have many number of attitudes toward products, services and advertisements. Attitudes are relatively consistent. But they are not necessarily permanent; they do change. Marketers are interested to understand how consumer attitudes are formed and how they are changed. *Attitude research* attempts to study a wide range of marketing questions such as whether consumers will accept a new product idea, or to know how the customers are likely to react to proposed change in the firm's pricing policy.

6.2.2. EXTERNAL DETERMINANTS :

Culture : Culture is the most fundamental determinant of a person's behaviour. Culture is acquired as part of social experience. In the context of consumer behaviour, culture is defined as the sum total of learned beliefs, values and customs that serve to regulate the behaviour of consumers of a particular society. The elements of culture are transmitted by three important social institutions: the family, the place of worship (e.g. church), and the school. A fourth social institution that plays a major role in the transmission of culture is the mass media, both through news and through advertising.

Each culture consists of smaller subcultures such as religions, castes and geographic regions. In India, regional cultures with their local variants stand out distinctly.

Reference Groups : From a marketing perspective, reference groups are groups that serve as *frames of reference* for individuals in their buying decisions. Customers interact with reference groups such as family, friends, neighbours, co-workers and religious and professional groups. The concept of consumer reference groups has been broadened to include groups with which consumers have no direct face-to-face contact such as celebrities and sports people. Marketers are interested to identify the reference groups of their target customers

Family : Family is a fundamental reference group for many consumers. In fact, it is the target market for most products. Marketers distinguish between two types of families in the customer's life. The *family of orientation* consists of one's parents and siblings. On the other hand, *family of procreation* namely, one's spouse and children will have a more direct influence on everyday buying behaviour. The research studies classify family consumption decisions as husband-dominated, wife-dominated, joint, or autonomic decisions. The concept of *family life cycle* (FLC) gives valuable insights into buying behaviour of a family. In recent times, the Indian marketers have seen the emergence of a new woman - one who is career-oriented, more assertive and is very much aware of herself and her family needs.

Social Class : Social classes are relatively homogeneous divisions in a society. Each social class exhibits similar product and brand preferences. Social classes reflect not only income but other indicators such as education, occupation and residential area. Social scientists divide the society into upper upper, lower upper, upper middle, lower middle, upper lower, and lower lower classes. For instance, upper middle class comprises of people who have attained reasonable heights in their careers. They believe in good things of life. Lower middle class comprises small businessmen and non-managerial workers. They generally buy bulk of mass marketed products.

6.3 MODELS OF CONSUMERS BEHAVIOUR

The models which help in the understanding of consumer behaviour are :

Marshallian Model

Freud's Model

Pavlovian Model

Howard-Sheth Model

Marshallian Model : This model is based on the assumption that consumers have complete knowledge of their wants and of all available means to satisfy them. This model is based on the law of diminishing marginal utility. This model states that expenditures vary directly with income (price effect); lesser the price of the substitute product, lesser will be the utility of the product first bought (substitution effect); and more quantity will be purchased when a person's income is increased (income effect). The main criticism of this model is that it assumes the homogeneity of the market and similarity of buyer behaviour. It ignores the aspects such as motivation, perception, learning, attitudes and sociocultural factors.

Freud's Model : This theory has been discussed earlier in brief. Based on his **psychoanalytic theory of personality**, Freud proposed that the human personality consists of three interacting systems: the **id**, the **superego** and the **ego**.

The *id* is conceptualised as primitive and impulsive drives such as thirst hunger and sex. The *super ego* is conceptualised as the individual's internal expression of society's moral ethical code of conduct. The *ego* attempts to balance the impulsive demands of the id and the sociocultural constraints of the super ego. Researchers who apply Freud's theory to the study of consumer personality that human drives are largely unconcious and the consumers are primarily unaware of their true reasons for their buying behaviour. In other words, they consider the consumer's appearance and possessions (e.g. clothing, jewelry, shoes and so forth) as reflections of the individual's personality.

Pavlovian Model : This model is named after the Russian physiologist Ivan Pavlov. In his experiments, Pavlov sounded a bell and then immediately applied a meat paste to the dogs' tongues, which caused them to salivate. The dogs associated the bell sound (the conditioned stimulus) with the meat paste (the unconditioned stimulus) and, after a number of pairings, gave the same unconditioned response (salivation) to the bell alone as they did to the meat paste. In a consumer behaviour context, an *unconditional stimulus* might consist of a well-known brand symbol (such as the Microsoft windows software programme) which implies technological superiority and trouble-free operation *(the unconditional response).*

Howard-Sheth Model : In this model four sets of variables are deemed to determine consumer behaviour. They are :

1. **Stimulus - Input variables** which are provided by three types of stimuli namely a) significative stimuli (e.g. physical tangible characteristics of a product) b) symbolic stimuli (e.g. a person's perception of product's characteristics) and c) social stimuli (Provided by family, friends, social groups etc.).
2. **Internal variables** that together show the state of the buyer (buyer's motives, attitudes, experiences, perceptions etc.)
3. **Exogenous variables** that affect the buyer indirectly (these include social class, culture, time pressure and financial status of the buyer).
4. **Response-output variables** in terms of buyer's behaviour based upon interaction of the first three sets of variables.

All the four variables are linked in a very systematic and logical manner. Much of consumer behaviour is repetitive. Consumers tend to store information in their memory, and establish a routine in their decision process.

6.4 CONSUMER BUYING PROCESS

This section focuses on how consumers make decisions Particularly, marketers must identify who makes the buying decisions.

BUYING ROLES : Men normally choose their shaving set and women choose their cosmetics. Marketers distinguish five roles people might play in a buying decisions.

Initiator : A person who first suggests the idea of buying the product or service.

Influencer : A person whose opinion influences the decision.

Decider : A person who decides whether to buy, what to buy, how to buy, or where to buy.

Buyer : A person who makes the actual purchase.

User : A person who actually uses the product or service.

THE PROCESS : The consumer passes through five stages of buying process : problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behaviour.

Problem recognition : The need is aroused by internal or external stimuli. In the former case, one of the person's normal needs such as hunger, thirst or sex becomes a drive. In the latter case, a need is aroused by an external stimulus. A person passes a sweet shop and sees freshly made sweets that stimulates his hunger. The smart marketers can develop marketing strategies by identifying the most frequent stimuli that spark an interest in a product category.

Information search : Many consumer decisions are based on a combination of past experience (*internal sources*) and marketing and noncommercial information (*external sources*). Marketing information is provided by advertising, salespersons, middlemen and packaging. The sources of noncommercial information are: family, friends, neighbours and acquaintances. How much information a consumer will gather depends on various situational factors.

Evaluation of alternatives : There is no single evaluation process used by all consumers. Certain basic concepts will help us understand consumer evaluation process. First, the consumer is trying to satisfy a *need*. Second, the consumer is looking for certain *benefits* from the product solution. Third, the consumer perceives each product as a *bundle of attributes*. The attributes vary from product to product. For example, the attributes of a toothpaste include colour, effectiveness, germ-killing capacity, price and flavour. Consumers differ as to which product attributes they see as most relevant. They develop a set of *brand beliefs* about where each brand stands on each attribute. The set of beliefs about a brand make up the *brand image*.

Purchase decision : Consumers make three types of purchases : *trail purchases, repeat purhcases*, and *long-term commitment purchases*. Unlike trial, in which the consumer uses the product on a small scale and without any loyalty, a repeat purchase usually signifies that the product meets with the customer's acceptance and that he or she is willing to buy it again and again. However, trial is not always possible. For instance, in case of durable products (refrigerators, two-wheelers, or washing machines), a consumer normally moves directly from evaluation to purchase.

In executing a purchase intention, the consumer may make up to five purchase subdecisions: *a brand decision* (brand Titan), *Vendor decision* (Titan showroom), *Quantity decision* (one watch), *timing decision* (next *Sankranthi*) and *payment-method decision* (credit card).

Postpurchase behaviour : After using the product, the consumer will experience some level of satisfaction. If the product performance falls short of expectations, the customer is *dissatisfied;* if it meets expectations, the customer is *satisfied;* if it exceeds expectations, the customer is *delighted.* According to **cognitive dissonance theory**, dissonance or discomfort occurs when a consumer holds conflicting thoughts about a belief. When cognitive dissonance occurs after a purchase, it is known as **postpurchase dissonance.** There is a feeling of uncertainty about whether the right choice is being made. High-involvement, high-risk purchases (e.g., colour television, refrigerator or washing machine) are likely to result in postpurchase dissonance then low-involvement, low-risk purchases (e.g. soft drink, detergent cake or match box). Generally, low priced and frequently purchased items will not produce postpurchase dissonance.

One of the ways consumers seek to reduce dissonance is to reevaluate product alternatives. They may reduce dissonance by seeking additional information in order to reassure themselves of their product choice. Warranties, refund policies, in-store demonstrations, and after-sales service can serve to reduce dissonance. The marketers may seek to alter the customers' perceptions and attitudes through their promotional effort. Sales people can be particularly influential in reducing dissonance by providing information that diminishes the consumer's anxiety about a purchase.

6.5 CONSUMER ADOPTION PROCESS

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Table 6.1 explains the five stages in the adoption process.

