

Marketing Environment  
Marketing activities are influenced by several factors inside and outside a business firm. These factors, or forces influencing marketing decision-making are collectively called marketing environment. It comprises all those forces which have an impact on market and marketing efforts of the enterprise. According to Philip Kotler, marketing environment refers to 'external factors and forces that affect the company's ability to develop and maintain successful transactions and relationships with its target customers'.

The marketing program of a firm is influenced and shaped by a firm's inwardly need to begin its business planning by looking outwardly at what its customers require, rather than inwardly at what it would prefer to produce. The firm must be aware of what is going on in its marketing environment and appreciate how change in its environment can lead to changing patterns of demand for its products.

It also needs to assess marketing opportunities and threats present in the surroundings. An environment can be defined as 'everything which surrounds and impinges on a system'. Systems of many kinds have environments with which they interact. Marketing can be seen as a system which must respond to environmental change. Just as the human body may have problems, it fails to adjust to environmental change. Similarly, businesses may fail if they



do not adapt to external changes such as  
market sources of competition or changes in  
consumers' preferences.  
Scanning the environment

Marketing activities do not take place in a vacuum,  
isolated from all external forces. In fact, all  
marketing operations are conducted in a highly  
complex, dynamic and changing environment.  
According to Philip Kotler, "A company's  
marketing environment consists of the factors  
and forces outside marketing that affect  
management's ability to build and maintain  
successful relationships with target  
customers."

The marketing environment offers  
both opportunities and threats. Successful  
companies know the vital importance of  
constantly watching and adapting to the changing  
environment. A company's marketers take  
the major responsibility for identifying  
significant changes in the environment.

More than any other groups in  
the company, marketers must be trend trackers  
and opportunity-seekers. Although every  
manager in an organization needs to  
observe the outside environment, marketers  
have two special aptitudes. They have  
disciplined methods - marketing intelligence  
and marketing research - for collection of



information about the marketing environment. They also spend time in customer and competitor environment. By conducting systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet new challenges and opportunities in the market place.

### Elements of Micro-environment of business:

The micro environment of the organization consists of those elements which are controllable by the management.

Normally, the micro environment does not affect all the companies in an industry in the same way, because the size, capacity, capability and strategies are different. For example, the raw material suppliers are giving more concessions to large-sized companies. However, they may not give the same concessions to small business companies.

Like the same, the competitors don't mind about the rival company if it is compared to the small, but he will be very much conscious if the rival is large. Sometimes micro environment of the various firms in an industry is almost the same. In such a case, response of these firms to their micro environment may differ as each firm will attempt to achieve a higher success level. The general micro environment factors are discussed below:



Competitors

The competitive environment has to consist of certain basic things which every firm has to take note of. No company, however large it may be, enjoys monopoly. In the original business world, a company encounters various forms of competition. The most common competition which a company's product now faces is from differentiated products of other companies.

For example, in the Color Television Market, Philips TV faces competition from other companies like Videocon, Onida, BPL and others. This type of competition is called brand competition. It is found in all durable product markets.

The consumer wants to purchase a two-wheeler, the next question in his mind is with gear or without gear, 100cc or more than that, self starter or kick starter, etc. This type is otherwise known as 'product form competition'.

Philip Kotler is of the opinion that the best way for the company to grasp the full range of its competition is to take the viewpoint of a buyer. What does a buyer think about that which eventually leads to purchasing something? So, tracing of the consumer mindset will help to retain the market share for all the firms.



## 2. Customers

According to Peter F. Drucker, "There is only one valid definition of business purpose, that is to create a customer." The business enterprises aim to earn profit through serving the customer demand. It now thinks more in terms of profitable sale rather than more sales volume for its sake. Today, marketing of a firm begins and also ends with the customers.

Now-a-days, a business firm to be successful, must find customers for its product. This is the reason the customers thus constitute the most important element in the micro environment of business. Products sales depend mainly on the degree of consumer satisfaction.

In fact, there is a reason that gives more importance to customer satisfaction survey. Now, every business firm set-up systems to regularly watch customer attitude and customer satisfaction, because today it is universally accepted that the satisfaction of customers is the base for company's success. Normally, the customers are not in a same group, they are individuals, business enterprises, institutions and government.

From the company's point-of-view, it's always better to have customer from various groups and regions for that easily sustains demand for the company's product.



### 3. Suppliers :

Regarding the suppliers, the organization can think of availing the required material or labor according to its manufacturing program. It can adopt such a purchase policy which gives bargaining power to the organization.

According to Michael Porter, "the relationship between suppliers and the firm epitomizes a power equation between them. This equation is based on the industry conditions and the extent to which each of them is dependent on the other".

Suppliers are either individuals or business houses. They combined together, provide resources that are needed by the company. Now the company should necessarily go for developing specification, searching for potential suppliers, identifying and analyzing the suppliers and thereafter choose those suppliers who offer best mix of quality, delivery reliability, credit, warranties and obviously low cost.

The development in the supplier's environment has a substantial impact on the operations of the company. In recent trends, companies can lower their supply cost and increase their product quality.



#### 4. Public

Literally the word 'public' refers to people in general. According to Philip Kotler, "A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives." The environmentalists, consumer protection groups, media persons and local people are some of the well-known examples of publics.

The company has a duty to satisfy the people at large along with competitors and the consumers. It is an exercise which has a larger impact on the well-being of the company for tomorrow's stay and growth. Create goodwill among public, help to get a favorable response for a company. Kotler in this regard has viewed that "Companies must put their primary energy into effectively managing their relationships with their customers, distributors and suppliers. Their overall success will be affected by how other publics in the society view their activity. Companies would be wise to spend the time monitoring all their public understanding, their needs and opinions and dealing with them constructively."

In the modern business, public have assumed important role and their presence in the micro environment of business.



## 5. Marketing Intermediaries:

Market intermediaries are either individuals or business houses who come to the aid of the company in promoting, selling and distributing the goods to the ultimate consumers. They are middlemen (wholesalers, retailers and agents), distributing agencies, market service agencies and financial institutions. Most of the companies find it too difficult to reach the consumers. In such cases, the agents and distribution firms help to reach the product to the consumer.

Any type of intermediary, the company must take into active consideration, the following aspects:

- (i) The company has also to constantly review the performance of both middlemen and others helping its efforts periodically. If necessary, it may take recourse to replacement of those who no longer perform at the expected level.
- (ii) Middlemen come into being to help overcome the discrepancies in quantities, place, time, assortment and possession that would otherwise exist in a given condition.
- (iii) It is advantageous and also efficient to work through the established marketing channels instead of creating one and thus going for experiments.



(iv) The ~~manufacturer~~ <sup>business</sup> has to decide the most cost-effective method of intermediaries to reach the product to consumer that will help to increase the profit.

## 6. Workers and their Union

As per the production function theory, the labor gets more importance. It is also one of pillars of the company. The organized labor is highly secured their position compared to unorganized workers. So, the workers now prefer to join labor unions which invariably resort to collective bargaining and thereby makes them less vulnerable to employer's exploitation.

On the other hand, Trade Unions are a major component of a modern business. Trade Union of workers is an organization formed by workers to protect their interests, improve their working conditions, etc.

All Trade Unions have objective or goals to achieve, which are contained in their constitution and each has its own strategy to reach those goals. Trade Unions are now considered a sub-system, which seeks to serve the specific sub-group's interest (i.e., workers) and also considers itself a part of the organization.



From the point-of-view of the company, industrial relation is more important to improve the company, otherwise conflict between labor and management leads to sick unit.

## (7) Organization:

One of the most important elements of the micro environment of an organization is the self-analysis of the organization itself. It must understand its own strengths and weaknesses, objectives and goals of the business and resource availability. The following non-specific elements of an organization can affect its performance:

→ Owners - People who have a major shareholding in the organization and have vested interests in the well-being of the company.

→ Board of Directors - The board of directors is elected by the shareholders for overseeing the general management of the business and ensuring that the shareholders' interests are met.

→ Employees - People who work in the organization are major contributors to its success. It is important that all employees embrace the organization's goals and objectives.



Some selected definitions of Consumer Behavior are as follows:

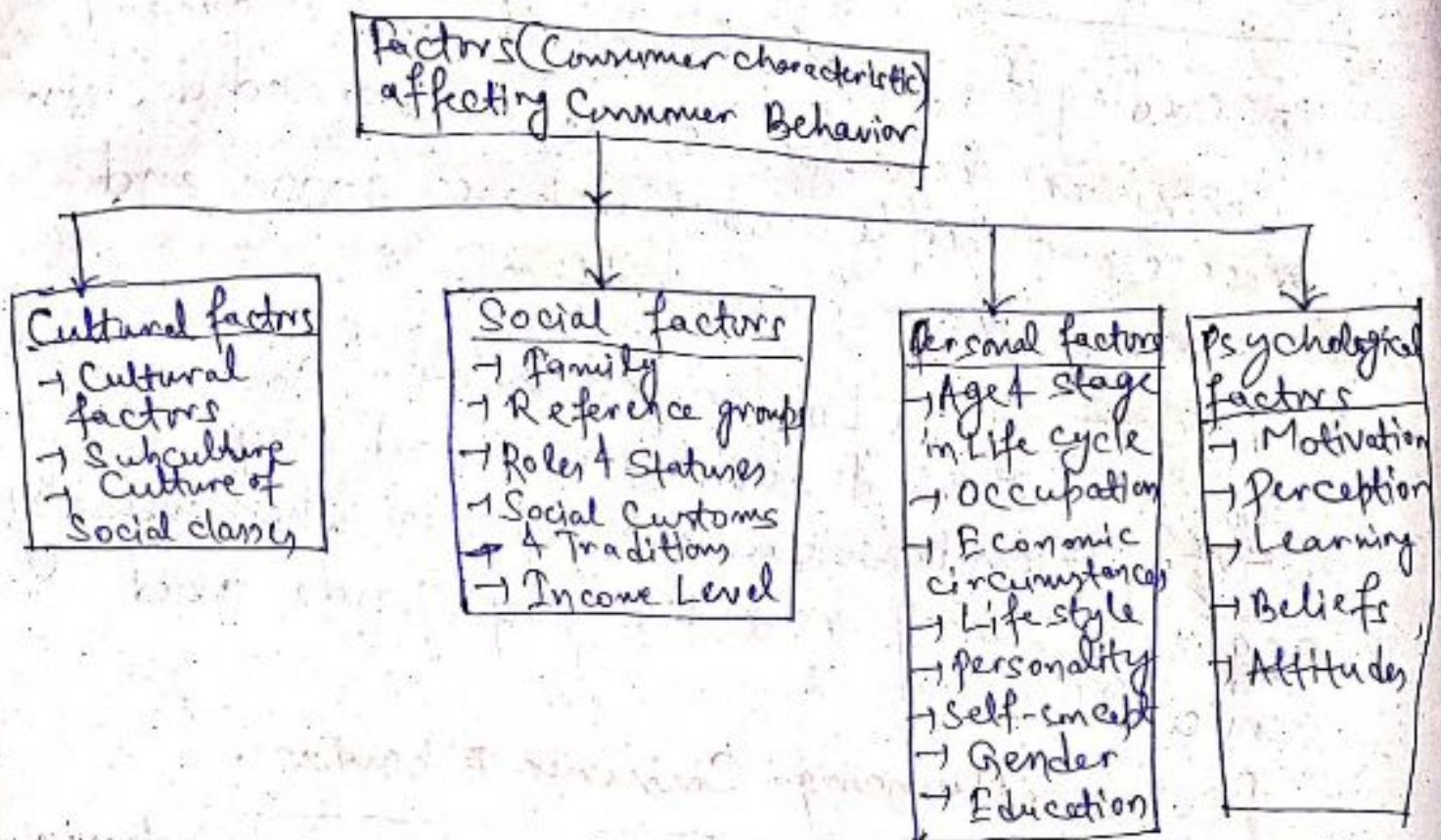
1. According to Engel, Blackwell, and Mansand, "Consumer behavior is the actions and decision processes of people who purchase goods and services for personal consumption".
2. According to Louden and Bitta, "Consumer behavior is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services."

### Factors influencing Consumer Behavior:

There are many factors affecting consumer behavior. These all factors jointly shape consumer behavior. Due to impact of various factors, consumers react or respond to marketing program differently. For the same product, price, promotion and distribution, their responses differ significantly. The factors do not affect equally to all the buyers; they have varying effect on their behavior. However, some factors are more effective, while others have negligible effect on consumer behavior.



Figure shows an outline of factors affecting Consumer Behavior.



### (A) Cultural factors:

Cultural factors have the broadest and deepest impact on Consumer Behavior. This set of factors mainly includes broad culture, sub-culture and culture of social classes.

#### 1. Broad culture:

Culture is a powerful and dominant determinant of personal needs and wants. Culture can be broadly defined as: The way of living, way of doing, and way of worshipping. Culture determines the total pattern of life. Culture has a tremendous effect on needs and preference. People react according to the culture to which they belong. Every culture has its values,



customs, traditions and beliefs which determine needs, preference and overall behavior. The child acquires a set of values, perception, attitude, interest, preference, and behavior from family and other key social institutions that control his/her behavior. Every member is bound to follow cultural values to which he belongs. These cultural factors determine the way of reacting toward product and marketing strategies.

Culture is reflected in terms of followings:

- (i) Family life / social system
- (ii) Role of women
- (iii) Women education
- (iv) Approach to work and leisure
- (v) Approach to life
- (vi) Ethics in economic dealings
- (vii) Residence pattern
- (viii) Geographic factors
- (ix) Impact of other cultures and so on.

These all factors affect what, when, where, how much, from whom and how many times the product should be purchased and used. Marketer must be aware of the relevant cultural aspects and marketing program should be designed accordingly.

## 2. Subcultures:

Each culture consists of smaller subcultures. Each subculture provides more specific identification of members belong to it. Product and marketing



program should be prepared in light of subcultures to tailor their needs.

Subculture includes:

### (i) Nationality.

Every nation has its own unique culture that shapes and controls behavior of its citizens. For example, Indian culture, American culture, Japanese culture, Chinese culture, African culture, etc. Consumers of different nations hold different behavior towards the company's products and strategies. The company can concentrate on one or more nations to serve.

