Marketing Management

M.Com. (Final)

Paper-17

Directorate of Distance Education
Maharshi Dayanand University, Rohtak

MARKETING MANAGEMENT

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ROHTAK – 124 001

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Max. Marks.: 100
Time: 3 Hrs

Note: *There will be three sections of the question paper. In section A there will be 10 short answer questions of 2 marks each. All questions of this section are compulsory. Section B will comprise of 10 questions of 5 marks each out of which candidates are required to attempt any seven questions. Section C will be having 5 questions of 15 marks each out of which candidates are required to attempt any three questions. The examiner will set the questions in all the three sections by covering the entire syllabus of the concerned subject.*

Course Inputs:

Unit-1 **Introduction:** Concept, nature, scope and importance of marketing; Marketing concept and its evolution; Marketing mix; Strategic marketing planning – An overview.

Market Analysis and Selection: Marketing environment-Macro and Micro Components and their impact on marketing decisions. Market segmentation and positioning, Buyer behaviour, Consumer decision making process.

Unit-2 **Product Decisions:** Concept of a product, Classification of products; Major product decisions; Product line and product mix; Branding, Packaging and labeling, Product life-cycle-strategic implications, New product development and consumer adoption process.

Unit-3 **Distribution Channels and Physical Distribution Decisions:** Nature, functions and types of distribution channels; distribution channel intermediaries; Channel management decisions; Retailing and wholesaling. Decision – areas in the Management of Physical Distribution.

Unit-4 **Pricing Decisions:** Factors affecting price determination; Pricing policies and strategies; Promotion Decisions; Communication process; Promotion mix advertising, personal selling, sales promotion, publicity and public relations; Determining advertising budget; Copy designing and its testing; Media selection; Advertising effectiveness; Sales promotion – tools and techniques.

Unit-5 **Marketing Research:** Meaning and scope of marketing research; Marketing research process.

Marketing Organisation and Control: *Organizing and controlling marketing operations.*

Issues and Developments in Marketing; Social, ethical and legal aspects of marketing; Marketing of [illegible] International [illegible] Green marketing; Cyber marketing; Relationship marketing and other developments in [illegible]

Chapter 1

Marketing : An Introduction

Most of the people define marketing as selling or advertising. It is true that these are parts of the marketing. But marketing is much more than advertising and selling. In fact marketing comprises of a number of activities which are interlinked and the decision in one area affects the decision in other areas.

To illustrate the number of activities that are included in marketing, think about all the bicycles being peddled with varying degree of energy by bicycle riders in India. Most bicycle are intended to do the same thing — get the rider from one place to another. But a bicyclist can choose from a wide assortment of models. They are designed in different sizes, with different frames for men and women and with or without gears. Trekking cycles have large knobby tyres, and the tyres of racing cycles are narrow. Kids want more wheels to make balancing easier; clowns want only one wheel, to make balancing more interesting.

The variety of styles and features complicates the production and sale of bicycles. The following list shows some of the many things a firm like Atlas Cycles or Hero Cycles should do before and after it decides to produce a bicycle.

1. Analyze the needs of people who might buy a bicycle and decide if they want more or different models.
2. Predict what types of bicycles like handle bar styles, type of wheels, weights and materials different customers will want and decide to which firm will try to satisfy their need.
3. Estimate how many of these people will be riding bicycles over the next several years and how many bicycles they'll buy.
4. Predict exactly when these people will want to buy bicycles.
5. Determine where in the India these bicyclists will be and how to get the company's bicycles to them.
6. Estimate the price they are willing to pay for their bicycles and if the firm can make a profit selling at that price.
7. Decide which kinds of promotion should be used to tell potential customers about the company's bicycles.
8. Estimate how many competing companies will be making bicycles, how many bicycles they'll produce, what kind, and at what prices.
9. Figure out how to provide warranty service if a customer has a problem after buying the bicycle.

The above activities are not the part of production—actually making goods or performing services. Rather, they are part of a larger process—called marketing—that provide needed direction for production and helps make sure that the right goods and services are produced and find their way to consumers. In order to understand the concept of marketing, firstly you must understand what is "market" ?