Table 6.1: The Stages in the Adoption Process

Name of Stage	What happens during this stage
Awareness	Consumer is first exposed to the product innovation.
Interest	Consumer is interested in the product and searches for additional information.
Evaluation	Consumer decides whether this product or service will satisfy the need.
Trial	Consumer uses the product on a limited basis.
Adoption (Rejection)	If the trial is favourable, consumer decides to use the product on a regular basis - if unfavourable, the consumer rejects it.

Classification of Adopters : Rogers identified five adoption groups: innovators, early adopters, early majority, late majority and laggards. *Innovators* are venturesome; they are willing to try new ideas and products. *Early adopters* take a calculated risk before investing and using new innovations. They are opinion leaders in their community. The *early majority* adopt new ideas before the average person. The *late majority* are doubtful about the new products. They adopt an innovation only after a majority of people have tried it. Finally, *laggards* are more traditional and they adopt the innovations with great reluctance.

This classification suggests that an innovating marketing firm should research the demograpic, psychographic and media habits of innovators and early adopters. For instance, innovative farmers are likely to be better educated and more efficient.

Some customers adopt products more quickly than others. This has strategy implications. The customers maybe labelled ranging from "innovators" to "laggands" depending on how quickly the customers adopt a product (Figure 6.1). Marketing efforts must be directed to the innovators and early adopters, both to increase an early cash flow and to encourage a faster rate of diffusion into the majority of the market. Marketers should seek to understand common characterics for early purchasers in their product category. Marketing activity can be partially directed toward helping minimize misperceptions and enhancing strengths. According to Cravens, Hills and Woodruff, important perceived product charcteristics are:

Relative advantage: The extent to which potential customers perceive a new product as superior to existing substitutes.

Compatibility : The extent to which potential customers consider a new product to be consistent with their values, needs and behaviour.

Complexity : The degree to which an innovation is difficult to understand or use.

Trialability : The extent to which a new product is capable of being tried on a limited basis by customers.

Observability : The case with which a product's benefits can be seen by, imagined by, or described to potential consumers.

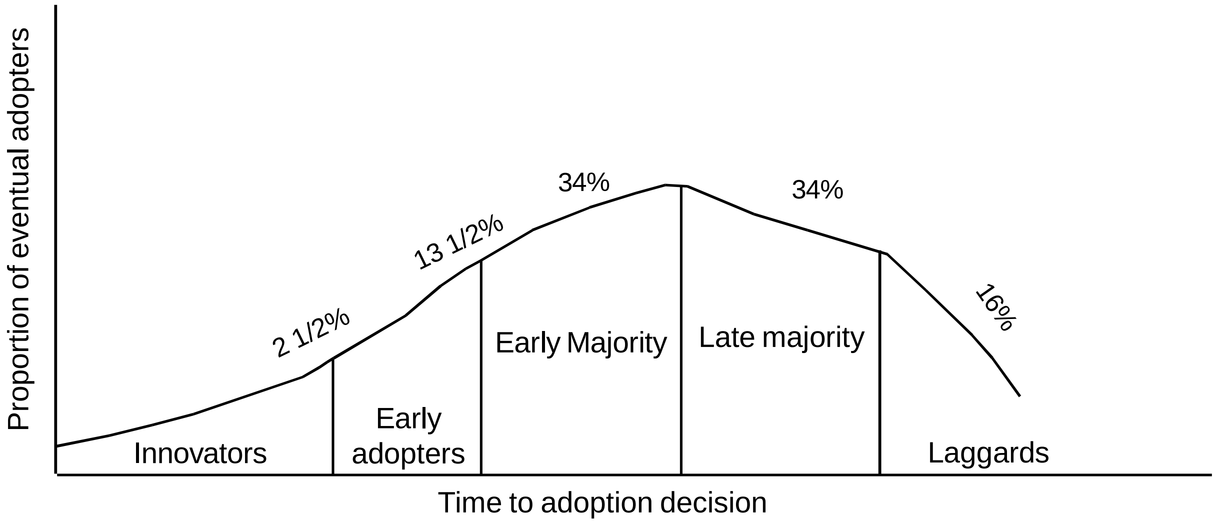


Figure 6.1 Types of Adopters by Adoption Time Required

6.6 SUMMARY

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. The internal factors that influence consumer behaviour are: motivation, personality, self-concept, perception, learning and attitudes. The external factors are; culture, reference groups, family and social class. The theories which help in the understanding of consumer behaviour are: economic model, Freud's model, Pavlovian model and Howard-Sheth model.

The consumer passes through five stages of buying process: problem recognition, information search, evaluation of alternatives, purchase decision and postpurchase behaviour. High-involvement, high-risk purchases are likely to result in postpurchase dissonance or discomfort than low-involvement, low-risk purchases.

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Rogers' classification of adopter groups suggests that an innovating marketing firm should research the demographic, psychographic and media habits of innovators and early adopters.

6.7 KEY WORDS

Cognitive Dissonance : The discomfort or dissonance that consumers experience as a result of conflicting information.

Consumer Behaviour : The decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

Learning : It involves changes in a person's behaviour due to past experience.

Motivation : The driving force within individuals that impels them to action.

Perception : The process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world.

Personality : Those inner psychological characteristics that determine and reflect how a person responds to his or her environment.

6.8 SELF ASSESSMENT QUESTIONS

1. What is consumer behaviour? Comment on the determinants of consumer behaviour.
2. Explain the models of consumer behaviour in brief.
3. Select a newspaper advertisement that attempts : (a) to provide the consumer with a decision strategy to follow in making a purchase decision or (b) to reduce the perceived risk associated with a purchase.
4. Identify a product or service that was recently adopted by you. What are the characteristics of people who adopted it first?
5. Using your understanding of buyer behaviour, evolve a marketing mix for a new mobile phone.
6. "High-involvement, high-risk purchases are likely to result in postpurchase dissonance than low-involvement, low-risk purchases." Comment with suitable examples.

6.9 FURTHER READINGS

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Lesson - VII

ORGANISATIONAL BUYING BEHAVIOUR

OBJECTIVES

After studying this lesson, you should be able to:

- understand the concept of organisational buying behaviour and several characteristics that contrast with consumer markets
- distinguish three kinds of buying situations and organisational buyers
- identify the participants of organisational buying process.
- discuss the variables influencing buying decisions
- explain the stages involved in the buying process.

STRUCTURE

7.1 THE NATURE OF ORGANISATIONAL BUYING BEHAVIOUR

Organisations buy large quantities of raw materials, plant and equipment, processed chemicals, consumables and services. Webster and Wind define organisational buying as "the decision making process by which formal organisations, establish the need for purchased products and service and identify, evaluate, and choose among alternative brands and suppliers," Most of the organisational purchases are indirectly linked to the economy's purpose of satisfying consumer demand. For example, consumers' demand for ice cream creates many industrial markets - paper cartons, milk and cream, business insurance, distribution services and so forth (Figure 7.1)

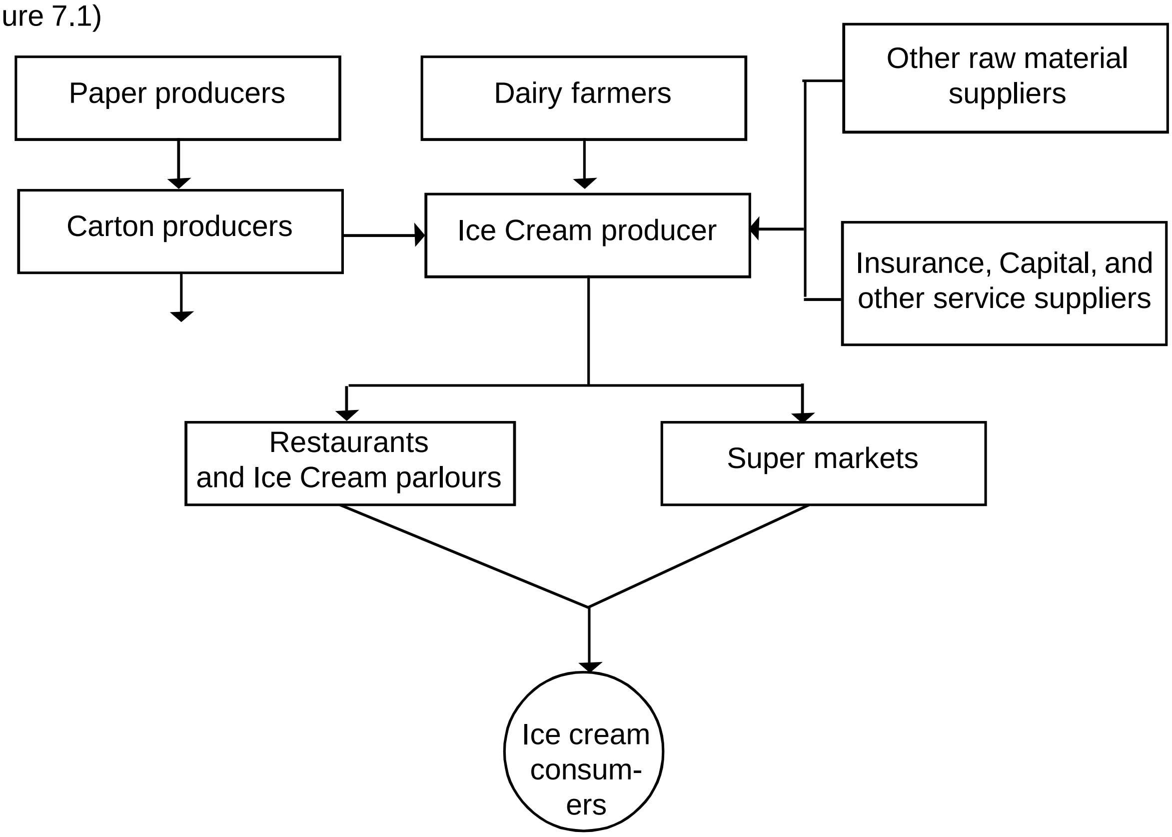

Figure 7.1 Industrial Marketers Created by Consumer demand for Ice Cream

7.2. ORGANISATIONAL BUYER Vs. HOUSEHOLD BUYER

Business markets have several characteristics that contrast sharply with consumer markets.