### (ii) Religion :

It is a powerful determinant of consumer needs and wants. Every religion has its culture in terms of rules, values, rituals and procedures that have impact on its followers. Commonly, consumer behavior is directly affected by religion in terms of products that are symbolically and ritualistically associated with the celebration of various religious events and festivals/holidays.

Religious requirements or practices, sometimes take on an expanded meaning beyond their original purpose. For example, Christians, Hindus, Muslims, Buddhists, etc., influence food preference, clothing choice, career aspiration, and overall pattern of life.



Even, in each religion, there are several sub-religions. For example, Hindu religion ~~is~~ includes ~~the~~ Vaishnav, Swaminarayan, Shivpanthi, Swadhiyai and likewise; Christian Religion includes protestants and Catholics; and similar is the case with Muslim and Jain.

### (iii) Racial groups

In each culture, we find various racial groups; each of them tends to be different in terms of needs, roles, professions, habits, preferences and use of products. Each group responds differently to marketing offers due to different cultural backgrounds.

For example, in our country, we find a number of racial groups like Kshatriya, Banija, Patel, Brahmin, Scheduled Caste, Scheduled Tribe, Shepherd and so forth. These racial groups have their cultural values, norms, standards, habits, etc., that govern their overall response towards the company's products.

### (iv) Geographical Regions

Each geographic region represents specific culture and differs in terms of needs, preference, habits, usage rates, and uses of products. Clothing, residence, food, vehicle, etc., are determined by regional climate and culture.



### 3. Culture of Social Classes:

Philip Kotler defines: "social classes are relatively homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interest and behavior". In many cases, social classes are based on caste system. Members of different castes have their cultures and, accordingly, they perform certain roles.

Social classes reflect differences in income, occupation, education, their roles in society and soon. Every social class has its culture that affects behavior of its members. Social classes differ in their dress, speech patterns, recreational preferences, social status, value orientation, etc.

They show distinct product and brand preferences in many areas like clothing, home furniture, education, leisure activities and automobiles. Kotler identifies following social classes, each them differs significantly in terms of income, skills, needs, habits, preference, career orientation, approach towards life, etc.

- (i) Upper-upper
- (ii) Lower-upper
- (iii) Upper middle
- (iv) Middle class
- (v) Working class
- (vi) Upper lower



(vii) Lower - lower

Normally, with reference to India, on the basis of income level, or status in society, we can identify three <sup>social</sup> classes like upper class, middle class and lower class. In every society, percentage of each of these classes is subject to differ. Marketer should design his marketing program to cater to the needs of specific social class.

### (B) Social Factors

Here, we examine the effect of social factors on consumer needs and preferences (behavior). Social factors affect consumer behavior. Consumer response to product, brand and company is notably influenced by a number of social factors - family, reference groups, and roles and statuses. Marketer needs to analyze these social factors of his target market to cater to its needs effectively.

Let's briefly comment on some dominant social factors influencing consumer behavior:

#### 1. Family

Family is one of the most powerful social factors affecting consumer behavior. This is more significant where there is joint family system, in which children use to live with family for longer time. Values, traditions and preferences are transmitted from parents to children inherently. Family members constitute the most influential primary reference group. From family, its members acquire an orientation towards



religion, politics, ambition, self-worth, love, respect and so on. Need, preference, buying habits, consumption rate and many other aspects determined by family affect one's behavior.

In every family, elders, husband-wife, other members and children have varying degree of influence on purchase decision, which is the matter of interest for the marketer to appeal them. Some products are children dominant; some products are husband dominant; some products are wife dominant; while some products are equal dominant.

## 2. Reference Groups

Philip Kotler states: "A person's reference group consists of all the groups that have a direct (face-to-face) or indirect influence on the person's attitudes or behavior." Groups having a direct influence on the person are called membership groups.

Normally, following reference groups affect behavior of their members.

### (i) Primary Reference Groups

They are informal groups such as family members, friends, neighbors, relatives and co-workers with whom the person interact fairly continuously. Habits, lifestyle and opinions of these groups have direct impact on the person.



## (ii) Secondary Reference Groups

They tend to be more formal groups such as religious groups, professional groups, trade unions or associations, etc. that affect buying decisions of an individual buyer.

## (iii) Aspiration (Aspired) Groups

A person is not the member of such groups. But, he likes to belong to those groups. He imitates habits, preference and buying pattern of such groups. For example, college students imitate / like to belong to film stars, sportsmen or professional groups.

## (iv) Dissociative (Disliked) groups

These reference groups include such groups whose values or behavior a person rejects or dislikes. He tends to behave differently than those groups. A marketer should identify reference groups of his target market and should try to influence those groups. In case of television, automobile, clothing, home furniture, books and magazine, cigarettes, etc, the reference groups have more direct impact on buyers' purchase decision.

## 3. Roles and Statuses

A person plays various roles in many groups throughout his life. He has to play different roles in family, club, office or social organization. A role consists the activities that a person is expected to perform. For example, a person is father for his children, husband for his wife, son for his parents, friend for



his friends, boss for his department, and a member of social organization.

Each role carries status. For example, sales manager has more status than sales officer. People choose those products that communicate or represent their roles and statuses in society. Therefore, marketer must be aware of the status symbol potential of products and brands. The marketer should also try to associate products and brands with specific roles and status.

#### 4. Social Customs and Traditions

Social customs, beliefs or traditions can be associated with religion, caste or economic aspects. Such customs determine needs and preference of products in different occasions and, hence, affect consumer behavior.

#### 5. Income Level

Income affects needs and wants of consumers. Preference of the rich consumers and the poor consumers differ notably. In case of quality, brand image, novelty, and costs, there is wide difference between the rich and the poor buyers. Marketer must be aware of expectations of different income groups of his target market.

#### (C) Personal Factors

Along with cultural and social factors, personal factors also affect one's buying decision. Personal factors are related to the buyer himself.



These factors mainly include age and stage in life cycle, occupation, economic circumstances, life style, personality and self-concept. Let us briefly examine the effect of personal factors on consumer behavior.

### (i) Age and stage in Life cycle

A man passes through various stages of his life cycle, such as infant, child, teenager, young, adult and old. Need and preference vary as one passes through different stages of life cycle. For example, child and adult differ to a great extent in terms of needs and preference. Marketer may concentrate on one or more stages of his target consumers' life cycle. Use of different products depend on age and stage of buyers' life cycle.

### (ii) Occupation

Buying and using pattern of consumer, to a large extent, is affected by a person's occupation. For example, industrialist, teacher, artist, scientist, manager, doctor, supervisor, worker, trader, etc., differ significantly in terms of need, preference and overall buying pattern. Company can specialize its products according to needs and wants of special professional groups.

### (iii) Economic circumstances

Product preference, frequency of buying, quality and quantity are largely affected by consumers' economic circumstances. Economic circumstances



consist of spendable income, income stability, level of savings, assets, debts, borrowing power, and attitudes toward saving versus spending. People buy products keeping in mind these economic circumstances.

#### (iv) Life cycle :

People with the same culture, social class and occupation may differ in terms of their life style. Knowledge of ~~this~~ life style of the target market is essential for marketer to design more relevant marketing program. Kotler defines :

"Life style is the person's pattern of living in the world as expressed in the person's activities, interest and opinions."

Lifestyle portrayed the "whole person" interacting with his/her environment. It is generally reflected in terms of activities, interest, clothing patterns, status consciousness, spending and savings, helping others, achievements, working style, etc. Every product has potential to suit different life styles.

#### (v) Personality :

Personality is a distinguished set of physical and psychotically characteristics that lead to ~~more~~ relatively consistent and enduring response to one's environment. Personality characteristics, such as individualism, difference, self-confidence,



courage, firmness, sociability, mental balance, patience, etc., have a strong influence on needs and preferences. Every person buys that product which suits his personality. In case of clothing, automobiles, shoes, perfumes, etc., products are influenced by users' personality characteristics.

#### (vi) Self-concept:

It is also referred to as self-image. It is what a person believes of him. There can be actual self-concept, how he views himself; ideal self-concept, how he would like to view himself; and others' self-concept, how he thinks others see him. Person purchases such product that matches with his/her self-image. Marketer must identify self-concept of his target buyers and must try to match the products with them.

#### (vii) Gender:

Gender or sex affects buying behavior. Some products are male-dominated while some are female-dominated. Male customers need to those products which are closely suit their needs and styles. Cosmetics products are more closely related to female customers than male. Marketer must be aware of gender-effect on buying behavior of the market.

#### (viii) Education:

Education makes the difference. Highly educated, moderately educated, less educated and illiterates differ considerably in terms of their needs and preferences. In the same way, stage of education



(like primary, secondary, college, etc.) affects buyers' behavior.

Education factor seems more relevant to academic institutes, book publishers, magazines and newspapers. Education affects one's mindset.

Buyers' ~~color~~ color, choice, quality-orientation, services, and other aspects have more or less educational significance.

### (D) Psychological factors:

Buying behavior is influenced by several psychological factors. The dominants among them include motivation, perception, learning and beliefs and attitudes. It is difficult to measure the impact of psychological factors as they are internal, but are much powerful to control person's buying choice. Manager must try to understand probable role of the factors play in making buying decisions.

#### (i) Motivation:

It has a significant impact on consumer behavior. Motivation is closely related to human needs. One has many needs at a given time. Some needs are biogenic or physiological in nature arising from physiological states of tension, such as hunger, thirst or discomfort. Other needs are psychogenic or psychological in nature arising from



psychological state of tension, such as recognition, esteem, ~~such~~ or belonging. Motivation comes from motive; motive is expression of needs; or intensified need become a motive. Thus, a motive is the need that is sufficiently pressing to drive the person to act. Satisfying the need reduces the felt tension.

People hold one or more of following motives to buy:

- (i) To satisfy basic needs, like hunger, thirst or love
- (ii) To protect from economic, physical or mental hazards
- (iii) To get social status
- (iv) To be recognized or appreciated
- (v) To be respected
- (vi) To be self-actualized
- (vii) To ~~be~~ avoid physical or mental stress

Motivation is, thus, a driving force that makes the individual to act to release the tension aroused from unmet needs. A motivated person is ready to act/react. Marketer should identify why people buy the products. What are the motives to purchase the products? If product is connected with their motives, they definitely respond positively.

In fact, the product is a source of satisfying unmet needs. So, product is presented as a solution of tension resulted from unsatisfied needs. Several theories are available to understand motivation aspect.

Most popular theories include Maslow's Need Hierarchy, Herzberg's Two Factor Theory, Stacy Adam's Equity Theory, Vroom's Expectancy Theory



Porter-Lawler's Theory, McClelland's Achievement Theory, etc. Knowing of these theories assists the manager to understand deeper motives the people hold for buying different products.

## (ii) Perception :

Person's motivation to act depends on his perception of situation. It is one of the strongest factors affecting behavior. The stimuli - product, advertising appeal, incentives or anything are perceived differently by different people due to difference in perception. Marketer should know how people perceive marketing offers.

Bernard and Gary define:

"Perception is a process by which an individual select, organize and interpret information inputs to create a meaningful picture of the world." Perception depends on physical stimuli and stimuli's relation to surrounding field, too. People perceive the same stimulus differently due to selective attention, selective distortion, and selective retention. So, all consumers may not see the product or message in a way the marketer wants.

Marketer should take these perceptual processes carefully while designing marketing program.

It is necessary that the product or marketing offer must be perceived in a way the market



wants to be perceived. Marketer is also required to know the factors that affect people's perception. Tactful interview or questionnaire can help to measure perception of target groups.

### (iii) Learning:

Most human behavior is learned. Learning is basically concerned with experience of an individual. Learning can be defined as: Relatively permanent changes arising from experience. If an individual has satisfactory experience of buying and using the products, he is more likely to talk favorably or repeat the same.

Most of purchase decisions depend on self-experience or experience of others, whose opinion carry value in buying decisions. Learning is produced through the interplay of drives, stimuli, cues, response and reinforcement.

New company can enter the market by using competitors' drives, cues and reinforcement. Sufficient knowledge of learning is an important input for the marketer to design the meaningful marketing program.

### (iv) Beliefs:

People hold beliefs about company, company's goods or services and they act accordingly.

Beliefs of the buyers affect product and brand image we can define the term as:

Belief is a descriptive thought of that a person



holds about something. Beliefs may be based on knowledge, opinion or faith.

It should be noted that beliefs have nothing to do with facts or reality. People may have wrong beliefs for the superior product, or they hold positive beliefs for inferior product. Positive and negative beliefs have their impact on purchase decisions. Marketer can create positive belief by associating strong products related to product and brand, or can correct wrong beliefs by proper campaign.

It's clear that people buy only if they believe it is worthwhile to buy. So, beliefs play decisive role in the buying decision. Marketer must try to know what type of beliefs people hold about company, products and brands. Such knowledge must be incorporated in preparing an effective marketing program.

### (V) Attitudes :

An attitude is a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea. These emotional feelings are usually evaluative in nature. People hold attitudes towards almost everything, such as religion, politics,



clothes, music, food, product, company and so on.

## Consumer Decision-making process:

Consumer decision-making process involves the consumers to identify their needs, gather information, evaluate alternatives and then make their buying decision. The consumer behavior may be determined by economic and psychological factors and are influenced by environmental factors like social and cultural values.

The consumer decision-making process behavior is a complex procedure and involves everything starting from problem recognition to post-purchase activities. Every consumer has different needs in their daily lives and there are those needs which make them to make different decisions. Decisions can be complex, comparing, evaluating, selecting as well as purchasing from a variety of products depending upon the opinion of a consumer over a particular product. This renders understanding and realizing the basic problem of the consumer decision-making process for marketers to make their products and services different from others in the marketplace.

## 5 stages of Consumer Decision-making process:

The buying behavior model is one method used by marketers for identifying and tracing the decision-making process of a customer from the start to the end. The process is categorized into



## Bases of segmenting Industrial markets :

Practically, following bases (customer characteristics and/or behavioural bases) are used for segmenting industrial markets:

### 1. Geographic bases :

Company needs to perform tasks differently to treat customers residing in different geographical regions :

On the basis of geographical bases, industrial buyers can be segmented into following segments :

#### (i) Distance :

Local market, regional, domestic (national) market and International market

#### (ii) Location of industrial unit :

Rural and Urban Customers

#### (iii) Area and climate :

Area specific segmentation considers place specific bases such as hilly, desert, valley, plains, etc., while climate-based classification includes segmenting market on the basis of level and intensity of humidity, heat, cold, rain, etc. Different buyers located at different places need to be treated differently. Separate marketing program must be prepared for each of these groups.