Market

The term "market" originates from the Latin word "Marcatuş" which means "a place where business [illegible] conducted". A layman regards market as a place where buyers and sellers personally interact and finalise deal.

According to Perreault and McCarthy, market is defined as a group of potential customers with [illegible] needs or wants who are willing to exchange something of value with sellers offering various goods and/or services to satisfy those needs or wants. Of course, some negotiation will be needed. This can be done [illegible] at some physical location (for example, a farmer's market). Or it can be done indirectly [illegible] network that links middlemen, buyers and sellers living far apart. Depending upon what is [illegible] different types of markets which deals with products and/or services [illegible]

(1) ***Consumer Market:*** In this market the consumers obtain what they need or want for their personal or family consumption. This market can be subdivided into two parts—fast moving consumer goods market from where the consumers buy the products like toothpaste, biscuits, facial cream etc. and services like internet, transportation etc. Another is durables market from where, the consumers buy the products of longer life like motorcycles, cars, washing machines etc. and services like insurance cover, fixed deposits in the banks and non-banking financial companies etc.

(2) ***Industrial/Business Market:*** In this market, the industrial or business buyers purchase products like raw materials (iron ore, coke, crude oil etc.), components (wind-screen, tyres, picture tubes, micro-processors etc), finished products (packaging machine, generators etc.), office supplies (computers, pens, paper etc.) and maintenance and repair items (grease, lubricating oil, broom etc.). Apart from products, now-a-days due to outsourcing the industrial buyers also require a number of services like accounting services, security services, advertising, legal services etc. from the providers of these services.

(3) ***Government Market:*** In most of the countries central/federal, state or local governing bodies are the largest buyers requiring and number of products and services. Government is also the biggest provider of services to the people, especially in a developing country like India where army, railways, post and telegraph etc. services are provided by the Central Government and State Govt. and local municipality provides services like roadways and police and sewage and disposal and water supply respectively.

(4) ***Global Market:*** The world is rapidly moving towards borderless society thanks to information revolution and the efforts of WTO to lower the tariff and non-tariff barriers. The product manufacturers and service providers are moving in different countries to sustain and increase their sales and profits. Although the global companies from the developed countries are more in number (AT & T, McDonald's, Ford Motors, IBM, Sony, Citi Bank etc.); the companies from developing countries are also making their presence felt in foreign countries (Aditya Vikram Birla Group, Maruti-Suzuki, Infosys, IRCON etc.). The ultimate winners are the consumers who are getting world class quality products and services at an affordable prices.

(5) ***Non-profit Market:*** On one hand the society is making progress in every field, on the other hand the number of problems that it is facing are also increasing. Most of the people don't care for these problems due to variety of reasons such as—lack of awareness, lack of time, selfish nature etc. So in order to fill the void, the non-profit organisations came into being. These organisations support a particular issue or a charity and create awareness among the general public towards these issues and try to obtain financial and non-financial support. For example there are NGOs who are working towards the conservation of flora and fauna, Narmada Bachao Andolan, Chipko Andolan (to conserve the trees in Himalayan region) etc. These non-profit organisations basically need monetary support from the individuals, institutions and governments to promote a cause or a charity like old age home, free dispensary, free education, home for destitutes etc.

These are the major markets which exist in country. These can also be different markets which deals in a particular product or service such as Grain market (anaj mandi), vegetable and fruit market (Subzi Mandi), fish market, political market (comprising of political parties and voters) etc. which serve a specific need or want of the consumers and marketers.

Marketing

Numerous definitions were offered for marketing by different authors. Some of the definitions are as follows :

1. Creation and delivery of a higher standard of living.
2. Marketing is the process that seeks to influence voluntary exchange transactions between a customer and a marketer.

—William G. Zikmund and Michael d'Amico

3. Marketing is the process of discovering and translating consum... ...eds and wants into ... and services, creating demand for these products and services and then in turn expanding the demand.

H.L. Hansen

4. Marketing is the business process by which products are matched with markets and through which transfer of ownership are affected.