Fewer buyers: The business marketer generally deals with fewer buyers than the consumer marketer does. For example, an automative tyre manufacturer, MRF, is interested to get orders from the leading car manufacturers.

Larger buyers: A few large buyers do most of the purchasing such as defence weapons.

Concentration of buyers: Organisational a buyers are genarally concentrated in the same geographical area

Close relationship: Because of the smaller customer base and the importance and power of the larger customers, suppliers, are frequently expected to customise their offerings.

Derived demand: The demand for industrial goods is derived from the demand for consumer goods. Hence the business marketer must understand the buying patterns of final consumers.

Inelastic demand: Generally, the demand for many business goods is inelastic. For example, tyre producers are not going to buy much more rubber if the price of rubber falls.

Acceleration effect: The demand for business goods tends to be more fluctuating than the demand for consumer goods.

Buying motives: Organisational consumer's motives are more rational than psychological. Many of the buying instruments (e. g. calling for quotations and purchase contract) are not found in consumer buying.

Buying influence: Purchase committees consisting of senior managers and technical personnel are common in purchase of business goods and services.

Multiple sales calls: As more people are involved in the selling process, it takes multiple sales calls to get purchase orders.

Direct marketing: Normally organisational buyers buy directly from manufacturers rather than through intermediaries.

7.3 BUYING SITUATIONS

Robinson and others distinguish three kinds of buying situations: the straight rebuy, modified rebuy and new task.

Straight rebuy: This is a buying situation in which the buyer buys on a routine basis. The suppliers attempt to maintain product and service quality. Generally, they suggest automatic reordering systems so that the buyer will save recording costs and times.

Modified rebuy: In this situation the buyer wants to alter product specifications, price delivery requirements, etc. In such a situation the in-suppliers have to protect the existing buyers. The out suppliers, on the other hand, will have an opportunity to attract the new buyers.

New task: In this buying situation, a purchaser buys a product or service for the first time. The greater the price, the larger the number of decision participants on both sides and the greater their information search.

How industrial buyers decide what to buy seems to depend on the type of situation. Situations differ according to how "new" the purchase is to the organisation and how much information is required to make a choice. Now tasks and modified rebuys present the greatest challenges to organisational buyers. In these situations, the buyers should expect to spend more time and exert more effort. Many people from different departments are involved in such decisions. Straight rebuys are much more routine and most likely to be handled by the purchasing department.

7.4 ORGANISATIONAL BUYERS

Organisational buyers can be classified into: government market, industrial market, and reseller market.

Government market: It consists of central, state or local government organisations, which purchase goods or services for carrying out the main functions of government. Government organisations are a major buyer of goods and services. They require suppliers to submit bids, and they award the contract to the lowest bidder. The spending decisions are subject to public review. Therefore, the suppliers, often complain about excessive paperwork, delay in decision making and bureaucracy. The policies of the government will also influence the purchases. For instance, reserving certain items to be purchased from small industrial units.

Industrial market: The industrial market consists of all individuals and organisations who acquire goods and services that involve in the production process. The major types of industrial buyers are: agriculture, forestry, fisheries, mining; manufacturing; construction; transportation; communication, public utilities; banking, finance and insurance; and services. We can distinguish three kinds of industrial goods: materials and parts (e.g. crude petroleum, cement, wires); capital items (e.g. computers, generators); and supplies and business services (e.g. lubricants, nails, cleaning).

Reseller market: The reseller market consists of all individuals and organisations who acquire goods for the purpose of reselling at a profit. The reseller creates place and possession utility rather than form utility. Resellers handle a number of products for resale.

7.5. ORGANISATIONAL BUYING PROCESS: PARTICIPANTS

Webster and Wind call the decision-making unit of a buying organisation the buying centre. The **buying centre** includes all members of the organisation who play any seven roles in the purchase decision process.

Initiators: Those who request that some be bought.

Users: They could be foremen in a factory, chemists in a chemical firm and programmers in a software firm.

Influencers: They influence the buying decision. Generally, technical personnel play an important role.

Deciders: Those who decide on product requirements or on suppliers.

Approvers: People who authorise the proposed actions of deciders.

Buyers: People who have formal authority to select the vendor and then of negotiation.

Gatekeepers: Those who facilitate the flow of information in the organisation. This role could be played by a receptionist or a secretary.

The marketer has to know several participants in the buying process. It is imperative to understand different systems in the client organisation in order to succeed.

7.6. VARIABLES INFLUNCIENG BUYING DECISIONS

There are four major variables influencing organisational buyers:

- Environmental
- Organisational
- Interpersonal
- Individual

These influences are shown in Figures. 7.2

Environmental Variables: The environmental influences include the level of demand, investment and the interest rate. Organisational buyers pay close attention to technological, political competitive and socio cultural factors. For example, if the buyer anticipates improved inputs with a better technology, the buyer may not repeat the entire purchase order with the existing suppliers.

Organisational Variables: Marketers must be aware of the clients' goals, structures, systems, policies and procedures. In India, in many family- owned businesses, purchase decisions normally require the family's consent. Policies and procedures like inventory holding policy, bidding or payment procedures also influence buyer's decisions. Organisational buyers need to be aware of the following organisational trends in the area of purchasing:

Purchasing department upgrading

Cross-functional roles

Centralised purchasing

Decentralised purchasing of small- ticket items

Purchasing through Internet

Long-term relations

Purchasing performance evaluation and buyer's professional development

Lean production.

Interpersonal Variables: The buying centre includes many individuals with different authority, status and persuasiveness. It is difficult to understand what kind of group dynamics take place during the process of buying decision.

Individual Variables: Buyers are different in terms of their personalities, motives, perceptions, attitudes and so on. Hence, they exhibit different buying styles.

External environemnt	**Organisational**	**Interpersonal**	**Individual**
Economic	Objects	Authority	Age
Infrastructural	Policies	Status	Income
Social	Procedures	Empathy	Education
Political	Structure	Persuasivness	Job position
Competition	System		Risk-taking
Regulatory			

Organisational buyer

Figure 7.2 : Influences on Buying Decision

Fisher's Model: Fisher's model identified two factors influencing buying decisions. They are product complexity and commercial uncertainty. The levels of product complexity commercial uncertainty gives a combination of four situations as shown in Figure -7.3

Complexity →

Commercial uncertainty ↓	Low	High
Low	Buyer emphasis (1)	Technological emphasis (3)
High	Policy maker emphasis (2)	Total involvement (4)

Figure. 7.3: Fisher's Model

The four quadrants shown in Figure. 7.3. require different emphasis:

Quadrant No. 1: There is low product complexity and low commercial uncertainty. In such a situation there should be buyer emphasis.

Quadrant No. 2: There is high uncertainty and low complexity. This situation calls for policy maker emphasis.

Quadrant No.3: The low uncertainty and high complexity require technological emphasis.

Quadrant No.4: When both uncertainity and complexity is high, it requires the total involvement of all the participants of the decision-making unit.

The implications of the levels of product complexity and commercial uncertainty are detailed in Table 7.1

7.7 PURCHASING ORIENTATIONS

Oganisational buyers buy products and services to make profit or to reduce costs or to fulfill a social or legal requirement. For instance, a pharmaceutical company will expand its production capacity if it sees an opportunity to make more money. It will computerise its accounting system to reduce its operating costs. The company will install pollution - control equipment to satisfy social obligation.

Table. 7.1 Implications of the levels of product complexity and commercial uncertainty

Low Product Complexity	High Product Complexity	Low Commercial Uncertainty	High Commercial Uncertainty
Standard product Technically simple Established product Previously purchased Easy to install No after sales service.	Different Product Technically complicated New product Not purchased previously Difficult to install After sales service required frequently.	Low investment Small order Short term commitment small effect on profitability Easy to forecast.	High investment order Large Long term commitment consequential adujstment required Large effect on profitability Hard to forecast.

Anderson and Naren distinguished three company purchasing orientations: buying, procurement, and supply management.

Buying: The buyer's focus is short-term oriented. The buyer gives importance to price reduction. The product is considered as a commodity. The buyer taps many sources of supply and make them compete for share of the company's purchases.