### 2. Types of industry :

Company's products are used in different industries.



Relevant industries should be considered for segmenting market and, as per suitability, one or more industries can be selected as the target market to be served.

Possible segments include:

- (i) Auto Industry
- (ii) IT Industry
- (iii) Chemical "
- (iv) FMCG (Fast Moving Consumer Goods) Industry
- (v) Textile Industry
- (vi) Iron and steel industry
- (vii) Cement industry
- (viii) Engineering "
- (ix) Agro processing "
- (x) Service industry, etc.

As per company's products, it selects one or more relevant industry as target consumers and formulates appropriate marketing mix for each of the segments.

### 3. Type of Business Operation:

Industrial units perform different activities. Each of them differs in term of their nature of activities/operations and requirements.

On that base, we can classify industrial customers into several segments, such as:

- (i) Manufacturing units
- (ii) Assembling "
- (iii) Processing "
- (iv) Distributing "
- (v) Retailing Business



(VI) Consultancies and Services Units, etc.

Some products are commonly used for various business operations. Companies dealing with these products can supply or sell to different customers. Different marketing strategies are necessary as these customers elicit different response patterns.

#### 4. Consumption Rate/Size:

On the basis of order size and/or annual consumption, industrial buyers can be segmented in certain distinct groups. A company can select suitable one or more customer groups as target market.

Sized-band classification includes:

- (i) Heavy users
- (ii) Medium users
- (iii) Light users

Particularly, price and promotion strategies must be designed differently to meet expectations of varied groups.

#### 5. Ownership factor:

Ownership exhibits different response. A firm needs to treat them differently. A company can select one or more customers to serve.

Ownership-band segmentation leads to following segments:

- (i) Sole Proprietary Firms and Partnership Firms
- (ii) Private Companies



- (iii) Public Companies and Public Sector Units (PSUs)
- (iv) Government as a Customer
- (v) Corporations
- (vi) Defence Department
- (vii) Co-operative Societies
- (viii) Community Organizations
- (ix) Religious and Missionary Organizations

## 6. Buying Methods :

Industrial buyers purchase products on different ways. Every method requires different treatment in terms of formality, timing of ordering and executing, profit margin and overall procedures to be followed.

Based on methods, industrial markets can be segmented on following bases :

- (i) Tender / sealed-Bid Buying units
- (ii) Service Contract Customers
- (iii) Leasing Customers
- (iv) Buying through Approved Agency
- (v) Direct Purchasing Units

## 7. Ordering Time or Frequency :

Taking ordering time and buying frequency as the bases, industrial markets can be classified into several segments, such as :

### (i) Annual customers :

They put a large order (once in a year) and buy all quantity at a time.



## (ii) Regular Customers :

They buy regularly only from the particular firm. They are loyal customers.

## (iii) Occasional customers :

They buy company's products occasionally. They buy company's products just to try, they buy for change ; or they buy when required products are not available from other sources.

## (iv) Frequent and Infrequent customers :

Frequent customers buy more frequently. They put repeated orders and are reasonably predictable. Infrequent customers are irregular in their buying pattern. They may or may not buy and are difficult to be predicted.

## (v) 8. Payment Modes and Times :

Industrial customers follow different modes of payment. They also take short or long time to pay their bills.

Main segments are :

- (i) Cash Purchasing Buyers
- (ii) Credit " "
- (iii) Partial Credit Purchasing Buyers
- (iv) Fully Trusted vs Partially Trusted Buyers



- (v) Full (at a time) Paying Customers
  - (vi) Gradual or Installment Paying Customers
  - (vii) Short-term and Long-term Credit Buyers, etc.
- Brand Positioning

In marketing, positioning has come to mean the process by which marketers try to create an image or identity in the minds of their target market for their product, brand or organization. Brand positioning is at the heart of marketing strategy.

It is the act of designing the company's offer and image so that it occupies a distinct and valued place in the target customer's mind. A good brand positioning helps to guide marketing strategy by clarifying what a brand is all about, how it is unique, how it is similar to competitive brands and why consumers purchase it. Thus, in simple words brand positioning refers to the position or image which a brand enjoys in the minds of present and potential customers.

### Positioning Strategies

#### 1. Positioning by product attributes and benefits:

It is to associate a product with an attribute, a product feature or a consumer feature. Sometimes a product can be positioned in terms of two or more attributes simultaneously. The price/quality attribute dimension is commonly used for positioning the products.

A common approach is setting the brand



apart from competitors on the basis of specific characteristics or benefits offered. Sometimes, a product may be positioned on more than one product benefit. Marketers attempt to identify salient attributes (those that are important to consumers and are the basis for making a purchase decision).

## 2. Positioning by price/quality

Marketers often use price/quality characteristic to position their brands. One way they do it is with ads that reflect the image of a high-quality brand where cost, while not irrelevant, is considered secondary to the quality benefits derived from using the brand. Premium brands positioned at the high end of the market use this approach for positioning the product.

Another way to use price/quality characteristics for positioning is to focus on the quality or value offered by the brand at a very competitive price. Although price is an important consideration, the product quality must be comparable to, or even better than, competing brands for the positioning strategy to be effective.

Dark Biskeri - Bada Biskeri, same price ad campaign.



### 3. Positioning by use or application:

Another way is to communicate a specific image or position for a brand to associate it with a specific use or application. Surf Excel is positioned as stain remover 'Surf Excel haina!'. Also, Clinic All Clear - 'Dare to wear black'.

### 4. Positioning by product class:

Often the competition for a particular product comes from outside the product class. For example, airlines know that while they compete with other airlines, trains and buses are also viable alternatives. Manufacturers of music CDs must compete with the cassette industry. The product is positioned against others that, while not exactly the same, provide the same class of benefits.

### 5. Positioning by product user:

Positioning a product by associating it with a particular user or group of users is yet another approach. Motography Motorola Mobile, in this ad the persona of the user of the product has been positioned.

### 6. Positioning by the competitor:

Competitors may be as important to positioning strategy as a firm's own product or services. In today's market, an effective positioning strategy for a product or brand may focus on



Specific competitors.

This approach is similar to positioning <sup>by product</sup> class, although the competition is within the same product category in this case. Onida was positioned against the giants in the television industry through this strategy. Onida Color TV was launched with the message that all others were clones and only Onida was the leader - 'Neighbor's envy, owner's pride'.

### 7. Positioning by cultural symbols

This is an additional positioning strategy wherein the cultural symbols are used to differentiate the brands. Examples are Humana, Bajaj, Tata Tea and Ronald McDonald. Each of these symbols has successfully differentiated the product it represents from competitors.



## Meaning of Marketing Research:

Marketing research is defined as, "The systematic, objective and exhaustive search for the study of the facts relevant to any problem in the field of marketing." Marketing research may be described as a method of getting facts to be used by the executive in formulating policies & plans. It can also be defined as the systematic gathering, recording and analysing of data about problems relating to marketing of goods & services.

It is a systematic search for information. It involves data collection, analysis & interpretation. Research can't draw decisions, but it helps the marketers in the task of decision-making. A successful executive will never depend upon guess work. He looks for more accurate information through research.

The main idea of marketing research is to know more about the consumers, dealers, and the products. As the business grows, the distance between the manufacturer & the consumers also widens. The management depends upon the marketing research as a tool in solving the marketing problems. It helps in taking a fruitful and efficient decision as to the flow of goods and services in the hands of the customers.

The marketing research is an important element of the process of marketing research. Marketing research includes the complete analysis of the market. Information regarding the nature, size, organization, profitability of different markets, changes in markets and various factors - economic, social and political - affecting these changes are studied rigorously. The main purpose of market research is to know about the consumers.



and the markets of its products or services.

It's a technique to know:

1. Who are customers of our products or services?
2. Where do they live?
3. When and how do they buy the product and services?
4. Are customers of our products satisfied with the products?
5. Who are our main competitors in the market?
6. Are the company's products inferior or superior to competitors' products?
7. What policies and strategies are they following?

In order to know the answer to such questions, market research is conducted so that the marketer may come to know the shortcomings in his product or policies and strategies and can make the improvement to make them effective in the best interests of the consumers and thus to increase the profitability of the concern. Market research is a branch of marketing research. It covers only a few aspects of marketing. It's only a sub-function of marketing research. It's concerned with the investigation and measurement of market demand.



## Scope of Marketing Research:

Clark and Clark define marketing research as "the careful & objective study of product design, markets and such transfer activities as physical distribution, warehousing, advertising and sales management. Thus, the scope of marketing research lies in its variety of applications."

1. Diagnosing the current situation or problem based on detailed information.
2. Clearly identifying competitive strengths and weaknesses.
3. Constantly analyzing what is happening in the market place.
4. Planning to watch company's strengths with market opportunities by outlining objectives for product and market development & devising strategies and tactics to achieve them.
5. Watching out continuously for threats to the achievement of those plans.
6. Monitoring the progress of strategy implementation.
7. Research creativity, at its best, marketing research develops innovative ways to solve problems. The main objective of marketing research is to enable manufacturers to make goods acceptable & saleable & to see that they reach the market more easily, quickly, cheaply and profitably without sacrificing consumer interest.



## Nature of Distribution Channel:

The goods are produced at one place but the customers are scattered over a wide geographical area. Thus, it is very difficult for a producer to distribute his products all over the country.

Therefore, he takes the help of some intermediaries to distribute his goods. For example, Maruti Cars are manufactured at Gurgaon but are available all over the country with the help of intermediaries.

Channel of distribution refers to those people, institutions or merchants who help in the distribution of goods and services. Philip Kotler defines channel of distribution as "a set of independent organizations involved in the process of making a product or service available for use or consumption."

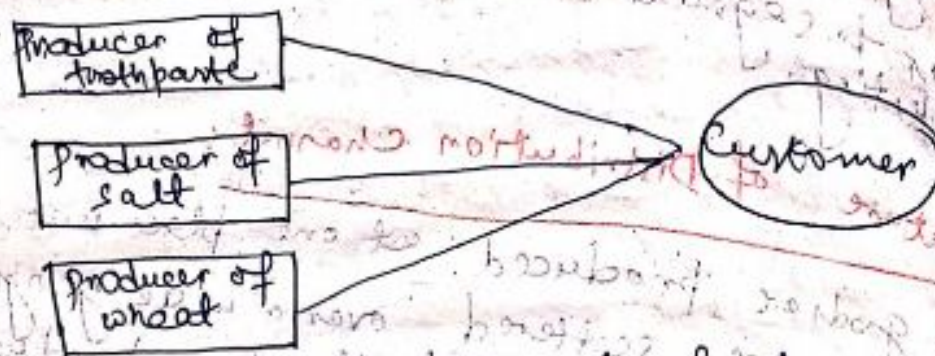
Channels of distribution bring a economy of effort. They help to cover a vast geographical area & also bring efficiency in distribution including transportation & warehousing. Retailers, wholesalers are the common channels of distribution.

Channels of distribution provide convenience to customer, who can get various items at one store. If there were no channels of distribution, customers would have faced a lot of difficulties.

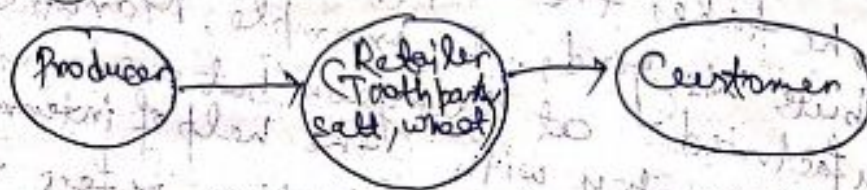


Consider the following diagrams.  
A customer wants to purchase toothpaste, salt & wheat.

1. When there is no channel of distribution:



2. When there is a channel of distribution, say Retailer:



Channels of Distribution used for a consumer product

### Functions of Distribution channels

Following are the main functions performed by the distribution channels:

1. Sorting:

Middlemen obtain the supplies of goods from various suppliers & sort them out into similar groups on the basis of size, quality, etc.

2. Accumulation:

In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.



### 3. Allocation

It provides packing of the sorted goods into small marketable lots like 1kg, 500gm, 250gm, etc.

### 4. Assorting

Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. For example, rice from Dehradun and Punjab.

### 5. Product Promotion

Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts, etc.

### 6. Negotiation

Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.

### 7. Risk-taking

Middlemen also have to bear the risk of distribution & like risk from damage or spoilage of goods, etc. when the goods are transported from one place to another or when they are stored in the godowns.



## Green Marketing

It refers to the process of selling products and services based on their environmental benefits. Such a product or service environmentally friendly in itself or may be in an environmentally friendly way, produced

→ Being manufactured in a sustainable fashion, including:  
+ Not containing toxic materials or ozone-depleting substances

→ Able to be recycled and/or is produced from recycled materials.

→ Being made from renewable materials (such as bamboo, etc.)

→ Being designed to be repairable & not throwaway

## Green Marketing & Sustainable Development

Green marketing is typically practiced by companies that are committed to sustainable development and corporate social responsibility.

More organizations are making an effort to implement sustainable business practices as they recognize that in doing so they can make their products more attractive to consumers & also reduce expenses, including packaging, transportation, energy/water usage, etc. Businesses are increasingly discovering that demonstrating a high level of social responsibility can increase brand loyalty among socially conscious consumers.

Public Works and Government Services Canada has information on green procurement



principles & resources for businesses. Ethical sourcing has become important to companies & consumers alike.

Are Consumers willing to pay more for green products?

The obvious assumption of green marketing is that potential consumers will view a product or service's "greenness" as a benefit and base their buying decision accordingly. The not-so-obvious assumption is that consumers will be willing to pay more for green products than they would for a less-green comparable alternative product.

The 2014 Nielsen Global Survey on Corporate Social Responsibility polled 30,000

consumers from 60 countries to determine statistics on consumer preferences for sustainable purchasing and found that:

- 75% of consumers were willing to pay extra for products & services from companies committed to positive social and environmental impact (up from 45% in 2011)
- 52% made at least one purchase in the past 6 months from at least one socially responsible company.
- 52% check product packaging to ensure sustainable impact.