-- Edward W. Cundiff

5. Marketing consists of the performance of business activities that direct the flow of goods and services from producers or suppliers to consumers or end-users.

—American Marketing Association

6. Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.
—Philip Kotler

7. Marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing the flow of need satisfying goods and services from producer to customer or client.

—William D. Perreault and E. Jerome McCarthy

Let's take a look at the last definition and try to interpret it .

- **Applies to profit and non-profit organisations**—This definition applies to both profit and non-profit organizations. Profit is the objective for most business firms. But other type of organisations may seek more members or donations or acceptance of an idea. Consumer or clients may be individual consumers business firms, non-profit organizations, government agencies or even foreign nations. While most customers and clients pay for goods and services they receive, others may receive them free of charge or at a reduced price through private or government support.

- **More than just persuading customers**—Marketing is not just selling and advertising, as most of people thinks. In fact, the aim of marketing is to identify customer's needs and meet those needs well that the product almost "sell itself". This is true whether the product is a physical good, a service or even an idea. If the whole marketing job has been done well, customers don't need much persuasion They will be ready to buy. And after consuming the product if they are satisfied then they will come back for more.

- **Begins with customer needs**—Marketing should begin with potenial customer needs–not with production process. Marketing should try to anticipate needs and then it should determine what goods and services are to be developed—including decisions about product design and packaging; prices or fees; credit and collection policies; use of middlemen; transporting and storing facilities; advertising and sales policies after the sale, installation, customer service, warranty and perhaps even disposal policies.

- **Does not do it alone**—It means that marketing by interpreting customer's needs–should provide direction for production activities accounting and financial activities and research and development activities and try to coordinate them. Marketing by itself can never be able to satisfy the needs wants of the customers. It cannot exist in vacuum. In fact, marketing needs the cooperation of functional areas to be successful.

- **Builds a relationship with the customer**—Marketing tries to identify and satisfy customer needs and ... Its activities does not end with the single sale but rather it tries to develop a relationship with the customer in the future, when the customer has the same need again—or ... other need that the firm can meet sales will follow. The long lasting relationship is beneficial ... and the customer.

Scope of Marketing

Marketing is typically seen as the task of creating, promoting and delivering goods and services to consumers and businesses. In fact, marketing people are involved in marketing 10 types of entities : goods, services, experiences, events, persons, places, properties, organizations, information and ideas. Marketing concepts can be used effectively to market these entities.

1. **Goods**—Good is defined as something tangible that can be offered to market to satisfy a need or want. Physical goods constitute the bulk of most countries production and marketing effort. In a developing country like India fast moving consumer goods (shampoo, bread, ketchup, cigarettes, newspapers etc.) and consumer durables (television, gas appliances, fans etc.) are produced and consumed in large quantities every year.
2. **Services**—As economies advance, the share of service in gross domestic product increases. For example, in USA, service jobs account for 79% of all jobs and 74% of GDP. A service can be defined as any performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Services include the work of hotels, airlines, banks, insurance companies, transportation corporations etc. as well as professionals like lawyers, doctors, teachers etc. Many market offerings consists of a variable mix of goods and services. At the pure service end would be psychiatrist listening to a patient or watching movie in a cinema hall; at another level would be the landline or mobile phone call that is supported by a huge investment in plant and equipment; and at a more tangible level would be a fast food establishment where the consumer consume both a good and a service.
3. **Experiences**—By mixing several services and goods, one can create, stage and market experiences. For example water parks, zoos, museums etc. provide the experiences which are not the part of routine life. There is a market for different experiences such as climbing Mount Everest or Kanchanjunga, travelling in Palace on Wheels, river rafting, a trip to Moon, travelling in Trans Siberian Railways across five time zones etc.
4. **Events**—Marketers promote time–based, theme-based or special events such as Olympics, company anniversaries, sports events (Samsung Cup—India Pakistan Cricket Series), artistic performances (Lata Mangeshkar live concert, Jagjit Singh live concert), trade shows (International Book Fair at Pragati Maidan, Automobile fair), award ceremonies (Filmfare awards, Screen awards), beauty contests (Miss World, Miss Universe, Miss India, Miss Chandigarh), model hunts (Gladrags Mega Model). There is a whole profession of event planners who work out the details of an event and stage it. In India event management companies are growing and in case of organising Miss World at Bangalore and World Cricket Cup (Hero Cup) they won the acclaim from all over the world. Our Election Commission Organises biggest event in the world—Elections for upper house in the largest democracy in the world. Other notable example is organising of Ardh Kumbh and Maha Kumbh at Hardwar, Ujjain, Nasik etc. during different years.
5. **Persons**—Celebrity marketing has become a major business. Years ago, someone seeking fame would hire a press agent to plant stories in newspapers and magazines. Today most of cricket players like Sachin Tendulkar, Saurav Ganguly, Rahul Dravid etc. are drawing help from celebrity marketers to get the maximum benefit. Even Star Plus TV channel focussed more on Amitabh Bachhan to promote their programme Kaun Banega Crorepati and this programme turned around fortunes of both Star Plus and Amitabh Bachhan. Even in the 14th Lok Sabha election BJP's election strategy revolves around Mr. Atal Bihari Vajpayee, that's power of personality. Mr Shiv Khera is busy in building his business empire and is busy telling others how to achieve this or that through books and lectures.
6. **Places**—Places–cities, states, regions and whole nations—compete actively to attract toutists, factories, company headquarters and new residents. India and China are competing actively to attract foreign companies to make their production hub. Cities like Bangalore, Hyderabad and Gurgaon are promoted as centre for development of software. Bangalore is regarded as software capital of India and Hyderabad is emerging as the hub of biotechnology industry. Gurgaon and Noida are competing for call centres to open their offices. Kerala, Himachal Pradesh, Uttranchal Pradesh and Rajasthan and aggressively promoting