Procurement: Instead of compelling lower input prices, procurement orientation calls for better relationships with suppliers. Suppliers will be involved in the acquisition and management of inventory. Ultimately the purpose is to achieve win-win relationships with major suppliers.

Supply Management: This orientation views purchasing a strategic value-adding activity. The organisation emphasises the whole value chain from materials to end users.

7.8. THE BUYING PROCESS

Robinson and associates have identified eight stages of industrial buying process. These stages are also known as buyphases or buygrid framework. These stages are shown in Table - 7.2

Problem Recognition: - In this stage, the buyer perceives a need for the product. The marketers can stimulate external stimuli by advertising, personal selling and telemarketing. The following events may trigger the internal stimuli:

- The new- product development process requires new materials and equipment.
- The buyer requires better quality raw materials at lower prices.
- The automation or computerisation requires new equipment.

General Need Description: Here the buyer determines the required item's characteristics in terms of reliability, durability, price, etc. For complex items, many participants will be involved.

Table 7.2: Buygrid Framework: Major stages (Buyphases) of the Industrial Buying process in relation to major buying situations (buy classes)

		Buy Classes		
		New Task	Modified Rebuy	Straight Rebuy
	1. Problem recogniton	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
BUYPHASES	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

Source : Adapted from Patrick J. Robinson and associates, *Industrial Buying and Creative Marketing,* Allyn & Bacon, Boston, 1967, p.14.

Product Specification: Normally 20 percent of the parts account for 80 percent of the costs of manufacturing it. In this stage, the buyer lays down product specifications and service requirements.

Supplier Search: Here the task of the organisational buyer is to identify the suitable suppliers. In this regard, trade directories, trade advertisements, trade shows and Internet will provide necessary direction. Finally, the buyer is able to screen out a large number of suppliers who may not be able to meet the requirements.

Inviting Proposals: This is the stage where sealed proposals are solicited from qualified suppliers. The invitation is either in the form of an open tender notice or the buyer may seek proposals from a few well - known suppliers.

Supplier Selection: Suppliers are now evaluated more closely on their ability in meeting buyer requirements. Negotiations take place in this stage. Sometimes the buyer selects two suppliers in order to ensure uninterrupted supply.

Order-Routine Specification: During this stage, the buyer determines the technical specifications, the quantity required, the expected time of delivery, guarantees and so on. Buyer normally prefer blanket contracts rather than periodic purchase orders. Blanket contracts emphasise a long-term relationship. In this stage, actual placement of order will take place.

Performance Review: This is a critical stage for the supplier. The buyer reviews, and obtains feedback from all the departments using suppliers products and services. The performance review may lead the buyer to continue, alter, or terminate the relationship with the vendor. The repeat purchase is going to be based on these reviews.

A new-task buying situation generally involves all the buying stages we have discussed. In straight-rebuy or modified-rebuy situations, certain stages would be bypassed.

7.9 SUMMARY

Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. Business markets have several characteristics that contrast with consumer markets. Business markets generally have fewer and larger buyers, a closer customer-supplier relationship, and more geographically concentrated buyers.

Organisational buyers can be classified into government market, industrial market and reseller market. The decision - making unit of a buying organisations is known as buying centre. It includes all members of the organisation who play an important role in the purchase decision process. Organisational purchase are influenced by four major factors -environmental, organisational, interpersonal and individual variables.

Basing on the price and complexity of the product, three company purchasing orientations are identified: buying, procurement, and supply management. The buying decision goes through an eight -stage process called buyphases and most organisations are confronted with three types of buying situations.

7.10 KEY WORDS

Buying centre: The decision-making unit of a buying organisation is called buying centre.

Buyphases: Eight stages of the industrial buying process are called buyphases.

Government market: It consists of central, state or local government organisations, which purchase goods or services for carrying out the main functions of government.

Industrial market: It consists of all individuals and organisations who acquire goods and services that involve in the production process.

Organisational buying: The decision- making process by which formal organisations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.

Reseller market: It consists of all individuals and organisations who acquire goods for the purpose of reselling at a profit.

7.11 SELF ASSESSMENT QUESTIONS

1. Explain the characteristics of organisational buyer. Briefly discuss about different types of buying situations.
2. Based on buying centre analysis what marketing strategy will you suggest to an industrial valves company?
3. Analyse the four major factors influencing organisational buyers?
4. Discuss the stages of the industrial buying process.

7.12 FURTHER READINGS

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Lesson - VIII

PRODUCT CONCEPT AND STRATEGY

OBJECTIVES

After studying this lesson you should be able to :

- To understand the meaning of product and levels of product
- To know the various product-mix strategy dimensions
- To study product line decisions
- To define a product life cycle, and describe the appropriate marketing strategies at each stage of the product life cycle
- To study the stages of new product development and understanding the problems involved in it.

STRUCTURE

8.1 INTRODUCTION

Once a company has carefully segmented the market, chosen its target customer groups, and determined the desired market positioning, it is ready to launch appropriate products. Product is the first and most important element of the marketing mix. Other elements of marketing mix are price, promotion and place. Marketers have recognized the need for differentiation of products and services. To the buyer, a product is a complex cluster of value satisfactions. One must enhance value of the offer to be successful in this competitive market situation.

8.2 MEANING OF PRODUCT AND LEVELS OF PRODUCT

A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, experiences, events, persons, places, properties, organisations, information, and ideas, or mixes of these entities.

Services:

Because of their importance in the world economy, we should understand services. **Services** are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, tax preparation, hotel, travel and tourism, hospital, house repair services.

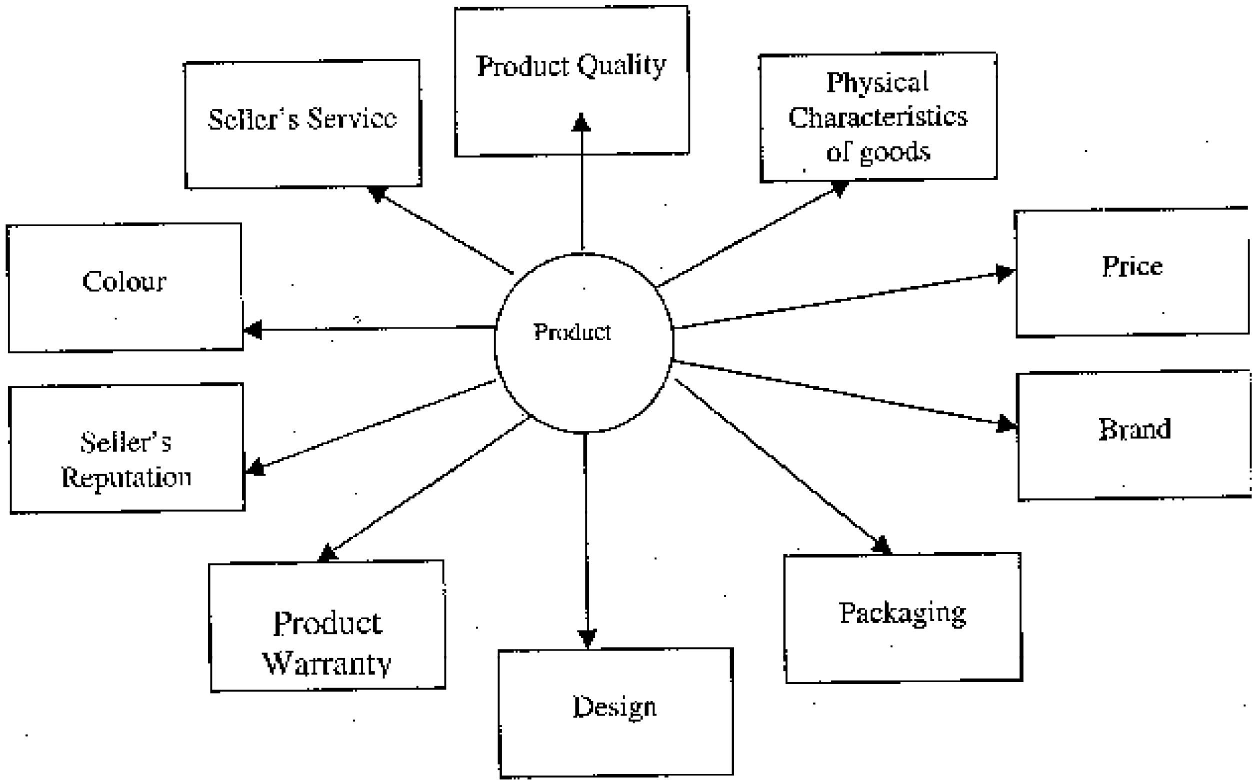

Figure 8.1 A product is more than just a product.

8.2.1 Levels of Product :

According to Theodore Levitt the new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.

Product planners need to think about products and services on three levels. The most basic level is the core product, which addresses the question: What is the buyer really buying? As illustrated in **Figure 8.2,** the core product stands at the center of the total product. It consists of the core, problem-solving benefits that consumers seek when they buy a product or service. A woman buying a lipstick buys more than a lip colour. When designing products, marketers must first define the important benefits the product will provide to customers.