Interestingly, consumers in the Asia-Pacific region, Latin America and the Middle East/Africa showed a higher preference (64%, 63%, 63%) to pay extra, whereas the preference



in North America and Europe was lower (42% and 40%).

The Nielsen Survey also looked at retail purchase statistics, and according to sales data brands that advertised sustainability on packaging had 2% year-over-year increase in sales from 2011 to 2014, as compared with 1% for those that did not.

Misrepresenting products or services as Green can backfire

The public tends to be skeptical of green claims to begin with and companies can seriously damage their brands and their sales if a green claim is discovered to be false or contradicted by a company's other products or practices. Presenting a product or service as green when it's not is called greenwashing.

Ex: In 2012, a CBC Marketplace study found that Dawn Antibacterial dish soap, which featured a label showing baby seals and ducklings and claiming that "Dawn helps save wildlife" has found to contain Triclosan which has been officially declared as being toxic to aquatic life - environmental groups have called for it to be banned. Understandably, Procter & Gamble, maker of Dawn products, refused an interview request by Marketplace.



## Examples of Green Marketing:

- Grocers that advertise organic produce. The organic food industry has grown in leaps and bounds as consumers express an increased preference for non-genetically modified foods that are free from pesticides.
- Restaurants that promote "locally sourced" meats, vegetables, fish, wines, etc. Local sourcing is attractive to consumers as it projects an image of sustainability & willingness to invest in the community.
- Toyota's marketing of the Prius hybrid. (The Prius outsells all other hybrid vehicles, mostly because its unique styling reflects the typical owner's passion for sustainability).

Green marketing can be a very powerful marketing strategy though when it's done right. Corporations that are embracing sustainable development:

Pepsico is one of the world's largest food & beverage producers with annual revenues of more than \$65 billion and a product line that includes brands such as Quaker, Gatorade, Pepsi-Cola and Frito-Lay. Over the past decade, Pepsico has become a leader among corporations in water conservation and energy usage. In 2012, Pepsico received Stockholm Industry Water Award in recognition of its efforts to reduce water & energy usage across all of its business operations from supply chains to factories.



Also known as: Eco-Marketing, Environmental Marketing, Ecological Marketing.

Eg: Chad's green marketing campaign bombed as he made the mistake of packaging his environmentally friendly product in styrofoam.

### Objectives of Green Marketing

Green Marketing is important for a number of reasons from eliminating wastefulness to educating consumers about how a company is maintaining eco-friendly measures. Here are some objectives to consider when thinking about green marketing:

#### 1) Avoiding waste

Whether it's creating biodegradable product packaging (meaning it can be broken down by biological means), cutting down on water consumption, or reducing the amount of trash that goes into landfills, green marketing is just as concerned with avoiding waste as putting forward an eco-friendly face to the public.

#### 2) Reinventing products

Products themselves can be modified to lessen the impact on the environment. For example, Method sources its ingredients from many plant-derived ingredients, which means it's safer for humans, not toxic to family pets who might accidentally ingest it, and more environmentally-friendly by being water-soluble and dispersing safely into



the environment.

### 3) Making green while being green:

Of course, companies that promote green products want to not only be good stewards of planet earth, but make a profit while doing so. Green Marketing allows businesses to capitalize on the subset of the population willing to pay a little more to lessen their footprint on the environment and protect the atmosphere.

### 4) Changing processes:

Consumers aren't the only ones that need to be concerned with environmental impact. Green marketing also encourages businesses to properly utilize resources such as water, consumption & electricity. Changing processes also means looking for renewable materials, using alternative energy sources and finding ways to deliver products in a more fuel-efficient manner.

### 5) Creating eco-friendly messaging:

Green marketing's biggest "marketing" accomplishment might be in messaging. Green marketing works to help consumers understand a product's green benefits and a company's commitment to the environment. It's also an important avenue in which to educate people about sustainability of the environment.



## Green Marketing's Benefits :

Once you've accomplished your green marketing objectives, it's time to reap the benefits of this type of strategy. Companies that engage in green marketing succeed in these areas:

### 1. Access to new markets

It's no secret that people who prefer to buy green do so almost exclusively. If you haven't had green products before, they've had no reason to shop with you. Offering green alternatives opens your product line up to eco-friendly consumers. It may also create new opportunities with federal agencies or other businesses that look for green vendors to do business with.

### 2. Competitive advantage

If you're looking for an edge against your competitors, offer the same great quality product with the added feature of environmental friendliness. Consumers who buy green products do so because of the added benefit of being eco-conscious, even if the products are priced slightly higher. Another benefit is increased profit.



## Cyber marketing:

It simply refers to a technique of attracting potential customers by advertising your products or services through such means as websites, emails and banners. E-marketing is referred to those strategies & techniques which utilize online ways to reach target customers. There are millions of internet users <sup>surf daily</sup> access different websites using a variety of tools like computers, laptops, tablet and smart or android phone devices, and the number of internet users are increasing very rapidly. So, every business seems to be jumping on the internet marketing bandwagon. The internet is the most powerful tool that can put any business on solid footing with market leaders & companies. There are many free as well as economical way on internet to promote your business. Successful companies must ask themselves some tough questions about how they will promote their business online? What their company expectations are? And what will be their plan to meet those expectations? After answering to all those questions, a company should design an effective marketing plan.

### Definition:

E-marketing also known as online or internet marketing/ advertising which uses the internet technology to promote online message to customer.  
Eg: E-mail or social media advertising, web banners &



## Brand positioning

The brand position or brand positioning is how the brand is perceived in the context of competitive alternatives. As brand consultants, when we develop brand positioning statements for clients, we include

a target customer definition, brand essence, brand promise, brand archetype and brand personality giving the intended brand position / positioning (as opposed to the actual brand position in the mind of the customer) greater depth.

The unique value proposition and brand promise are similar. They both focus on the one or two key points of difference between the brand in question and other brands. Typically, these points of difference are brand benefits, benefits that are relevant, unique, compelling and believable for the brand in question. Brands typically focus on <sup>only</sup> one or two benefits and research has shown that 4 people (cent) link more than that number of benefits to a given brand in their minds. The first or most important benefit is sometimes referred to as the primary brand benefit. The unique value proposition for Volvo is safety. As a brand promise, it could be expressed as "Only Volvo assures a safe ride to parents who care about their children's safety."

Brand essence is the heart and "soul" of the brand, its timeless quality, expressed as "adjective, adjective, noun". Some people refer to the brand essence as the brand mantra, while for others, the brand mantra is synonymous with the



brand's tagline or slogan.  
 Disney's brand essence: Fun, family, entertainment  
 Nike's " " : Authentic, athletic, performance  
 Starbucks " " : Rewarding everyday moments.

One usually talks about attributes associated with products. Generally, with brands, people focus on benefits or values. Brand benefits can be functional, emotional, ~~expertise~~ experiential or self-expressive. Through market research, one can identify the path from attributes to benefits to values to self-esteem in customers' minds. This process is called laddering. A self-expressive benefit of the Mercedes brand is that it communicates that I have status and money.

Brand associations are anything that people link or associate with the brand in their minds. For example, people associate gambling & other vices with the Las Vegas, Nevada brand.

A brand personality is the composite of different brand personality elements. We focus on 7 to 12 brand personality elements for each brand. A brand personality element is usually expressed as an adjective. The purpose of brand personality attributes is to help personify the brand to give it a distinctive "brand voice". Brand personality elements include the following: trustworthy, innovative, reliable, friendly, rugged, wholesome, etc. We explore 57+ common personality attributes with our clients.

A brand archetype is the underlying archetype that implies the driving force or motivation behind the brand. With the



who are unlikely to "shop around" or settle for something lighter on the wallet. These branded healthcare institutions are virtually run like five star hotels and charge premium prices that scarcely draw complaints. As long as quality healthcare, which is in tune with customer needs, is available, the price usually does not matter.

The hospitality and entertainment sector is also one where, if customer responsiveness is high, there will be takers, despite the high price tags. India's five star hotels are continuing to draw customers from both the domestic as well as overseas markets, despite the fact that they charge premium pricing from their clients ranging from Rs.10,000/- to 30,000/- per room per day. Special suites on special floors, well-equipped business centres, regular rooms with wonderful views, are all part of the exclusive and personalized experience that customers would happily pay for.

Once organizations become benchmarks in quality leadership or responsiveness, they don't need to get defensive about pricing. Of course, overpricing is another matter. People have to actually sense a true value for their money to allow pricing to stay on the backburner.

If that sense of value is there — whether it lies in the brand name, the quality or the service — the sky is almost the limit as far as price tags go.

Nevertheless, organizations have to walk a tight rope and maintain a steady balance between pricing, quality and customer expectations. That is the only way they can bank on pricing and quality to enhance their customer responsiveness.

(Source: *The Economic Times*, 4 November 2005)

## 2.14 IMPORTANCE OF PRICING

Price is the amount of money charged for a product or service. It is the total value that customers exchange for the benefits of having or using products or services.

Of all the elements in the marketing mix, price is the only one which generates revenue. All other elements generate only cost. Price is also the most important determinant of the profitability of any company or business. Price is also one of the most flexible elements of the marketing mix, and unlike others, can be changed quickly. Pricing decisions and price competition are a major problem faced by marketing people. It is a crucial decision area for any company. It is by manipulating the price that the company adjusts the level of cash flow and funds available for other elements of the marketing mix. Competition in the market contributes the maximum to the importance of pricing. Because of price competition, pricing becomes a highly dynamic and crucial function.

Pricing is also important because it is a highly risky decision area. Any mistake in pricing will adversely affect the company, its profits, growth and future.



## 2.15 OBJECTIVES OF PRICING

Notes

Business organizations normally have many objectives to be considered while making pricing decisions. Objectives could be long-term or short-term, and primary or secondary. These objectives always arise from the general corporate objectives or specific marketing objectives of the organization. Pricing objectives normally form a mixed bag of varied interests depending upon the organization's objectives and policies. Some common pricing objectives of organizations are given below:

1. Profit maximization in the short run, and profit optimization in the long run.
2. Assured minimum return on investment or sales turnover.
3. Ensure a specified targeted sales volume or market share.
4. Make entry into new markets or achieve deeper market penetration in existing market.
5. Maintain price leadership or price parity with competitors.
6. Launch price war to check competitors' activity or keep competitors out of the race.
7. Improving cash flow through faster sales.
8. Liquidation of accumulated inventory of products.

## 2.16 FACTORS INFLUENCING PRICING DECISIONS

Pricing decisions of a company are affected by both internal company factors and external environmental factors.

### Internal Factors

The internal factors influencing pricing decisions include the company's marketing objectives, marketing mix, costs and organizational considerations.

**Marketing Objectives:** A company has to first decide on its marketing objectives and strategy for the product before setting a price. If the company has carefully selected its target market and positioning, then its marketing mix strategy, including price, will be fairly straightforward. For example, Benz and BMW cars are positioned as super luxury cars in the high income segment, which require charging a high price.

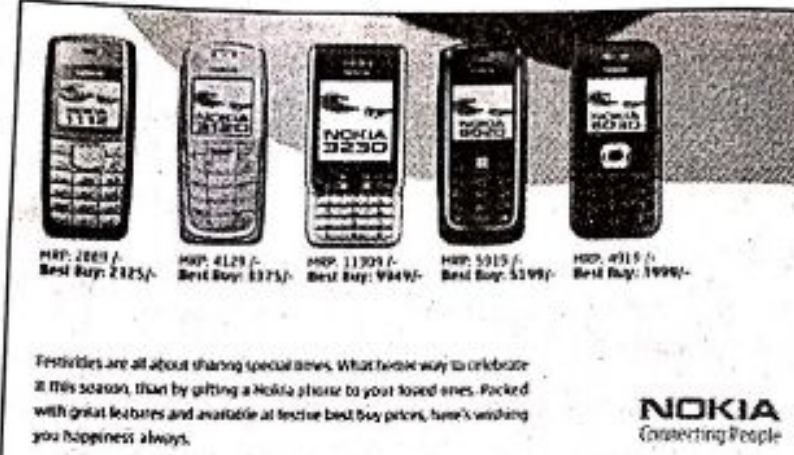
The company may seek other objectives like market leadership, current profit maximization, survival or product quality leadership, and accordingly set a low, average or high price.

**Marketing Mix Strategy:** Price decisions must be coordinated with other variables of the marketing mix like product design, promotion and distribution. So any decision made for any other variable in the marketing mix could affect or influence pricing decisions. If a large number of retailers are planned for distribution of products, larger retailer margin will have to be built into the price. Some companies resort to position their products based on price and



then adjust other marketing mix decisions to that price. This technique is called **target costing**. It starts with our ideal selling price based on customer considerations, and then targets costs that will ensure that the price is met.

Swatch watches are a good example. They gave the identified segment of watch buyers the watch they wanted — low cost, fashionable — at a price they were willing to pay, and managed the new product's costs accordingly.



Model	MRP	Best Buy
Nokia 1112	2800/-	2125/-
Nokia 3230	4129/-	3375/-
Nokia 3230	11300/-	9449/-
Nokia 5315	5315/-	5199/-
Nokia 5315	4915/-	3999/-

Festivities are all about sharing special times. What better way to celebrate in this season, than by gifting a Nokia phone to your loved ones. Packed with great features and available at festive best buy prices, here's wishing you happiness always.

**NOKIA**  
Connecting People

## Box 2.12

### Mobile Companies Make the Most Money by Reducing Prices

When it comes to sexy mobile phones, the stars of the moment are multimedia wonders such as the new RAZR V3X handset from Motorola and Nokia's top-of-the-line N-90 camera phone with CarlZeiss optics. Yet, for all the attention they grab, these pricey gizmos are a sliver of the 800 million unit per year mobile phone business. Increasingly, the real action is at the unglamorous end of the scale, among bare-bones Nokia and Motorola models priced below Rs.3,000/-. Sales of such phones, which often handle just voice and text messaging, could grow 100% annually for the next five years.

That's feeding an explosion of new mobile users worldwide, especially in developing countries. In India, the customer base of mobile companies expanded by 35% thanks in part to ultra-cheap phones.

There are now about 2 billion mobile phone users in the world and market penetration is about 50% in advanced countries. But as prices for phones and service drop, another billion customers could sign up by 2010 from places like China, India, Brazil and Russia.