themselves to attract local as well as foreign tourists. Due to its cost effectiveness and competitive ability of Indian doctors coupled with ancient therapies, India is fast emerging as country that can provide excellent medical treatment at minimum costs. If developed properly, Bihar has strong potential to emerge as ultimate destination for Buddists.

7. **Properties**—Properties are intangible rights of ownership of either real property (real estate) or financial property (share and debt. instruments). Properties are bought and sold, and this requires marketing effort Property dealers in India work for property owners or seekers to sell or buy plots, residential or commercial real estate. In India some builders like Ansal, Sahara Group, both build and market their residential and commercial real estates. Brokers and sub-brokers buy and sell securities on behalf of individual and institutional buyers

8. **Organizations**—Organizations actively work to build a strong, favourable image in the mind of their publics. We see ads of Reliance Infocomm which is trying to provide communication at lower rates. Dhirubhai Ambani Entrepreneur programme to promote entreprenenrship among the Indians. Companies can gain immensly by associating themselves with the social causes. Universities and colleges are trying to boost their image to compete successfully for attracting the students by mentioning their NAAC grades in the advertisements and information brochures.

9. **Information**—Information can be produced and marketed as a product. This is essentially what schools, colleges and universities produce and distribute at a price to parents, students and communities Encyclopaedas and most non-fiction books market information. Magazines such as Fitness and Muscle provide information about staying healthy, Business India, Business Today and Business World provide information about business activities that are taking place in various organizations. Outlook Traveller provides information about various national and international tourist destination. There are number of magazines which are focussed an automobiles, architecture and interior designing, computers, audio system, television programmes etc. which cater to the information needs of the customers. We buy CDs and visit internet sites to obtain information. In fact, production, packaging and distribution of information is one of the society's major industry. More and more companies are using professional research agencies to obtained information they need.

10. **Ideas**—Film makers, marketing executives and advertising continuously look for a creative spark of an idea that can immortalise them and their work. Idea here means the social cause or an issue that can change the life of many. Narmada Bachao Andolan was triggered to bring the plight of displaced people and to get them justice. Endorsement by Amitabh Bachhan to Pulse Polio Immunization drive and pledge by Aishwarya Rai to donate her eyes after her death gave immense boost to these. Various government and non-government organizations are trying to promote a cause or issue which can directly and indirectly alter the life of many. For example

    Traffic police urges to not to mix drinks and drive, central and state government urging not to use polyethelene as carrying bag for groceries.