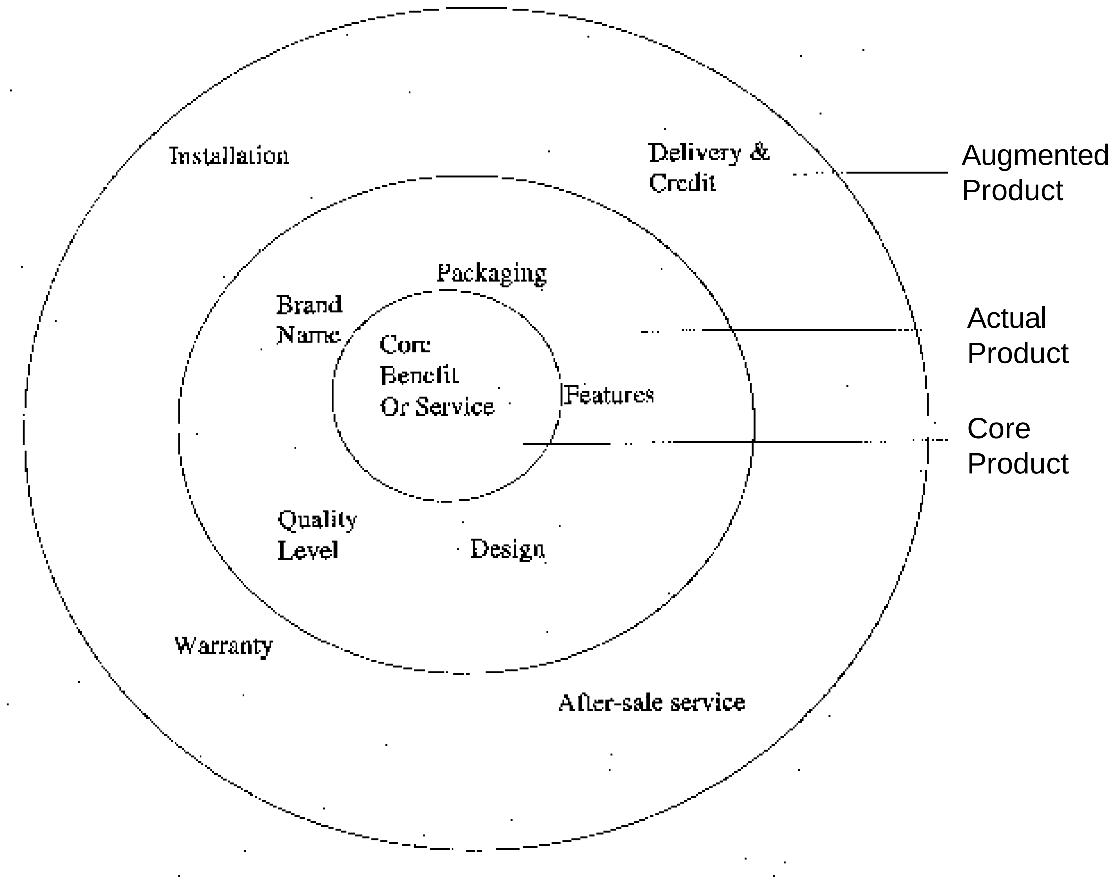

Figure 8.2 Levels of Product

The product planner must next build an actual product around the core product. Actual products may have characteristics like quality, features, design, a brand name, and packaging. For example, Sony television is an actual product. Its name, parts, styling, features, packaging and other attributes have all been combined carefully to deliver the core benefit - a convenient, high quality entertainment.

Finally, the product planners must build an augmented product around the core and actual products by offering additional consumer services and benefits. Sony must offer more than a television. It must provide consumers with complete solutions to their television viewing. Thus, when consumers buy a Sony product, Sony and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the product, quick repair services when needed.

Therefore, a product is more than a simple set of tangible features. Consumers look to see products as complex bundles of benefits that satisfy their needs. Consumers want solutions not simply products. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

8.3 PRODUCT MIX - DIMENSIONS

Product Mix: A product mix (or product assortment) is the set of all products and items that a particular seller offers for sale to buyers.

Product-mix Dimensions:

A company's product mix has a certain width, length, depth, and consistency.

- The **width** of a product mix refers to how many different product lines the company carries.
- The **length** of a product mix refers to the total number of items in the mix.
- The **depth** of a product mix refers to how many variants are offered of each product in the line.
- The **consistency** of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

These four product-mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. At the end, a company can pursue more product-line consistency.

8.4 PRODUCT LINE DECISION

A product mix consists of various product lines. Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. Some products contribute more to the entire product line's sales and profits. Every company's product portfolio contains products with different margins. The company management has to make a decision whether a product has to be continued or deleted from the product line.

They also need to understand each product line's market profile. The product-line manager must review how the line is positioned against competitors' lines. The management can use techniques like product mapping, which shows how competitors' products are competing against company products. This product mapping also identifies market segments. After performing product-line analysis, the product-line manager has to consider decisions on product-line length, line modernization, line featuring, and line pruning.

Product-line length:

A product line is too short if adding some more items can increase profits; and one can consider the line is too long if dropping some of the items can increase the profits. Company objectives influence product-line length. One objective is to create a product line to induce customers to go for higher end models. Fox example Hyundai company introduces Santro Zing a higher version compared to Santro Zip model. A different objective is to create a product line that facilitates cross selling, for example Hewlett-Packard sells printers as well as computers. Another objective is to create a product line that protects against Economic ups and downs.

Companies seeking high market share and market growth will generally carry longer product lines. Companies that emphasize high profitability will carry shorter lines consisting of carefully chosen items. Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product-line manager to develop new items. The sales people and distributors also pressure the company for a more complete product line to satisfy customers.

A company lengthens its product line in two ways: by line stretching and line filling.

1) **Line Stretching:** Every company's product line covers a certain part of the total possible range. Line stretching takes place when a company lengthens its product line beyond its current range. The company can stretch its line downmarket, upmarket, or both ways.

   A company positioned in the middle market may want to introduce a lower-priced line for different reasons such as the company may notice strong growth potential as mass-retailer, where customers want more value for money products. To counter attack the competitors who are in lower-end of the market for otherwise they may move Upmarket, or if the middle market is stagnant or declining. This is known as Downmarket stretch.

   Companies may wish to enter the high end of the market for more growth, higher margins, or simply to position themselves as full-line manufacturers. This is known as Upmarket stretch. Sometimes companies serving in the middle market might decide to stretch their line in both directions, which is known as Two-Way Stretch.

2) **Line Filling:** A product line can also be lengthened by adding more items within the present range. The reasons for line filling are:

   - Reaching for incremental profits
   - Trying to utilize excess capacity
   - Trying to be the leading full-line company
   - Trying to plug holes to keep out the competitors
   - To satisfy dealers who complain about missing items in the line

   Line filling is overdone if it is results in self-cannibalization and customer confusion. Introducing more and more products in the line may lead to killing their other items. The company needs to differentiate each item in the customer's mind. Each item should possess a just-noticeable difference.

   Other important product-line decisions are line modernization, featuring and line pruning.

a) **Line Modernization**: Product lines are to be modernized. The managers have to take decision whether to overhaul the line piecemeal or all at once. In rapidly, changing product markets, modernization is carried on continuously.

b) **Line Featuring**: The product-line managers typically select one or a few items in the line to feature. For example, Videocon will announce a special low-priced washing machine to attract customers. At other times, managers will feature a high-end item to lend prestige to product line. Some special emphasis will be made on some items to prop up their sales, these items are called featured items.

c) **Line Pruning:** Product-line managers must periodically review the line for finding slow items, considered as deadwood, which are affecting profits. The weak items can be identified though sales and cost analysis. Pruning is also done when the company is short of production capacity. Companies normally shorten their lines in periods of high demand and lengthen their lines in periods of slow demand.

8.5 PRODUCT LIFE CYCLE

A product passes through certain distinct stages during its life, and this is called the Product Life Cycle (PLC). A Company's positioning and differentiation strategy must change as the product, market, and competitors change over time. The PLC concept is used to understand the market behaviour at different stages of life cycle and to apply different marketing strategies to get better results.

To believe that a product has a life cycle one has to assume the following things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

The PLC is normally presented as a sales curve representing the product's journey from introduction to exit as shown in **Figure 8.3.** Most product life-cycle curves are portrayed as bell-shaped. This curve is typically divided into four stages: introduction, growth, maturity, and decline.