The world's No.1 and No.2 makers, Nokia and Motorola, are scrambling to grab first-line buyers and build lifelong loyalty. Only Nokia and Motorola are able to churn out ultra-cheap phones with the features, quality and brand names customers want. This market segment is suitable mainly to mega-vendors with economies of scale.

Samsung, LG and Sony Ericsson have not yet announced plans to sell sub-Rs.3000 handsets, preferring to rake in rich profits at the high end. Analysts find that the cheap priced phones actually have higher margins than new high-end models. Nokia and Motorola are managing to produce handsets at very low cost, allowing gross margins of 15% to 30% at current prices. That compares with overall 33% margins across Nokia's entire handset portfolio. Big volumes of low-end phones also unleash scale economies that reduce production costs even for high-end models. Therefore, low price does pay. Bargain service boosts the impact of cheaper phones — and should help the 4 billion people on earth who have never made a phone call.



**Costs:** Costs form the base level for price decisions. Any company wants to charge a price that both covers all its costs and gives a rate of return. Therefore, costs become an important element in the pricing strategy. Lower prices are charged by some companies with lower costs, which result in larger sales volumes and profits. The company has to consider fixed, variable and total costs while making price decisions.

**Organizational Considerations:** Pricing decisions are handled differently in different companies. In small companies, top management takes the decision, whereas in large companies, the divisional or product line managers in marketing function decide pricing. In the case of business markets, salespeople often negotiate price with customers within certain ranges, and top management approves it.

## External Factors

Factors in the external environment of the company also affect pricing decisions. They include the nature of the market and demand, competition and other environmental factors.

**The Market and Demand:** The upper limit of prices depends on the market and demand. Consumer and business buyers compare the price of a product or service against benefits or utility. The price-demand relationship will vary according to the nature of the markets, i.e., pure competition, monopolistic competition, oligopolistic competition or pure monopoly. Further, consumers' perceptions of price also influence pricing decision. If customers perceive that the price is greater than the product's value, they will not buy the product. If the price is below the product's value, customers will buy it, but the marketer loses profit.

**Competition:** The activities of competitors, their costs and prices, competitors' reactions to the company's pricing, etc., will also influence pricing decisions. The company's pricing strategy will vary according to the nature of competition or nature of its marketing strategy to face competition. Some companies go for price leadership, others go for low-price, low-margin strategy to wipe out competitors from the market or keep them under check.

### Box 2.13

#### Ford Fixes Fiesta Prices

Ford Motors, with an eye on emerging as a market leader, recently announced competitive prices for its latest offering in the Indian market, Ford Fiesta, fixing the price tag for the entry-level variant at Rs. 5.59 lakhs (ex-showroom Delhi). Fiesta's retail sales will begin by mid-December and the car will be available in three petrol variants and one diesel version.

Apart from the 1.4-litre petrol engine base model, the other two petrol variants have been priced at Rs. 6.29 lakh (1.6 – LZXi) and Rs. 6.89 lakh (1.6 – LSXi). The lone diesel model, the 1.4 litre ZXi, which sports a common rail engine, has been priced at Rs. 6.99 lakh.



Notes

**Other Environmental Factors:** While making pricing decisions, the company has to consider other environmental factors. Economic conditions (boom or recession, inflation and interest rates) affect pricing due to its effect on cost of production and consumer perceptions of the product's price and value. The company should also consider the reaction or impact of its pricing on external parties in its environment like wholesalers and retailers who expect a fair margin. Governmental policies will also affect pricing decisions. The company should also consider overall societal and social concerns while deciding prices.

## 2.17 PRICING STRATEGIES

Pricing strategies or methods will depend on the pricing objective of the company. The strategy must be suitable for achieving the desired objectives. Some categories of pricing methods are given below:

1. Cost-based pricing
2. Demand-based pricing
3. Competition-oriented pricing
4. Value pricing
5. Product line pricing
6. Tender pricing
7. Affordability-based pricing
8. Differentiated pricing
9. Psychological pricing

The different methods normally used for pricing under these categories are explained below:

### 1. Cost-Based Pricing

The commonly used methods under this category are mark-up pricing or cost plus pricing, absorption cost pricing, target rate of return pricing, and marginal cost pricing. Mark-up pricing involves fixing a price for a product by adding (marking up) a margin to its cost price. The mark-ups will be different for markets and products. Absorption cost pricing or full cost pricing is based on the estimated unit cost of the product at normal level of production and sales. Variable and fixed costs of production, selling and administration costs are all added to get the total cost. By adding the required margin to the total cost, selling price is arrived at. While the mark-up in absorption cost pricing is added arbitrarily, in target rate of return pricing, a rational approach is used to arrive at the mark-up. The aim of marginal cost pricing is to maximize contribution towards fixed costs. It aims at realizing all the direct variable costs of the product, plus part of the fixed costs.

Most of the cost-based methods of pricing evolve from the break-even concept. The break-even point is the level where the total costs exactly equal the total revenues; that is, the costs and revenues break even at a particular



## Notes

Price elasticity of demand has to be reckoned in all demand-based pricing methods. Price elasticity of demand is the relative sensitivity of demand for a product to changes in its price. If an increase or decrease in the price of the product results in a significant decrease or increase in its off-take, the product is said to be price elastic. If price change does not significantly affect the sales volume, the product is price inelastic.

### 3. 'Competition-Oriented Pricing'

Scanned with CamScanner



### Budget Economy: The New Market Mantra

Indian consumers are today inundated with low-price offerings from different sectors. It is the budget economy at work. Back in the mid-90s, it was the Indian middle-class which attracted companies to invest in the country. The big corporates' dream of milking the segment got busted because consumers' disposable income didn't match demand projections.

Now, companies are rediscovering the *aam aadmi* with 'budget or low cost model' across sectors. So there are budget airlines, budget hotels, budget PCs, budget retail chains and the latest to join the rank is budget multiplexes.

Ask them what is driving business and the common answer is: "There's a huge market out there waiting to be tapped." And consumers are lapping it all up. The "budget movement" aims at increasing penetration of products and services which were hitherto out of reach of even the urban consuming class, let alone the small cities. Take, for instance, appliances where Voltas created a flutter by launching small air-conditioners for less than Rs. 10,000. Until then, ACs were meant for the rich brigade. Other brands like Electrolux followed with drop-down rates for split ACs.

Take the PC market. Xenitis introduced budget PCs below Rs. 10,000. The idea was to get the untapped segment. Marketers felt that PCs should not be seen as a product for the upper middle class only. It should be sold even to people travelling by local trains or buses. Today, Xenitis sales have jumped tenfold. Others including the largest domestic PC maker HCL are also in the budget PC game.

McDonalds' drive to catch consumers with its Rs. 20-price offering for burgers and Pizza Hut's pan pizza for Rs. 50 are also part of the bigger picture.

In the telecom sector what started with Reliance going for the mass end with its low price service offering has been taken forward by others. So now other big names like Airtel and Hutch are trying to catch the common man (e.g., zero rental scheme).

The latest to join the bandwagon is the multiplex business. With ticket prices ranging between Rs. 50 and Rs. 70, the idea is to keep the average spend of a family of four to around Rs. 250.

Low-cost airlines like Air Deccan have already done this before with the much-touted "Udupi-on-air" model. "Budget airlines are here to stay, competing more with railways than with full-service airlines," says Capt. Gopinath, CEO of Air Deccan.

(Source: The Economic Times, 25 September 2005)

## 4. Value Pricing

Value pricing is based on the assumption that the objective of pricing is not to recover costs, but to realise the value of the product perceived by the customers. The merit of this method is the belief that the customer is interested not in the cost of the product but only in the value. When marketers deliver value in excess of costs, their profits will be ensured along with customer loyalty.

## 5. Product Line Pricing

In the case of companies that market different product lines, they need not fix optimal price for each product, independent of other products in the line. Prices of different products can be fixed in such a way that the product



line as a whole is priced optimally which will result in optimal sales of all products put together and optimum total profits from the line. This method is also known as the product line promotion method of pricing.

Notes

## 6. Tender Pricing

On many occasions, business organizations are required to go for price fixation on the basis of tenders. This option is more applicable to business markets where institutional customers normally call for competitive bidding through sealed tenders or quotations. These buyers look for the best possible (lowest) price consistent with the minimum assured quality specifications. The difficulty here is of fixing a price that takes care of all costs and profits and is low enough to get the business.



Example of discount pricing

## 7. Affordability-Based Pricing

In the context of products which form essential commodities group which meet the basic needs of all segments of consumers, affordability-based pricing method is useful. The pricing is done in such a way that all segments of the total market can afford to buy and consume the products as per their need. Here, price is set independent of the costs involved and in some cases governmental price subsidy element is involved. Such items are also distributed through public distribution system. This method is also known as social welfare pricing.



## Box 2.15

**PC Attraction Grows on Falling Prices**

Personal computer (PC) manufacturers are now offering the product at attractive prices. Now, neither do you have to wait for months to buy a PC, nor do you need to give it a second thought. With prices below Rs.10,000, certain PCs are now low-hanging fruit. Even at affordable prices, these PCs offer a range of features that makes them comparable to the higher-priced versions. Households, vendors and self-employed professionals would stand to benefit significantly from this new kind of PCs.

Till now, most households had one PC each. Now, what better way to encourage children than to gift them PCs. The PC would not only assist them in studies and increase their general knowledge, but also enhance their overall personality development. Vendors would find it convenient to manage their sales data and subsequent planning on PCs, with hardly any capital investment. Ease of business and simplified communication with business partners would come at a low cost for self-employed professionals.

HCL Info-systems and Xenitis are two of the companies that offer PCs below Rs.10,000. They both have Linux based operating systems. The HCL Ezeebee Pride has two models, one priced at Rs. 9,990 and the second, priced at Rs. 10,990. The Xenitis PC is priced at Rs. 9,790. All have Intel based processors with medium level configuration. The features are enough to perform normal necessary tasks.

With quality products available at low prices, the PC market is already experiencing a boom time with high growth prospects.

(Source: The Economic Times, 20 September 2005)

**8. Differentiated Pricing**

In this method, different prices are charged for the same product by the company, in different market segments or zones. Price differentiation is also made occasionally, based on customer class rather than geographic marketing territory. Another variation which is commonly used is where differentiated pricing is done on the basis of purchase volume. Price is less for bulk quantity buyers and higher for small volume buyers.

**FESTIVE HUNGAMA**  
**UP TO 70% OFF**

3 Shirts for <b>Rs. 599</b>	1 Perry Louis Shirt + 1 Flemingo Wrinkle free trouser <b>Rs. 999</b>
T-Shirt and Flemingo jeans <b>Rs. 699</b>	<b>10</b>

Perry Louis, FLEMINGO, SF



## **9. Psychological Pricing**

**Notes**

Consumer buying decisions are influenced mostly by psychological factors. Many marketers take this into account and try to avoid the psychological barrier in respect to price with psychological pricing. Instead of fixing the price at Rs.300 or Rs.500, they peg it at Rs.295 or Rs.499. Bata Shoe Company is the best example for this pricing method. It is also followed by many marketers of consumer durables like TV, PC, washing machine, etc.



Rebates and discounts offered to trade (wholesalers and retailers) or customers (end users) also form part of the terms of sale. Terms of sale and discounts have to be considered by companies while taking price decisions.

## 2.20 SPECIAL PRICING STRATEGIES

Marketers occasionally resort to certain special pricing strategies for products under certain circumstances. Some such strategies are explained below.

### New Product Pricing

Marketers have two strategic pricing alternatives for new products. They are:

- Skimming pricing
- Penetration pricing

### Skimming Pricing Strategy

In skimming pricing, the objective is to skim the market and take the cream, by pricing the new product high and concentrating on market segments which are not price sensitive. This strategy will bring in high profits which could be ploughed back for further market development and promotion. There are two ways of skimming — rapid skimming and slow skimming. Later, the company could reduce the price while going in for mass markets which are more price sensitive. Skimming pricing cannot be used if the product cannot command the patronage of an affluent, non-price-sensitive market segment. Example: Shahnaz Hussain's herbal beauty products.

### Penetration Pricing Strategy

If the new product is likely to be highly price sensitive and if there is no affluent market for it, penetration pricing is resorted to. Here, the objective is to penetrate a large market using low prices. The large volume of sales generated will bring in economies in unit cost of production and marketing cost. This strategy is helpful to establish the new product in the market. This strategy is also practised in two ways — rapid penetration and slow penetration.

Example: *The Times of India* newspaper was introduced in Bangalore market at the low price of 'One Rupee' and succeeded in gaining a foothold in the market. The same paper was being sold at the regular price of Rs. 3 in all other cities in India. The other standard newspapers like *The Hindu*, *The Indian Express* and *Deccan Herald* were being sold in Bangalore at Rs. 3 at that time.

### Price Discrimination

This strategy is usually called monopoly price discrimination. Monopoly power must be present in a market for price discrimination to exist. With monopoly power, the opportunity may exist for the firm to offer different terms (of which



price is only one component) to different buyers, thus going for market segmentation.

Price discrimination refers to the situation where a monopoly firm charges different prices for the same product. The firm discriminates between different buyers by charging them different prices. The buyers of its product have no choice but to buy from it as the product has no close substitutes.

There are three types of price discrimination — first degree, second degree and third degree.

(a) **First degree price discrimination** refers to a situation where the monopolist charges a different price for different units of output according to the consumer's willingness to pay. For example, a doctor who is the only super-specialist in the town may charge different fee for conducting surgery, from different patients based on their ability to pay.

(b) **Second degree price discrimination** refers to a situation where the monopolist charges different prices for different sets of units of the same product. For example, the electricity charges per unit of the first 10 kwts of power consumption may be different from the rate charged for the additional 100 kwts. In the case of railway passenger fares, the per kilometer fare is higher for the first few kilometers, which declines as the distance increases. Here the discrimination is based on volume of purchases.

(c) **Third degree price discrimination.** Here the monopolist firm segments the market for its product into two or more markets and charges different price in each market. For example, airlines ticket rates are different for economy class and business class. Similarly, electricity rates applicable to residential users are lower than those applied for commercial use.