Nature of Marketing

1. Marketing is both consumer oriented and competitor oriented. The consumer and competitor orientations can be easily understood by the following diagram.

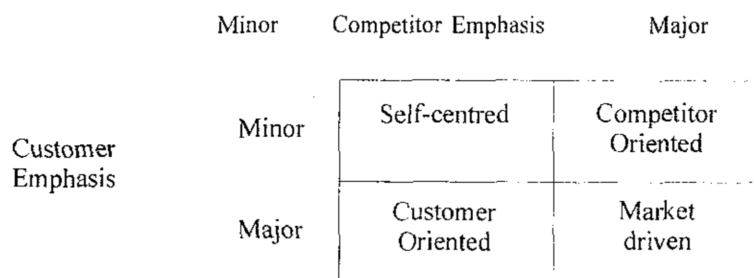


Figure 1.1

(*a*) Self centred companies does not give any concern to the consumers and competitors. This type of company can exist in the situation of monopoly. In the competitive economy, these companies cannot remain in the business for long.

(*b*) Competitor oriented companies mainly focus on competitor's activities, what the competitors are doing and what they are likely to do in the near future are the major areas of concern. The companies can be either reactive or proactive. The reactive company will follow the moves of competitors. For example, if the competitor reduce price of its product or service then the reactive competitor oriented company will also reduce its prices. Whereas the proactive competitor oriented company will try to identify what its major competitor is going to do.

(*c*) Customer oriented companies believes in satisfying the customers at any cost. These companies obtain inputs from the customers and then develop their product or service as per customers requirements and then earn profit through-customer satisfaction. The biggest problem is that they don't consider what their competitors are doing and in the long run it might prove counter-productive.

(*d*) Market driven companies are concerned about customers as well as competitors. These companies regularly interact with the customers to know about their satisfaction levels and their future requirements and then try to develop the product or service which is better than their competitors. In the era of cut throat competition, these companies one more likely to be successful than the other companies.

2. Marketing is a dynamic activity because a number of variables keep changing. For example marketing environment, customer's requirements, competitor's actions etc. keep changing thereby necessitating the changes in the company's offer. The companies may have to modify product, price, place or promotion due to changes in any of the numerous variables. For example, Indian manufacturer's either have to improve the quality or reduce the cost to meet the competition from foreign companies.

3. Long term objective of marketing is profit maximization through customer satisfaction. This is so because a satisfied customer will come back again for the same or different need to the company. Apart from this, the satisfied customer is the company's best advertisement because word of mouth communication by the customer has more credibility than any other form of marketing communication and he'll recommend the companies products/services to his friends and relatives.

4. Marketing is an integrated function and all the marketing decisions are linked with each other. One decision will automatically lead to another decision. For example if a company has decided to launch a product for limited number of customers then its price will be high and that product will be available through exclusive distribution system and the promotion strategy will depend on the media preferred by the target market. So, if a company decides the first step then decisions regarding the remaining steps will follow automatically.

5. Marketing is the core functional area of modern day organisations and is the driving force behind every organisation. Marketing provides the vital input for corporate planning which in turn dictates the plans for other functional areas.

6. Marketing is interlinked with other functional areas of the organisation. Marketing people collects the information regarding (customer's requirements and pass it to) the research and development and engineering people who'll turn the customer requirements into the product or service features. The finance and accounts people help in obtaining the money for the development of new product and also helps in arriving at the final price decision. The human resource department provides the necessary manpower for carrying out various activities not only in the marketing area but also in the other functional areas.

Importance of Marketing

(A) To the Society

1. It is instrumental in improving the living standards. Marketing continuously identifies the needs and wants satisfying products or services which can propel the people to do an extra to earn money which can be exchanged for the desired products or services. The people are likely to spend the additional income over and above the disposable income on the products or services which helps in minimizing the physical efforts. Thus marketing by indirectly increasing the earning ability will help in improving the standard of living of the customers.