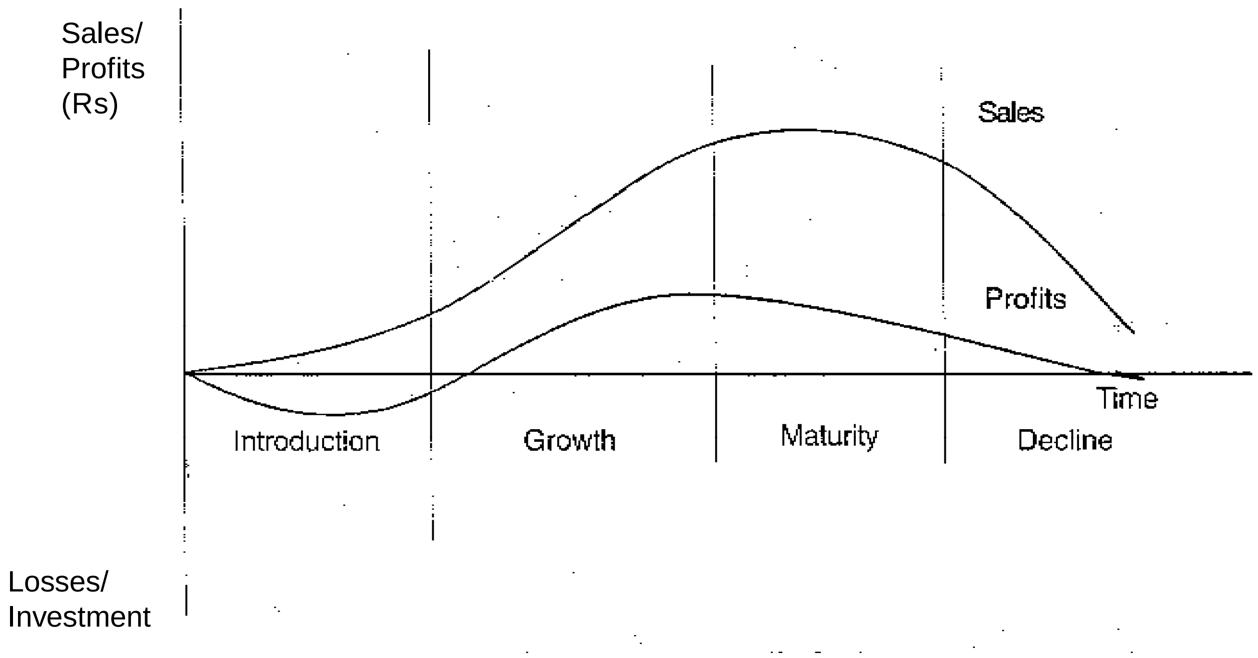

Figure 8.3 Stages in Product Life Cycle

1. **Introduction:** A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses incurred with product introduction.

2. **Growth:** A period of rapid market acceptance and substantial profit improvement.
3. **Maturity:** A period of slowdown in a sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. **Decline:** The period when sales show a downward drift and profits erode.

Table 8.1
Summary of product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	**Growth**	**Maturity**	**Decline**
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing Number	Stable number beginning to decline	Declining number
Marketing objectives				
	Create product awareness and trail	Maximize market Share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

(Adapted from Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control, 8th ed., Prentice Hall of India, New Delhi, 1988).

8.6 INTRODUCING NEW PRODUCTS

Every company must develop new products. New-product development determines the company's future. For higher level of growth, a firm has to look beyond its existing products. Customers want new products, and competitors will do their best to supply them. In the year 2000, consumer product firms developed 31,000 new products including line extensions and new brands. Today a big supermarket in United States stocks 40,000 items.

New products become necessary from the profit angle too. It is necessary for the business firms to bring in new products to replace old, declining and losing products. New products become part and parcel of the growth requirements of the firm and in many cases, new profits come only through new products.

A company can add new products through acquisition or development. The acquisition route can take three forms. The company can buy other companies, it can acquire patents from other companies, or it can buy a license or franchise from another company.

The development route can take two forms. The company can develop new products in its own laboratories, or it can contract with independent researches or new-product development firms to develop specific new product.

8.6.1 Categories of New Products:

1. **New-to-the world products**: New products that created an entirely new market.
2. **New Product Lines:** New Products that allow a company to enter an established market for the first time.
3. **Additions to existing product lines:** New products that supplement a company's established product lines (package sizes, flavours, and so on).
4. **Improvements and revisions of existing products:** New products that provide improved performance or greater perceived value and replace existing products.
5. **Repositioning :** Existing products that are targeted to new markets or market segments.
6. **Cost Reductions:** New products that provide similar performance at lower cost.

   Less than 10 percent of all new products are truly innovative and new to the world. These products involve the greatest cost and risk because they are new to both the company and the market place. Most new product activity is devoted to improving existing products.

8.6.2 Why do products fail?

Success requires many factors. Even one reason is good enough for a product failure. The following points give some idea regarding why products fail to get support from the customers.

1) **Market size overestimated**: The product idea is good, but the market size is overestimated. Many of the multinational companies overestimated the size of the market in India in the early stages of liberalisation programme and were not able to get enough support.
2) **Poor product design:** If the product is not well designed it may not attract the customers. Some designs that are appealing to customers in one country may not be appealing in another country.
3) **Top management exuberance:** A high-level executive pushes a favourite idea through in spite of negative market research findings.
4) **Marketing Mix:** The company is unable to strike the right marketing mix to reach the target customers. The product is in correctly positioned in the market, not advertised effectively, or over priced.

5) **Insufficient distribution:** The product fails to gain sufficient distribution coverage or support from channel members. Customers want to buy the product but it is not available because distribution coverage is inadequate.

6) **High product development costs:** Development costs are higher than expected. This requires lot of financial support for introducing the product. For example, in pharmaceuticals industry huge amounts have to be invested to develop products.

7) **Competition:** Markets are highly competitive nowadays. Competitors fight back harder than expected. If the products of the competitor are delivering better value to the customers, naturally customers support those products.

8.6.3. Factors affecting growth of new product development:

1) **Shortage of important ideas in certain areas:** There may be few ways left to improve some basic products.

2) **Fragmented markets:** Companies have to aim their new products at smaller market segments, and this can mean lower sales and profits for each product.

3) **Social and governmental constraints:** New products have to satisfy consumer safety and environmental concerns.

4) **Cost of development:** A company typically has to generate many ideas to find just one worthy of development, and often faces high R&D, manufacturing and market costs.

5) **Capital shortages:** Some companies with good ideas cannot raise the funds needed to research and launch them.

6) **Faster required development time:** Companies must learn how to compress development time by using new techniques, strategic partners, early concept tests, and advanced marketing planning.

7) **Shorter product life cycles:** When a new product is successful, rivals are quick to copy it.

New-Product Development Process:

By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. Many of the new products fail, companies are very anxious to learn to reduce the failure rate. A new product success depends on whether it offers higher value than the existing products. It should be a unique superior product, one with higher quality, new features, and higher value in use. Prior to the development of a new product a company should carefully define and assesses the target market, the product requirements, and the benefits. In all, to create successful new products, a company must understands its consumers, markets, and competitors and develop products that deliver superior value to consumers.

The following steps are involved in development of a new product:

1. **Idea Generation:** New-product development starts with idea generation. This is nothing but the systematic search for new-product ideas. A company has to develop as many ideas as possible to find few good ones. Many new-product ideas come from internal sources within the company. The company can find new ideas through formal research and development. Companies get ideas from employees, customers, sales people, competitors, distributors and suppliers.

2. **Idea Screening**: The ideas generated through the above step are to be screened to identify the good ones and drop poor ones as soon as possible. Companies want to proceed with only the product ideas that are most likely to turn into profitable products.

3. **Concept Development and testing:** An attractive idea must be developed into a product concept. A product concept is a detailed version of the idea stated in meaningful consumer terms. Concept testing is testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

4. **Marketing Strategy:** Marketing strategy development involves designing an initial marketing strategy for a new product based on the product concept.

5. **Business Analysis:** Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they are in line with the company objectives, the product can move to the product development stage. To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion.

6. **Product Development**: Developing the product concept into a physical product in order to assure that the product idea can be turned into a workable product. Here, R&D or engineering develops the product concept into a physical product. In this product development stage company has to invest large amount of money. The R&D department will develop and test one or more physical versions of the product concept.

7. **Test Marketing:** The stage of new-product development in which the product and marketing program are tested in more realistic market settings. Test marketing gives the company the experience with marketing of the product before going to launch fully. The amount of test marketing needed varies from one product to the other. If the new product development costs are low and if they are confined to simple line extensions or copies of successful competitor products, the companies do little test marketing.

8. **Commercialization:** Test marketing gives management the information needed to make a final decision about to launch the new product. If the company goes ahead with commercialization - introducing the new product into the market - it will face high costs.

   Out of eight stages at any stage the idea of launching a new-product may be dropped.

8.7 SUMMARY

A product is more than just product. Product is the first of the four P's of marketing mix. A product means something more than a physical commodity. Products have an identity or a personality of their own. The starting point of successful marketing is a satisfactory product. The set of all products offered for sale by a company is called a product mix. A broad group of products intended for essentially similar uses and having similar physical characteristics constitute a product line.

Products have life cycles that require different marketing strategies. The sales history of many products follows an S-shaped curve consisting of four stages: Introduction, Growth, and Maturity, Decline. Companies are recognizing the necessity and advantages of regularly developing new products and services. The new-product development process consists of eight stages: idea generation, idea screening, concept development and testing, marketing-strategy development, business analysis, product development, market testing, and commercialization. The purpose of each stage is to decide whether the idea should be further developed or dropped.

8.8 KEY WORDS

Product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sales that are essentially intangible and do not result in the ownership of anything.

Product Mix is the set of all products and items that a particular seller offers for sale to buyers.

Product Line refers to group of products, which are closely related as satisfying a class of need.