## Price Bundling

Bundling is the practice of selling two or more separate products together for a single price, i.e., bundling takes place when goods or services which could be sold separately are sold as a package. Example:- "Buy one, get the second at half price" offers. A camera is sold in a box with a free film. A hotel room often comes with accompanying breakfast. Bundling is done in three ways:

(i) **Pure bundling** involves selling two products only as a package and not separately. For example, Reliance WLL cellphone handset and connection are only available together and not available separately. Microsoft's bundle of Windows and Internet Explorer could be considered a pure bundle.

(ii) **Mixed bundling** involves selling products separately as well as a bundle. McDonald's Value Meals and Microsoft Office are examples. Recently *The Times of India* and *The Economic Times* could be purchased together for week days for a price much less than if purchased separately. In most cases mixed bundling provides price saving for consumers.



### ***Marketing Management and Principles***

(iii) **Tying** involves purchase of the main product (tying product) along with purchase of another product (tied product) which is generally an additional or complementary product. When you buy a Mach 3 razor, you must buy the tied product, i.e., the cartridge that fits into the Mach 3 razor.

### **Captive-Product Pricing or 'Razor and Bait' Marketing**

Some companies offer a basic product at a low price without much built-in margin or profit. But the spares or consumables will be priced very high with high built-in margin and profit. For example, computer printer is priced cheap and cartridges are very costly. Gillette sells low-priced razors but makes money on the replacement cartridges. The customer is forced to buy the cartridge at the high price as there is no other alternative. This method is sarcastically called 'Razor and Bait' marketing. The cheap base product is the bait to catch the customer. Once caught, the marketer uses the razor to cut into the wallet of the customer.



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## 3.2 INTRODUCTION

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Men, women and children all over the world are today influenced to some degree by advertising and other forms of promotion. Organizations in both private and public sectors have learned that the ability to communicate effectively and efficiently with their target audiences is critical for their success in any business. Advertising and other types of promotional messages are used to sell products and services as well as to promote social causes (e.g.: HIV/AIDS prevention), market political candidates, and deal with societal



problems like alcohol and drug abuse. Consumers are finding it increasingly difficult to avoid the efforts of marketers, who are constantly searching for new ways to communicate with them like the latest use of the Internet and mobile phones. Stealth messages and product visuals are even embedded into movies (like the Tissot watch worn by Angelina Jolie) and popular TV programmes.

Notes



Pepsi brand ambassadors and film stars Kareena Kapoor and Priyanka Chopra at the launch of Café Chino in Mumbai on Thursday. — Shashi Ashwari

## Pepsi Café Chino launched

Our Bureau  
New Delhi, Jan 19

PEPSICO India has launched a new variant of Pepsi — Pepsi Café Chino. The drink, described as a "refreshing latte shot" as added coffee flavour to its taste.

In an attempt to aggressively promote the drink, the company has roped in Bollywood

actors, Kareena Kapoor and Priyanka Chopra as its brand ambassadors. The drink is available in 200 and 300 ml glass bottles, 600 ml PET bottles and also in the 250-ml non-returnable glass bottles.

The new variant will be available for a limited period of two months and will hit the stores on January 25, a company release stated.

"We are extremely excited about the launch of Pepsi Café Chino, and very positive about its potential," Mr. Virel Prakash, Executive Vice President (Marketing), Pepsi Foods Pvt Ltd, said.

With Pepsi Café Chino, we feel we have uniquely mapped a beverage offering to young people's evolving needs and lifestyles, he added.

Pepsi promotes a new product

### 3.3 COMPONENTS OF PROMOTION MIX

The promotion mix consists of "the specific blend of advertising, sales promotion, public relations, personal selling, and direct marketing tools that a company uses to pursue its advertising and marketing objectives." (Philip Kotler).<sup>1</sup>

Promotion mix is also called the marketing communications mix. Communication is an important function in marketing, and constitutes one of the 4Ps of the marketing mix, i.e., Promotion, the other three being Product, Price and Place. It carries out the task of informing the target customers about the nature and type of products and services available, their unique features



**Notes**

and benefits, uses, prices and places they are available in. Marketing communications are persuasive in nature, aimed at influencing the consumer behaviour in favour of a company's product offerings. The marketing success of any product, whether it is toothpaste, TV, or car, depends, to a large extent, on appropriate use of the promotion mix by the companies.

The components of promotion mix are the following:

1. Advertising
2. Sales Promotion
3. Public Relations
4. Personal Selling
5. Direct Marketing
6. Publicity

### **1. Advertising**

Advertising includes any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. It includes the use of such media as newspapers, magazines, outdoor posters, banners, hoardings, direct mail, radio, TV, the Internet, etc.

### **2. Sales Promotion**

Short-term incentives to promote sales like displays, samples, exhibitions, demonstrations, coupons, contests, etc., constitute sales promotion.

### **3. Public Relations**

Public relations include building good relations with the public by obtaining favourable publicity, building a good corporate image, and handling or avoiding unfavourable publicity, rumours and events.

### **4. Personal Selling**

Personal selling includes direct personal presentation by company sales force for sales and building customer relationships.

### **5. Direct Marketing**

Direct marketing involves direct communication with selected target customers on a one-to-one basis to obtain an immediate response and cultivate lasting customer relationships, using telephone, direct mail, fax, the Internet, etc.

### **6. Publicity**

Publicity includes non-personal promotion of demand for products by obtaining publicity through news in media like TV, radio, newspapers, and magazines. Unlike advertising, this form of promotion is not paid for by the sponsor.



## Box 3.1

**Film-Makers and Marketers Team Up to Make Commercial Hits**

The camera focuses on the watch on a slender wrist, but barely enough for you to read 'Tisso' and figure out the last letter (t) from memory of the manufacturer. The company spent millions of dollars on getting just the right exposure for their new range of watches in Mr. & Mrs. Smith, albeit for a fleeting moment.



The importance of product placement and merchandising in a stealthy manner has become popular

nowadays. It has come to be known as entertainment licensing, where moviemakers and marketers team up. The Indian film industry is also catching up on this concept of film merchandising.

The purple sari that Madhuri Dixit wore in *Hum Aapke Hain Kaun* reportedly sold in excess of a million pieces in the grey market. Amitabh Bachchan uses Nerolac paint to paint his house in the film *Viruddh*.

James Bond's *Die Another Day* shows off 40 products (including the Aston Martin sports car), a record of product placement and embedded promotion in a feature film. The film maker (MGM/United Artists) was paid a whopping \$70 million by the British automaker, owned by Ford Motor Co., to have the car featured in the movie.

(Source: *The Hindu*, 5 January 2006)

**AIDA Model for Promotion Mix**

While framing the communication mix for products, the marketer should consider the AIDA model, consisting of Attention, Interest, Desire, and Action. The marketer should start by winning the attention of prospective buyers, then create interest in the product, inspire desire to buy and make the buyer act favourably to purchase.

**Hierarchy-of-Effects Model for Promotion Mix**

Under the Hierarchy-of-Effects Model, the buyer's purchase decision is preceded by steps such as conviction about the product's benefits, preference for the brand, liking for the brand, and knowledge relating to the benefits and features of the product, after an awareness of the product has been gained. These steps are also known as buyer-readiness stages. The basic implications of these two models of consumer responses are that the function of persuasive communication or promotion should be handled deftly at every stage of the buyer's adoption process.



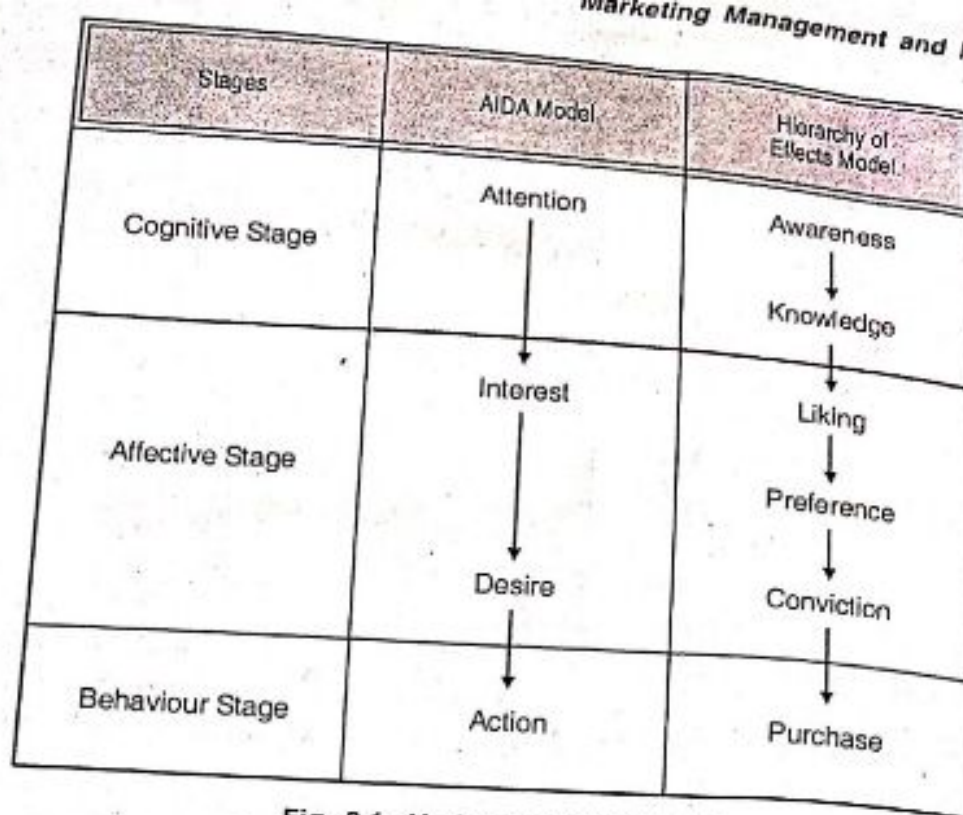


Fig. 3.1: Models of Consumer Responses

(Source: E.K. Strong, *The Psychology of Selling*, McGraw-Hill, N.Y.)

### ✓ 3.4 INTEGRATED MARKETING COMMUNICATIONS (IMC)

Often, advertising messages from different media and different promotional approaches all become part of a single message about the company. Conflicting messages from these different sources can lead to confusion in the customer's mind about the company's image and brand positions. To avoid this situation, companies are now adopting the concept of integrated marketing communications (IMC). "The Integrated Marketing Communications is a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines – advertising, direct marketing, personal selling, sales promotion and public relations – and combines these to provide clarity, consistency and maximum communication impact."<sup>2</sup> Under this concept, the company carefully integrates and co-ordinates its many communication channels to deliver a clear, consistent, and compelling message about the organization and its products. IMC helps to build a very strong brand identity in the market.

The IMC involves the process of using all forms of promotional tools to achieve maximum communication impact. It has to cover all sources of brand or company contact that a customer or prospective buyer has with a product or service. It requires the firms to develop a total marketing communications strategy that recognizes how all of a firm's marketing activities, not just promotion, communicate with its customers. IMC calls for a centralized messaging function so that everything a company says and does communicates a common theme and positioning.



The adoption of IMC reflects as adaptation by marketers to a dynamic, changing environment, particularly with respect to consumers, technology and media. Marketers are facing decline in audience size for many media, and also the problem of consumers being less responsive to traditional advertising. This is prompting the marketers to look for alternative ways to reach the target audiences (like embedded promotions in films and TV shows). One other major reason for the growing importance of IMC over the past decade is that it plays a major role in the process of developing and sustaining brand identity and equity.

### 3.5 THE IMC PROCESS

The Integrated Marketing Communication process involves participants who can be divided into five major groups:

1. The advertiser or client
2. Advertising agency
3. Media organizations
4. Marketing communications specialist
5. Collateral services

Each of these groups has specific roles in the promotional process.

#### 1. The Advertiser or Client

They are the key participants in the process. The client has the products, services or causes to be marketed and promoted, and also provides the funds that pay for advertising and promotions. The advertiser develops the marketing programme and makes the final decision regarding the advertising and promotional programme to be employed. The company may perform most of these efforts itself, either through its own advertising department or by setting up an in-house agency.

#### 2. Advertising Agency

Most organizations use an advertising agency, an outside firm that specializes in the creation, production and placement of the communications message and that may provide other services to facilitate the marketing and promotions process. Many large advertisers retain the services of a number of agencies, particularly when they market a number of products. Proctor & Gamble, for example, uses the services of 12 ad agencies and two major media buying services companies.

Advertising agencies are of different types like Full-Services Agencies and Creative Boutiques. Some leading agencies in India are Lowe-Lintas, Leo Burnett, Ogilvy & Mather (O&M), McCann-Erikson, Thomson Associates, ULKA, Mudra, Saatchi & Saatchi, etc.



### 3. Media Organizations

They are another major participant in the IMC process. Newspapers and TV channels provide an environment for a company's marketing communications message. They should have editorial or programme content that attracts consumers so that advertisers and their agencies will want to buy time or space with them. Star and Zee TV network sell themselves to companies as an effective media.

### 4. Specialised Services

These specialists include direct marketing agencies, sales promotion agencies, interactive agencies (the Internet, kiosks) and public relations firms. A direct response agency develops and implements direct marketing programmes, while sales promotion agencies develop promotional programmes such as contests and sweep stakes, premium offers, or sampling programmes. Interactive agencies are being retained to develop websites for the Internet and help marketers as they move deeper into the realm of interactive media. Public relations firms are used to generate and manage publicity for a company and its products and services as well as to focus on its relationships and communications with its relevant publics.

### 5. Collateral Services

They provide a wide range of support functions used by advertisers, agencies, media organizations, and specialized marketing communications firms. These individuals and companies perform all the specialized functions that the other participants use in planning and executing advertising and other promotional functions.