2. Marketing generates gainful employment opportunities both directly and indirectly. Directly, marketing provides employment to the people in various areas like in advertising agency, in the company sales force, in the distributor's sales force, in public relation firms etc. Indirectly, marketing is responsible for selling the offerings of the organisation. If the organisation's products or services are able to satisfy the customers, then customers will demand organisation's products or services again and again, thereby sustaining the production activities. Thus marketing indirectly provides employment in other functional areas like finance, production, research and development, human resource management etc.

3. Marketing helps in stabilising economic condition in the sense that marketing helps in selling the products or services, which keeps the various organizations functioning and gainful employment is available to the people. With the earnings from the employment, the people will purchase the products and/or services, thus sustaining the demand. This will happen in all the industries, then gainful employment will be available throughout the time period and economy will remain stable, healthy and vibrant.

(B) To the firms/companies

1. Marketing sustains the company by bringing in profits. Marketing is the only activity that brings revenue to the firm, whereas other activities incur expenditure. If the company's products or services satisfy the customer's requirements, then the satisfied customers will keep the company in business by repeat orders and recommending other profitable customers. Thus marketing is the driving force behind a successful company.

2. Marketing is the source of new ideas. New product or service ideas usually comes from the research laboratories, employees or from marketplace. It's the marketing people who are in continuous touch with the consumers and marketing intermediaries. Interaction with them helps in identifying strong and weak points of company's product or services as well as competitor's products or services. This interaction can also help in identifying unmet needs or wants of the consumers and the features, consumers are looking into the products or services which can satisfy those unmet needs or wants. Thus marketing can help immensely in identifying new product or service ideas which can help in sustaining the firm's operations. Successful companies are those which identifies customer's requirements early and provides the solution earlier than the competitors.

3. Marketing provides direction for the future course. The marketing oriented company continuously brings out new product and service ideas which provide the direction for corporate strategic planning for longer time horizon.

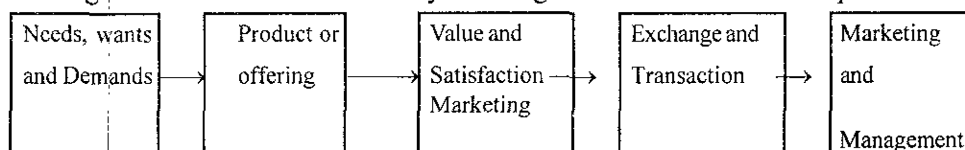
(C) To the Consumers

1. Meeting the unmet needs or wants. Marketing identifies those needs or wants which were not satisfied and helps in developing the product or service which can satisfy those unmet needs or wants of the people. For example a number of drugs were invented to treat various physical problems of the people. Again the low cost formulations were developed to treat the people who are unable to afford the expensive drugs.

2. Reducing *the price of products or services.* Marketing helps in popularising the product or service which attracts the customers as well as competitors towards that product or service categories. Due to increase in demand, the manufacturing capacity increase which brings down per unit fixed costs of the product or service. Furthermore increase in competititon led to decrease in the prices charged by the firm. Thus the growing demand and increasing competition both help in bringing down the price of the product or service. For example price of both mobile phone handset and mobile phone service are showing a continuous downward trend thereby making the mobile phone service affordable to more and more people.

Core Concepts of Marketing

Marketing can be further understood by defining several of its core concepts.



Needs, Wants and Demands

The marketer must try to understand the target market's needs, wants, and demands. Needs describe basic human requirements. People need food, air, water, clothing and shelter to survive. People also have strong needs for recreation, education, and entertainment. These needs become wants when they are directed to specific object that might sastisfy the need. An Indian *needs* food but *wants* a rice, chhapati's vegetable and dal. A person in Mauritius *needs* food but *wants* a mango, rice, lentils and beans. Wants are shaped by one's society.

Demands are wants for specific products backed by an ability to pay. Many people want a big & beautiful house; only a few are able and willing to buy one. Companies must measure not only how many people want their product but also how many would actually be *willing and able* to buy it.