8.9 SELF ASSESSMENT QUESTIONS

1. "People do not buy a product. They buy benefits" Explain the statement.
2. What is product mix? Explain the dimensions of product mix.
3. What are the important product-line decisions?
4. Discuss the stages in the product life cycle. What is the significance of product life cycle in the marketing mix and in product planning and development?
5. What is a new product? Outline the various stages in new product development.
6. What factors contribute to the success or failure of a new product?

8.10 FURTHER READINGS

1) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);
2) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);
3) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);

Lesson - IX

PRODUCT PLANNING PROCESS

OBJECTIVES

After studying this lesson, you should be able to :

- know the importance of product planning process
- know how to manage existing products
- understand the importance of branding
- explore the implications of branding related decisions
- understand the importance of packaging and its functions

STRUCTURE

9.1 INTRODUCTION

Markets are dynamic in nature. Customers needs and wants are changing over time. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product mix on a continuous basis. Customers' awareness levels are high. Technology is also changing very fast and companies, which are more adaptive for change, are surviving in this cutthroat competition.

Companies must be focused and should deliver better value to the customers. In product management branding is becoming a key strategic tool. Majority of the products sold in the market place are branded. Branding decisions are very critical for the success of products. Building global brands is becoming necessary for survival of companies. Revolution in packaging technology has a greater influence on the product strategy. With the developments in packaging companies are offering the products in small quantities thereby reaching larger group of customers. The companies are able to target new segments in the market. One has to consider other elements in marketing mix like price, promotion, and placement while formulating product strategy.

9.2 PRODUCT PLANNING PROCESS

Product planning is important and is one of the most critical issues of a company's product management function. In designing such strategies companies should have accurate information on the existing products and as well as anticipated performance of its existing products. The product portfolio approach is one of the tools used for product planning. This growth-share matrix popularly known as Boston Consulting Group (BCG) concept explained earlier helps the companies to form the basis for product planning. Market growth rate of the business of which the product belongs and relative market share of the firm in that product category gives idea regarding whether the business is to be continued or discontinued. This analysis helps the product manager to decide about the optimum product mix. Always companies want to have a balanced product portfolio.

Ansoff has proposed a useful framework for detecting new growth opportunities for companies called a 'product-market expansion grid'. The company first considers whether it could gain more market share with its current products in their current markets known as market-penetration strategy. Here with current products the company wants to penetrate more into current markets. Next it considers whether it can find or develop new markets for its current products known as market-development strategy. This is searching for new markets and developing them with the existing products.

Then it considers whether it can develop new products of potential interest to its current markets known as product-development strategy. With new products the current markets should be concentrated. Later it will also review opportunities to develop new products for new markets known as diversification strategy. Product mix decision, product modification / modernization decision, product line pruning / product elimination decision, new product decision, and branding and packaging decision are the important decisions in overall product strategy.

9.3 MANAGING EXISTING PRODUCTS

Once the product is introduced to the market, the product is going to experience various stages. During a product's life, a company will normally reformulate its marketing strategies. Not only products have life cycles but also markets have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place. The various stages include introduction, growth, maturity and decline.

I. Introduction Stage:

In introduction stage sales growth is slow. Delays in expansion of production capacity, technical problems, delays in obtaining adequate distribution through retail outlets, and customers reluctance to change established behaviour are the reasons for slow growth in the introduction stage. In this stage profits are also very low or negative because of the low sales and more promotion and distribution expenses. Promotion expenditures are high in relation with sales, as high level of promotional effort is required inform potential consumers of the new and unknown product. Prices are also on high side because costs are high due to relatively low output rates, technology problems may not be fully rectified, and high margins are required to support the promotional expenditure which is necessary to achieve growth. While launching product, organizations can emphasize more on any one of the marketing variables, such as product, price, promotion, and distribution. Considering price and promotion, firms can pursue one of the four strategies shown in the Figure 9.1.

Strategies in the introductory stage:

- **Rapid skimming strategy:** Introducing the product at a high price and a high promotion level. The firm charges a high price in order to recover as much gross profit per unit as possible. A firm spends large amounts on promotion to convince the market even at the high price. This high spending on promotion speeds up the rate of market penetration.
- **Slow skimming strategy:** Introducing the product at a high price and low promotion. The high price makes firm to realise high gross profit per unit, and low level of promotion keeps firms' marketing expenditure down. When the market size and potential competition is low, this particular strategy works.
- **Rapid penetration strategy:** Launching the product at low price spending high amount on promotion. This strategy brings us fastest market share and market penetration. This strategy is suitable for large markets particularly when buyers are price sensitive, when there is a strong potential competition, and the market is unaware of the product.

		Promotion High	**Promotion** Low
Price	High	Rapid Skimming Strategy	Slow Skimming Strategy
	Low	Rapid Penetration Strategy	Slow Penetration Strategy

Figure 9.1 Introductory Marketing Strategies

- **Slow penetration strategy:** Launching a product at low price and low level of promotion. Low price may encourage high product acceptance, and low level of promotion helps firms to realize more net profit. This approach is suitable for large markets, price sensitive and with some potential competition.

  The pioneer, who introduces the product in the market, must choose a launch strategy that is consistent with its intended product positioning. This is the first step in a grand plan of life-cycle marketing.

II. Growth Stage:

The growth stage in which a product's sales start climbing quickly. The early buyers who have shown interest in product will continue to buy, and the new buyers also support the product especially if they hear favourable news about the product. Here word of mouth communication plays an important role. At this stage new competitors will enter into market. Profits starts increasing with sales raise. With experience gained in production procedure, cost of manufacturing falls. Promotional expenditure is distributed over more number of units. However the growth rate may not be sustained forever, companies must watch the downtrend in this growth rate to prepare for the new strategies.

Strategies in the growth stage: Following steps are going to help the firm to sustain market growth as long as possible.

1. **Improve product quality:** Companies has to focus on improving product quality to sustain in the market.
2. **Adding new product features:** New features for the existing products should be added to make the product more appealing and contemporary to attract and retain customers.
3. **Adding new models:** New models must be added continuously to make the existing product portfolio look attractive. This will make company to occupy more shelf space at retailer's outlet.
4. **Entering new market segments:** As the product fared well in one particular market segment, to sustain its growth, companies have to enter into new markets.
5. **Decreasing price to attract lower segment:** The price of the product is to be decreased to attract lower class segment. In this segment majority of the customers are price sensitive. This helps the company to enter into new markets.
6. **Distribution channels:** Company has to increase distribution coverage and look for new distribution channels to make the product easily available to its target customers.

III. Maturity Stage:

The stage in the product life cycle in which sales growth slows or levels off and the product will enter a maturity stage. This stage normally stays longer than the previous stage and it throws serious challenge to marketing management. The company seeks innovative strategies to renew sales growth including market, product, and marketing mix modification.

Strategies in the maturity stage:

1. **Market modification:** The company has to increase sales volume for their matured brands by expanding the number of brand users as well as usage rate per user. The company has to convert nonuser into user, enter new market segments, and winning competitors' customers. Making the current customers to increase their annual usage of the brand can also increase sales. The company can try to make customers to use the product more frequently, more usage per occasion, and identify the new uses for the product and convince the customer to use the product in more varied ways.
2. **Product modifications:** By modifying the product's characteristics marketers try to increase the sales. Improving product quality aims at increasing the functional performance of the product like its durability, reliability, and taste. This makes buyers to accept the new and improved version of the product and they might be ready to pay more prices for it. Feature improvement of the product for example, size, weight and other accessories also make product more attractive. Style improvement of the product makes it more aesthetic and novel.
3. **Marketing mix modification:** Product managers might also try to stimulate sales by changing one or more marketing-mix elements. Change in the composition of the marketing mix may help company to reach the target customers. However, these changes are easily imitated by the

competitors. For instance, if a company decrease the price of the product, the competitors may also propose for price decrease. This leads to price war among the companies and none of them will get any benefit out of this situation.

IV. Decline stage

It's a stage in which a product sales decline. The sales decline might be slow. Sales decline for a number of reasons. When a product enters into a decline stage in which little can be done to stop the deterioration of sales and profits. The company has to identify the weak products, develop for each one a strategy of continuation, focussing, milking, and finally phase out weak products in a way that minimizes the problems for the company as a whole.

Strategies during decline stage:

1. **Identifying the weak products:** The company has to identify the weak products and if possible company should try to modify them if not discontinue them. Appointing product review committee with representatives from marketing, R&D, manufacturing, and finance. This committee has to identify weak products with the help of data regarding market size, market share, prices, costs, and profits. The review committee examines this information and makes recommendation for each doubtful product whether to continue it, change marketing strategy, or drop it.

2. **Determining Marketing Strategies:** In declining markets some firms withdraw their products earlier than other. There are some exit barriers which make the product withdrawal a little difficult. If there are few exit barriers, it is easy for the firms to leave the market. The remaining firms in the market try to attract the customers of the withdrawing firms. Harrigan distinguished five decline strategies available to firm:
   - increasing the firm's investment to strengthen its competitive position,
   - maintaining the firm's investment level until the uncertainties about the industry are resolved,
   - decreasing the firm's investment level selectively,
   - harvesting the firm's investment to recover cash quickly, and
   - divesting the business quickly by disposing of its assets as advantageously as possible.