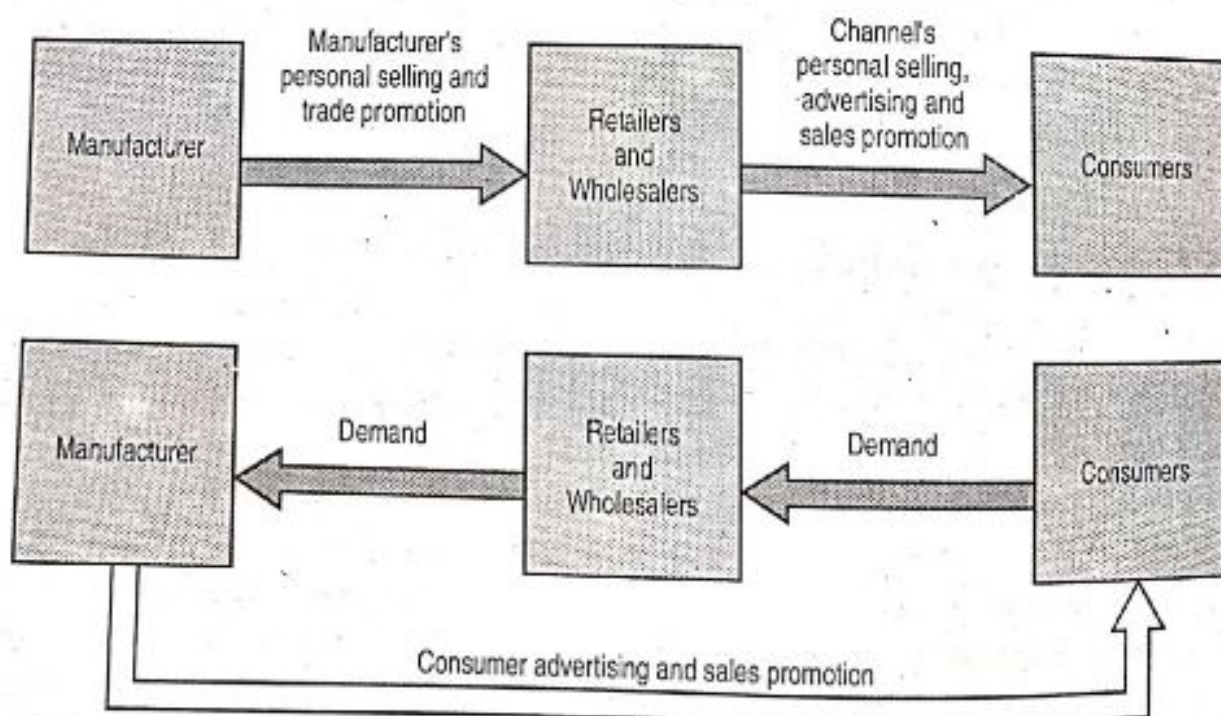


Fig. 3.2: Push vs. Pull Promotion Strategy



### 3.6 PROMOTION MIX STRATEGIES – PUSH AND PULL

Notes

Marketing people have the option to choose from two different promotion mix strategies — Push Promotion and Pull Promotion. As shown in Fig. 3.2, the relative emphasis on the specific promotion tools differs for push and pull strategies. A push strategy (product push) involves pushing the product through distribution channels (wholesalers and retailers) to final consumers. The manufacturer directs all marketing activities, especially personal selling and trade promotion toward channel members to induce them to carry the product in large quantities and to promote it to the final consumers. The product is pushed through the channel towards customers. Using a pull strategy (demand pull), the manufacturer directs all marketing activities, especially advertising and consumer promotion, toward the final consumers to induce them to buy the product. If the pull strategy is implemented properly, consumers will demand the product from channel members, who will in turn demand it from the manufacturers. Thus, under a pull strategy, consumer's demand pulls the product through the channels. Top marketing companies like Coca-Cola, Pepsi, Nike and Intel skilfully employ both push and pull strategies.

### 3.7 FACTORS DETERMINING PROMOTION MIX

Five major factors are considered by companies while determining the promotion mix strategy. They are:

1. Type of product
2. Nature of market
3. Stage of product in its life cycle
4. Budget availability
5. Company policy

#### 1. Type of Product

The promotion task depends on the type of product marketed. Low-priced, frequently purchased consumer goods like toilet soap, toothpastes, soft drinks, etc., will need frequent repeat messages to influence and remind the existing consumers about the brand and to persuade new consumers to buy. Advertising is used for such products on a mass scale at a high frequency. The promotion mix will consist of press ads, magazine ads, TV spots, cinema slides, incentive offers, contests, etc.

For an industrial product of high value and high technology which is purchased infrequently, personal selling, product demo, exhibition, and sales presentations become the necessary promotion mix.

#### 2. Nature of Market

The intensity of competition in the market, locational characteristics of the consumers, and the requirements of channel members also influence the





promotion mix decision. If the target audience is large and widely spread out in different parts of the country, advertising and sales promotion will be effective and economical. E.g.: Consumer goods.

### 3. Stage in the Product Life Cycle

Based on the stage at which the product is in the PLC, the promotion mix has to change. When the product is in the introduction and early growth stages, the tasks involved are awareness creation and motivating product trials. The best promotion mix will consist of publicity, spreading information, advertising, consumer sales promotions and trade promotions. Later, as the product reaches the maturity stage, the objectives of maintaining brand loyalty and creating brand preferences become more important. Aggressive brand advertising and dealer promotions become important components of the promotion mix at that stage.

### 4. Budget Availability

Using each promotion tool adds to the cost. Hence, the budget availability with a company has to be considered while deciding the promotion mix. Companies with limited resources will have to go for localized activities like dealer display, wall paintings, and personal selling. Companies with larger resources can go for large scale and more sophisticated promotion tools.

### 5. Company Policy

All the above-mentioned considerations should fit in with the overall marketing and promotion policy of the company, while deciding the promotion mix. The conviction of the top management in the role of promotion, the product market strategy, and the type of corporate image it wants to project are factors influencing the decision.

#### Box 3.2

#### Forehead for Rent !

Snore Stop, an anti-snoring medicine was recently promoted by an agency in the U.S. in an innovative, outlandish way, using "human bill boards". The brand decided to take a chance on a 20-year old guy, Andrew Fisher from Nebraska, who put up his forehead for offer one-Bay as advertising space. He said that he needed the money for college tuition. The company took advantage of this radical advertising campaign and became a part of history. The brand paid Fisher \$57,000 for the deal. In the first five months following the promotion, it recorded a 50 per cent increase in sales, and a staggering return on investment of over 100%. All from one student with a branded forehead? Certainly not. They got half-a-million dollars worth of free publicity.





### **Eureka Forbes – Successful Direct Sales**

Eureka Forbes Ltd. is a good example of a company which has successfully operated the direct selling technique for its vacuum cleaners (Euroclean) and water purifiers (Aquaguard). The sales are done by personal selling, and salesmen go from house to house to promote the products and sell them. They do not have any intermediaries like those for other durables.

Two elements in Eureka Forbes' sales force management have particularly contributed to its success in direct selling — salesforce compensation, and salesforce training and development. They have a salary-cum-commission system of compensation. In addition, salesmen get vehicle and house rent allowances.

The Company ensures that its sales team stays highly motivated. Achievers are rewarded with a mention in the company's records. A brass plaque displays their names at the entrance of the main office. Such rewards and recognitions help to build the morale of salesmen and win their commitment.

### **3.19 DIRECT MARKETING**

Direct marketing is defined as "direct communications with carefully targeted individual consumers to obtain an immediate response and cultivate lasting customer relationships." (Philip Kotler).<sup>5</sup> Moving away from mass marketing, many companies are now-a-days adopting direct marketing. They communicate directly with customers, often on a one-to-one, interactive basis. Using detailed databases, they provide custom-made marketing offers and communications to the needs of narrowly defined segments or even individual customers. Beyond brand and image building, these companies aim at getting a quick, direct and measurable customer response. Examples are Dell Computers, Mattel-Barbie Dolls, Levi Strauss Jeans, etc., where buyers can order directly online giving their own specifications and requirements. The products are then delivered to the customer's offices or homes promptly. Because of its advantages to buyers and sellers, direct marketing has become the fastest-growing form of marketing in the present day. Along with the traditional direct marketing channels like tele-marketing, direct mail (or mail order), catalogue sales, etc., now the online marketing has brought rapid growth in this form of sales.

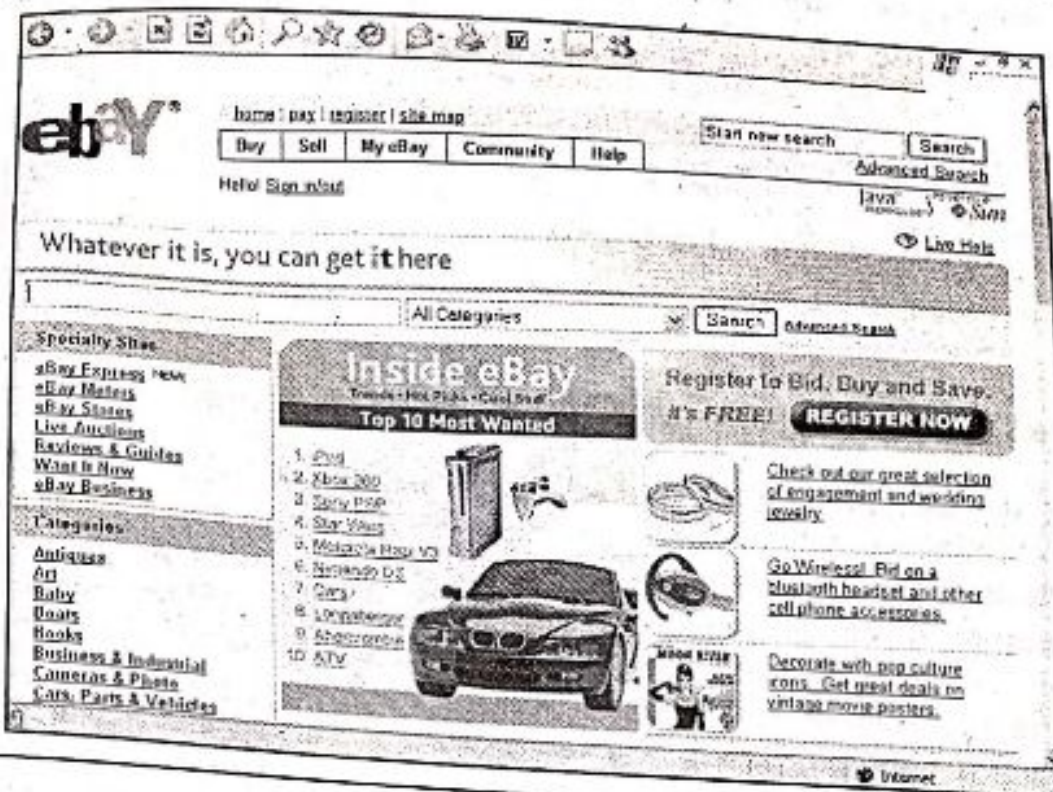
Direct marketing requires a sound customer database — an organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic and behavioural data. Such database is used to locate good potential customers, tailor products and services to the special needs of target buyers, and maintain long-term customer relationships.

Direct marketing has different forms like personal selling, tele-marketing, direct mail, catalogue sales, direct response TV marketing, kiosk marketing and online marketing. Tele-marketing uses the telephone to sell directly to customers. Direct mail consists of the company sending an offer through mail to buyers at their address. Catalogues are sent through mail to buyers in catalogue marketing. TV is used as medium in direct response TV marketing. Kiosks are information and ordering machines placed in stores, airports, etc.



Online marketing is done through the Internet and is also called e-commerce.

Notes



### Box 3.12

#### Direct Selling Models

Direct selling involves the sale of a product or service through personal contacts away from a fixed retail location or shop.

**Pyramid selling:** A scheme wherein a recruit pays an entry fee for an opportunity to receive future benefits that are primarily derived from that recruit's or subsequent recruit's introduction of additional participants into the scheme, rather than from sales. It is also known as chain letter schemes, referral sales schemes, chain selling, etc. In a pyramid mode, no viable sales take place. The scheme essentially involves an internal redistribution of wealth from new entrants to promoters. It is a fraud to enrich the promoters.

**Multi-Level Marketing (MLM):** Also known as network marketing, relationship marketing and multi-level direct selling, MLM is building a business through a seller's own sales efforts and by inviting others to become sellers. The remuneration is based on a seller's personal efforts and on the combined sales of those the seller has sponsored, trained and motivated. Most genuine direct selling companies follow this model.

**Single-Level Marketing (SLM):** The model under which an agent earns commission directly from the sales he or she does. Avon Beauty Products follows this model in the country.

**Party Plan:** Here, an agent has an equal opportunity to earn regardless of the time of joining the scheme. Tupperware and AMC Cookware follow this. The major difference here is that generally these products are sold amongst an invited group of guests or party plan, which is used as an opportunity to make future sales leads.

(Source: Pitch, June 2005)



✓ Salesforce management is defined as the analysis, planning, implementation, and control of salesforce activities. The major steps in salesforce management are as below:

1. Designing salesforce strategy and structure
2. Recruiting and selecting salespersons
3. Training salespersons
4. Compensating salespersons
5. Supervising salespersons
6. Evaluating salespersons

### **1. Designing Salesforce Strategy and Structure**

In designing the structure of salesforce, a company has different options like territorial sales force structure, product salesforce structure, customer salesforce structure, or a mix of the three. In the territorial structure, each salesperson is allotted a geographical territory for sales. Salespersons are designated as sales representatives, regional sales managers, zonal managers, and so on. Where more products are involved product salesforce structure is adopted. The salespersons are made responsible for different product lines. In customer salesforce structure, salespersons are set up for different industries or customer groups. In complex structure, a combination of different structures is used. Each company selects the best-suited structure that fits its marketing strategy.

Salesforce size is important because it is both productive and expensive. The size is decided based on the workload approach. The company has to decide the strength of the inside sales force who operate from the office, and outside or field salesforce who operate in the territory. For complex and large customers, team selling is used, where a team of salespersons operates together.

### **2. Recruiting and Selecting Salespersons**

The next step is recruitment and selection of good salespersons. Careful selection will help to increase salesforce productivity. The traits to look for in selection are enthusiasm, commitment, persistence, initiative, and self-confidence. Salespersons should be internally motivated, disciplined, honest and hardworking. Recruitment is done through advertising in newspapers, employment exchanges, campus recruitment, etc. The selection procedure should include sales aptitude tests, analytical skills, personality traits, experience, references, etc.

### **3. Training Salespersons**

The newly appointed salespersons are to be given induction for varying periods, from a few months to a year. Training will also continue in the form of refresher courses, seminars, conferences, sales meetings, etc. Training will include imparting knowledge about the company, its products, production



process, market situation, competition, pricing, buyer's habits, presentation skills, interpersonal skills, time management, reporting, etc.

#### 4. Compensating Salespersons

In order to keep the salesforce active, enthusiastic and motivated, a good compensation plan is necessary. Compensation covers normally a fixed salary, variable commission, travel expenses, fringe benefits, reward schemes, etc. The best mix of these will keep the salesforce satisfied and active to deliver the goods. Any shortfall in compensation package will lead to dissatisfaction and turnover.

#### 5. Supervising Salespersons

Supervision involves direction, control, guidance and motivation of the salesforce, to help them perform well on the job. The annual call plans, time and duty analysis, sales quotas and sales meetings are used to monitor and supervise the sales force. Regular financial and non-financial motivations are also to be provided to the salesforce to make them perform well.

#### 6. Evaluating Salespersons

Evaluation of the performance of salesforce is done through sales reports, call reports, expense reports, personal observation, customer surveys, and sales meetings. Target vs. Achievement is a quantifiable means of evaluating salespersons. Based on the evaluation, constructive feedback is given to salespersons to motivate them to improve their performance.

#### Preview Case

##### Non-Competing Brands: Use Your Distribution

We can call it the rebirth of an old trend. Marketers across the product categories are once again discovering the benefits of leveraging their distribution system to sell brands for a non-competing marketer. Heinz India recently tied up with Sri Lanka-based MJF Teas to distribute the latter's Dilmah brand of tea across the country. Godrej & Boyce will



be hawking HMT watches very soon. ITC's e-choupal is selling TVS motor cycles, ICICI's life and general insurance products, fast moving consumer goods from Colgate Palmolive, Marico, Duncans, etc., all through its 5400 strong low-cost rural trade platform across 31,000 villages.

Fiat cars in India will soon be available across all Tata Motors showrooms. "It's an efficiency measure. For the marketer lending its distribution system is an efficient way of recovering its investment on distribution. For the marketer riding on someone's sales network is an efficient way of reaching the consumer," said



Mr. Suzuki, while addressing the Japanese dealers and asking them to "see the best practices of Maruti and Maruti dealers in India", lauded the company's performance in the Indian market where it had sold over 50 lakh cars since it started sales in 1983.

(Source: The Hindu Business Line, 20 January 2006)

### 3.24 CHANNEL LEVELS

A channel level is a distinctive layer or tier of marketing intermediary which functions as a channel member, doing fully or partly the work of bringing products and their ownership closer to the customers. The number of intermediary levels indicates the 'length' of a channel. The channel level is short if there is only one intermediary and long if there are more levels. Some alternative channel types used by various companies are given below.

#### Alternative Channel Levels

A zero level channel consists of the manufacturer selling directly to the consumers. It is also known as direct marketing channel. Three main means of direct marketing are door-to-door, mail order and manufacturer's own stores. Example: Eureka Forbes sells Aqua Guard water purifier on a door-to-door basis. Bata shoes, Raymond suiting, and Titan watches are available through the manufacturers' showrooms.

A one level channel consists of one selling intermediary, i.e., the retailer in consumer markets. E.g.: Modern Bread sold through provision stores.

A two-level channel consists of two members, i.e., the wholesaler as well as the retailer in consumer markets. E.g.: HLL, P&G soaps, detergents, etc.

A three-level channel will contain three intermediaries, i.e., wholesaler, jobber and retailer. E.g.: Philips appliances — C&F Agents, distributors, retailers. These three channel types are also known as indirect marketing channels.

### 3.25 TYPES OF INTERMEDIARIES AND NUMBER

A company should evaluate the various types of intermediaries available to carry out its channel work, and decide on the best. The company can expand direct sales force, or find industrial distributors.

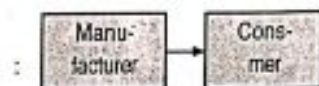
Companies have to decide on the number of middlemen to use at each channel level. Three strategies are available to them. They are:

1. Intensive distribution — stocking the products in as many outlets as possible. Producers of convenience products use this strategy. E.g.: Toothpaste, soaps, cigarettes, Coke, Pepsi.
2. Exclusive distribution — only limited number of dealers granted exclusive rights of distribution in a territory. E.g.: Hyundai, Maruti cars.



**A. Consumer Products**

1. Direct marketing channel or zero level channel

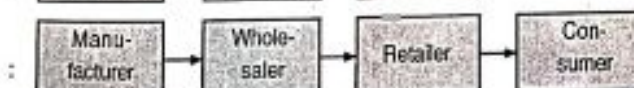


2. Indirect marketing channels

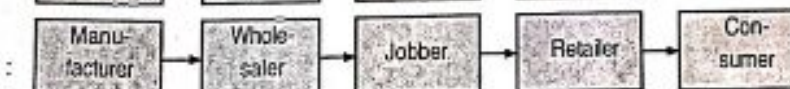
- (a) One level channel



- (b) Two-level channel



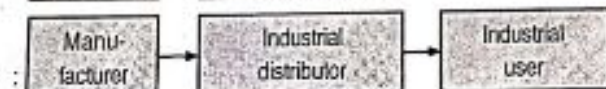
- (c) Three level channel

**B. Industrial Products**

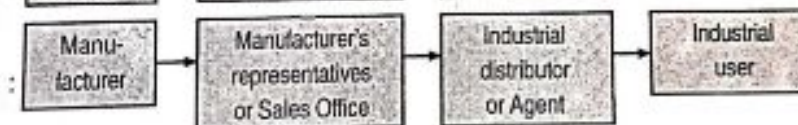
1. Direct marketing channel



2. One level channel



3. Two-level channel





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### 3.27 CHANNEL DESIGN

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After a company has chosen a channel alternative, individual middlemen must be selected, trained, motivated and evaluated.

While selecting the channel members, the company should consider the member's experience in business, other product lines carried, growth and profit record, financial strength, and business reputation. Next, the company must plan and organise adequate training programmes for the channel members. Channel motivation is done to improve their performance and behaviour using 'channel power' (coercive, reward, referent, etc.). The company has to evaluate the channel members' performance against predetermined standards.

Channel modification must be performed periodically because of the continuously changing marketing environment. The company has to evaluate adding or dropping individual channels and possibly modifying the whole channel.



# SERVICE MARKETING

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objectives of this unit are to enable you:

- The Meaning and Scope of Services Marketing
- The importance of Quality
- How to manage quality in Services Marketing
- Dimension of Services Marketing

ure:

1. Preview Case
2. Importance of Services Marketing
3. Reasons for the Growth of the Service Sector
- 4.4 Distinctive Characteristics of Services
- 4.5 Marketing Mix in Services Marketing
- 4.6 Additional Dimensions
- 4.7 Service Quality
- 4.8 Case Study — Golden Chariots
- 4.9 Summary
- 4.10 Self Assessment Questions

## 1 PREVIEW CASE

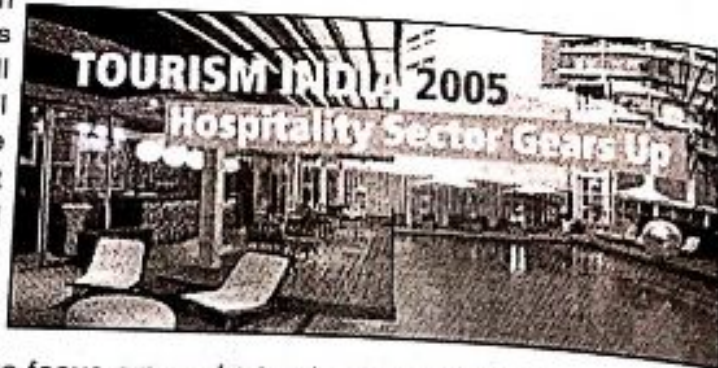
### Hospitality Sector Gears Up

Marketing of services is gaining importance day by day. As the Indian economy booms, corporate travel is on the rise and India's attraction as a tourism destination is flourishing. Simultaneously, the hospitality industry, which is a major player in the services sector, is innovating with renewed vigour, embracing change and moving up the value chain.

In 2004, tourist inflows increased by 23.5 per cent at 2.73 million in India. The promotion of India as a 'pilgrimage' destination and its diverse, multi-cultural history are major reasons for the tourism boom.



As the tourism sector is growing, hotels have mushroomed all over the country, in small towns as well as the metros. The current dominant trend followed by the hotel industry today is to provide traditional classic



services to guests and to focus on product enhancement in terms of services rendered.

Value-added services such as spacious rooms, enhanced connectivity through wi-fi portals and international telephone access, speedy service and luxury services such as the availability of spas, fitness centres, ayurvedic massage therapy and personalized service are pre-requisites for a luxury hotel.

The internal handling of the hotel is an often ignored part of its operation. But, for the smooth and seamless running of a hotel, factors such as employee satisfaction, motivation and training, lucid transmission of ideas from the management, and a clear objective to put the customer first are just as important as the features offered by the hotel.

International hotel companies such as Ritz Carlton Company, Four Seasons Hotels and Resorts, and Marriott stand out for guest satisfaction and business profitability, as well as employee satisfaction and efficient operation. These are the ace companies of the hotel industry that have made a serious effort to promote themselves as luxury brands that offer outstanding service.

In general, the hotel industry is very optimistic about the future prospects of the hotel business and has strong intentions to constantly upgrade the services of their hotels, with special emphasis on addressing the business conferencing needs of the corporate segment. Today's hoteliers have a different vision as far as growth, performance, and most importantly, service and innovation are concerned. The new crop of entrepreneurs eyes the hospitality industry as an avenue for long-standing growth and is more concerned with establishing a brand name and a niche clientele.

(Source: IIPM Four Ps, November 2005)

## 4.2 IMPORTANCE OF SERVICES MARKETING

Services are defined as "a form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything." (Philip Kotler)<sup>1</sup>

There are different types of service industries in operation and services are a fast-growing sector. Governments offer services through courts, employment exchanges, hospitals, military services, police and fire departments, postal service, buses, trains and schools. Private non-profit organizations offer services through museums, charities, churches, colleges,



### ***Service Marketing***

hospitals, etc. Many business organizations like airlines, banks, hotels, insurance companies, entertainment companies, advertising agencies, legal consultants, etc., offer services.

The service industry has been growing during the recent past due to various reasons. Factors like increasing income levels, increasing affluence, desire to use leisure time, availability of credit cards and credit facilities, increasing availability of new products and gadgets, etc., have contributed to the growth of service industries. Example: Mobile phone service, cable TV service, Internet browser service, etc.

***Notes***



# Organizational Buying Behavior

Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services and identify, ~~the~~ evaluate and choose among alternative brands and suppliers.

Organizations buy in furtherance of organizational objectives, such as to manufacture and deliver goods and services to members, customers or the community.

Organizational buying is heavily influenced by derived demand, i.e., demand for an end product or for a product or service sold by the buyer's customers. The demand for components by a manufacturer will be dependent on demand coming from their customers, the retailers and wholesalers, who in turn are reacting to demand from their customers, the consumers.

Overall consumer demand may in turn be impacted by economic, social, political and technological factors in the environment.

The organizational buying process is completely different from the consumer buying process. While buying decisions are made relatively rarely and quickly by individual



customers, organizational buying involves thorough and deep analysis. Organizations purchase products ranging from highly complex machinery to small components.

In an organization, the purchase decisions are influenced by several individuals and are not made in isolation by an individual. Organizational buyers are more concerned about the price and quality of the product along with the service being provided by the vendor.

Price plays a major role, since the price of the raw materials is the investment from which profits are generated. Thus, price is a major factor which affects the profitability of the firm. Service also plays an important role because no organization would like to buy goods from a vendor who can't provide timely and efficient service.

Organizations adopt certain methods for buying products such as checking a sample before the actual purchase. Most organizational purchases involve purchase of products in large lots. So, it is not feasible to individually inspect each and every item in the lot.

In such situation, a sample is checked assuming that this sample represents the entire lot. Like the consumer markets, organizational markets also possess certain demand characteristics. The organizational demand for products or services



may be inelastic, derived, joint or fluctuating in nature.

Organizational markets normally purchase the goods or services for producing other goods and services, using these as raw materials. There are also resellers, who purchase the products to sell directly to other customers without any modification.

Apart from producers and resellers, there are also government and institutional customers who buy the goods. Government buys goods for public utility or for use in their departments or for production purposes.

The buying decisions of organizations are influenced by environmental factors, organizational factors, social factors and personal factors. Participants in the organizational buying process play as many as seven different roles, namely those of initiator, influencer, user, decider, approver, buyer and gatekeeper.

Although organizations differ significantly from each other in their purchasing process, the various stages of industrial buying comprise problem recognition, general need recognition, product specification, value analysis, vendor analysis, order routine specification, multiple sourcing and performance review.

Marketers need relevant information about the characteristics of the industries for marketing their goods and services effectively. To



search for such information, the prime sources are government and industrial publications. The standard Industrial Classification is a process where such characteristics of manufacturing, financial and service sectors are depicted in a coded format.

### Organizational Buying.

Organization buying is the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers.

### Organizational buying Behavior.

It is the sum total of an organization's attitudes, preferences, intentions and decisions regarding the buying behavior in the marketplace when purchasing goods for manufacturing or reselling.

### Organizational Buying Decision.

Organizational buying behavior refers to the process of how companies or organizations buy goods or services. Organizational buying is not an easy activity as most people think of it.



# Stages of Organizational Buying Process:

## (1) Stage-1 - Problem Recognition:

The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or service.

## (2) Stage-2 - General Need Description:

At this stage of business buying process, company describes the general characteristics and quantity of a needed item.

## (3) Stage-3 - Product Specification:

At this stage of the business buying process, buying organization decide on the product and specifies the best technical product characteristics for a needed item.

## (4) Stage-4 - Value Analysis:

An approach to cost reduction, in which components are studied carefully to determine if they can be redesigned, standardized or made by less costly methods of production.

## (5) Stage-5 - Supplier Search:

Here, buyer tries to find the best vendors.



### (6) Stage - 6 - Proposal Solicitation :

Here, the buyer invites qualified suppliers to submit proposals.

### (7) Stage - 7 - Supplier Selection :

Here, the buyer reviews proposal and selects a supplier or suppliers.

### (8) Stage - 8 - Order - Routine Specification :

Here, the buyer writes the final order with the chosen suppliers, listing the technical specifications, quantity needed, expected time of delivery, return policies and warranties.

### (9) Stage - 9 - Performance Review :

Here, the buyer rates its satisfaction with suppliers, deciding whether to continue, modify or drop them.