3. **Product withdrawal:** When a company decides to drop a product, it has to take several other decisions. If the product has residual goodwill and strong distribution, the company can sell it to a smaller firm. If the company can't find buyers, it must decide whether to liquidate the brand slowly or quickly. It also should take a decision how to service the past customers, how much stock of spare parts to be maintained to support the past customers.

9.4 IMPORTANCE OF BRANDING

In marketing the term, branding occupies a significant role. A brand is defined as 'a name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors'. The skill of the marketer will be revealed through the ability to create, maintain, and protect brands of their products and services.

Branding helps both consumers and sellers. Consumers get confidence that the branded goods and services are high in quality. Majority of the products sold in the market are branded products.

Even water, salt, rice, fruits, vegetables, poultry products are branded nowadays. Customers feel some sense of security when they buy branded products. They feel that the entire company is backing the branded products. Companies' plan their promotional strategy around the brand name and customers can easily identify the products. Branding gives the product some respectability in the market place.

Brand Equity:

Brand equity is the value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships. A brand with high brand equity is an asset to the company. The valuation of brand equity is difficult but companies are respected if they have powerful brands.

9.5 BRANDING DECISIONS

Branding decisions are very important and they are challenging in nature. The branding decisions include brand name selection, brand sponsor, and brand strategy.

I. Brand Name Selection: The company has to select suitable brand name and it should protect it. One has consider cultural, social, and religious factors before fixing a brand name. The brand name should consist of the qualities like distinctiveness, product benefits and most importantly easy to pronounce, recognize, and remember. When the product is associated with brand names, psychologically customers attribute value to their purchase. For example, Raymond, Godrej, Zodiac etc. If brand name is easy to spell, with words in common use brand remembering is easy. For example, Sony, Usha, Vimal, Nirma are very easy to remember. Brands describe about the product and its characteristic features. For example, Fair & Lovely, Glucose, Protinex, Fair Glow, Fair Ever. The brand name when translated into a foreign language, should not give a wrong meaning. For example, the brand name Nova goes well with Indian car buyers but not with Spanish customers because meaning of the word Nova in Spanish language is 'it doesn't go'. Brand name should not infringe with the existing brands.

II. Brand Sponsor: The product may be introduced as manufacturers brand, private brand, licensed brand, and co brand. The company's name itself acts as a brand name, for example, Godrej, BPL, Tata. A brand created and owned by distributors or retailers is known as private brand. For example, Spencer's at Chennai, Nilgiris at Bangalore have become popular private brands in south India. The practice of using the established brand name of two different companies on the same product is known as co-branding. For example, Thomas Cook- Master Card International, ECIL-BDPS, Indian Oil Corporation-Citi Bank International. In co-branding both the brands will get the benefit of each other.

III. Brand Strategy: There are four different brand strategies. They are Line Extension, Brand Extension, Multi brands, and New brands.

- **Line Extension:** When a company introduces additional items in a related product category with the same brand name it is called line extension. Products with new flavours, sizes, colours, shapes, ingredients in the same category with the same brand name will be introduced.
- **Brand Extensions:** A brand extension is using a successful brand name to launch new or modified products in a new category. Here the brand name is same but the product category is new. A brand extension gives a new product immediate recognition and faster acceptance. As the brand awareness is already there, the costs of advertising to build a new brand can be

saved. However the brand extension is risky when the failure of a new product will dilute the image of an existing brand.

- **Multibrands:** This strategy is about introducing additional brands in the same category. P&G, HLL, Godrej follows multibranding strategy in soaps and detergents category. It helps companies to occupy more shelf space at retail level. The same company may launch separate brands in different countries. P&G dominates in US detergent market with Tide brand and it leads in other countries with Ariel brand. This multibranding strategy is costly because each brand has to be promoted by the firm separately. Each brand might obtain only a small market share.
- **New Brands:** A company may go in for a new brand when it enters a new product category for which none of the company's current brand names are suitable. If a company wants to enter into a new product category and the existing brands may not be suitable, then the company has to go in for a new brand. Sometimes the company may acquire new brands through acquisitions.

9.6 IMPORTANCE OF PACKAGING - PACKAGING DECISIONS

Packaging is another important element in product strategy. Packaging involves designing and producing the container or wrapper for a product. It provides basically the convenience and adds value to the product. The main function of package is to contain and protect the product. It will enhance the sales appeal of the product. Packaging is becoming a powerful promotional tool in this competitive marketing environment.

In the last decade, India is witnessing the packaging revolution in the form of sachets, pouch packaging, it has changed the market dynamics. More over than this the customers are looking at decent packaging with aesthetic appeal. Due to the media explosion, changing life styles, attitudes, tastes, and needs packaging occupied a prominent role. For that matter Froot's, success can be attributed to packaging. It was the first of its kind in India to introduce tetra pack technology. Even today Frooti is enjoying its exclusivity value and is the market leader. Packaging provides handling convenience to the customers and provides operational flexibility to the company.

With proper packaging the firm achieves the following functions:

1. **Creating customer satisfaction:** A good packaging provides the customer convenience and in turn it leads to customer satisfaction. For example, edible oil offered in poly packs provides greater convenience to customers to carry the product.
2. **Protecting the contents:** Packaging protects the product and enhances its longevity. It prevents contamination of products like medicines, cosmetics, and other food products.
3. **Knowing about the product attributes and ingredients:** It provides product information, advantages, instructions, contents, and statutory warnings.
4. **Promoting the product:** Packaging can be effectively used by the marketers to promote the products. Labeling will provide an opportunity to the seller to influence the buyer.
5. **Provides differentiation:** Marketers can use the packaging to differentiate their product. Novel packaging designs, styles create perceptual differentiation in the mind of the customers.
6. **Building image:** Quality packaging enhances the product's image to position it as premium product. In the process, the firm can charge high prices.

Labeling:

Labeling, the printed information appearing on or with the package is also part of packaging. Label provides the information regarding place of manufacture, date of manufacture, contents, producer's name, and instructions on usage and warnings. Labels may vary from simple tags to complex designs. Labels can be designed with attractive colours and different typographical styles.

Other Product Related Strategies:

A) Product Positioning:

According to Al Ries and Jack Trout marketing is the battle of perceptions not products. They popularized the concept of positioning. A product's position is the way the product is defined by consumers on important attributes - the place the product occupies in consumers' minds is relative to competitor products. Well-known Products generally hold a distinctive position in consumer's minds. It is difficult for the competitors to occupy the same space in the mind of the customer.

Companies have to strengthen their own position in the consumer's mind rather than trying to occupy the competitor's space. Companies can try to occupy the unoccupied space. Sometimes the companies may try to re-position the competitor products by their promotional efforts. Positioning is done through communication. Here advertising plays an important role in positioning the product. The tangible aspects of product, place, price, and promotion should support the positioning strategy of the firm.

Michael Treacy and Fred Wiersema, proposed a positioning model known as value disciplines. According to them, a firm could aspire to be the product leader, operationally excellent firm, or the customer intimate firm. A firm should become best at one of the three value disciplines and should achieve an adequate performance level in the other two disciplines. Generally companies must promote only one central benefit of the product to the customer through positioning strategy. According to Rooser Reeves a company should develop a unique selling proposition for each brand and promote it continuously on that count.

B) Product differentiation:

The process of adding a set of meaningful and valued differences to distinguish the company's product from competitors' product. Product differentiation helps the company to gain competitive advantage. A market offering can be differentiated in the following ways:

a) **Product differentiation:** The product differentiation can be offered by the seller by changing parameters including form, features, performance quality, durability, reliability, repairability, style, and design.

b) **Service differentiation:** When the physical product cannot easily be differentiated, companies look towards service differentiation. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

c) **Personnel differentiation:** Companies gain advantage through having better-trained people who have the skills like competence, courtesy, reliability, responsiveness, and communication.

d) **Channel differentiation:** By designing their distribution channels in a better way companies want to achieve competitive advantage. Channel members can add value to the product.

e) **Image differentiation:** Image is the way the public perceives the company or its products. A company can build its brand image through creating or sponsoring various events. The seller's space with its ambience and good-looking atmosphere also creates some image.

9.7 SUMMARY

Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labelling. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product strategy on a continuous basis. Product planning is important and is one of the most critical elements of a company's product management function. In designing such strategies companies should have accurate information on the existing products, as well as anticipated performance of its existing products. During a product's life, a company will normally reformulate its marketing strategies. Not only do products have life cycles, but markets also have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place.

9.8 KEY WORDS

Brand A name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors.

Co-branding The practice of using the established brand name of two different companies on the same product is known as co-branding.

Packaging involves designing and producing the container or wrapper for a product.

Labeling the printed information appearing on or with the package. It is also part of packaging.

9.9 SELF ASSESSMENT QUESTIONS

1. Explain in detail the stage specific marketing strategies to maintain the sustainability of the existing product in the market place.

2. What is brand equity? Discuss various branding strategies.

3. Discuss the importance of packaging as a tool of market cultivation.

4. Briefly explain the following concepts.

   a) Product positioning   b) Product differentiation

9.10 FURTHER READINGS

a) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);

b) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);

c) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);

d) R S N Pillai, Bagavathi, Modern Marketing Principles and Practices (New Delhi: S.Chand & Company Ltd, 1998);