These distinctions shed light on the frequent criticism that "marketers create needs" or "marketers get people to buy things they don't want." Marketers do not create needs : Needs preexist marketers. Marketers, along with other societal influences, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Product or Offering

People satisfy their needs and wants with products. A *product* is any offering that can satisfy a need or want. We mentioned earlier the major types of basic offerings : goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

A brand is an offering from a known source. A brand name such as McDonald's carries many associations in the minds of people: hamburgers, fun, children, fast food, Golden Arches. These associations make up the brand image. All companies strive to build brand strength—that is, a strong, favourable brand image.

Value and Satisfaction

The product or offering will be successful if it delivers value and satisfaction to the target buyer. The buyer chooses between different offerings on the basis of which is perceived to deliver the most value. We define value as a ratio between what the customer *gets* and what he *gives*. The customer gets *benefits* and assumes *costs*. The benefits include functional benefits and emotional benefits. The costs include monetary costs, time costs, energy costs, and psychic costs. Thus value is given by :

$$\text{Value} = \frac{\text{Benefits}}{\text{Costs}} = \frac{\text{Functional benefits} + \text{emotional benefits}}{\text{Monetary costs} + \text{time costs} + \text{energy cost} + \text{psychic costs}}$$

The marketer can increase the value of the customer offering in several ways :

Raise benefits

Reduce costs

Raise benefits and reduce costs

Raise benefits by more than the raise in costs

Lower benefits by less than the reduction in costs

The customer who is choosing between two value offerings, V_1 and V_2, will examine the ratio V_1/V_2. She will favour V_1 if the ratio is larger than one; she will favour V_2 if ratio is smaller than one; she will be indifferent if the ratio equals one.

Exchange and Transactions

Exchange is only one of four ways in which a person can obtain a product. The person can self-produce the product or service, as when a person hunts, fishes, or gathers fruit. The person can use force to get a product, as in a hold up or burglary. The person can beg, as happens when a homeless person asks for food. Or the person can offer a product, a service, or money in exchange for something he or she desires.

Exchange, which is the core concept of marketing, involves obtaining a desired product from someone by offering something in return. For exchange potential to exist, five conditions must be satisfied

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.

Whether exchange actually takes place depends upon whether the two parties can agree on terms that will leave them both better off (or at least not worse off) than before. Exchange is a value-creating process because it normally leaves both parties better off.

Exchange is a process rather than an event. Two parties are engaged in exchange if they are *negotiating* — trying to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction takes place. A *transaction* is a trade of values between two or more parties : A gives X to B and receives Y in return. Ramesh sells Arun a television set and Arun pays Rs 4000/- to Ramesh. This is a classic *monetary transaction.* But transactions do not require money as one of the traded values. A *barter transaction* involves trading goods or services for other goods or service, as when lawyer Vijay writes a will for physician Satish in return for a medical examination.

A transaction involves several dimensions : at least two things of value, agreed upon conditions, a time of agreement, and a place of agreement. Usually a legal system exists to support and enforce compliance on the part of the transactors. Without a law of contracts, people would approach transactions with some distrust, and everyone would lose.

A transaction differs from a transfer. In a *transfer,* A gives X to B but does not receive anything tangible in return. Gifts, subsidies, and charitable contributions are all transfers. Transfer behaviour can also be understood through the concept of exchange. Typically, the transferer expects to receive something in exchange for his or

her gift for example, gratitude or seeing changed behaviour in the recipient. Professional fund raisers provide benefits to donors, such as thank-you notes, donor magazines, and invitations to events. Marketers have broadened the concept of marketing to include the study of transfer behaviour as well as transaction behaviour.

In the most generic sense, marketers seek to elicit a *behavioural response* from another party. A business firm wants a purchase, a political candidate wants a vote, a church wants an active member, and a social-action group wants the passionate adoption of some cause. Marketing consists of actions undertaken to elicit desired responses from a target audience.

To effect successful exchanges, marketers analyze what each party expects from the transaction. Simple exchange situations can be mapped by showing the two actors and the wants and offerings flowing between them.

MARKETING AND MARKETING MANAGEMENT

- *Marketing* is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

For a managerial definition, marketing has often been described as "the art of selling products." But people are surprised when they hear that the most important part of marketing is not selling! Selling is only the tip of the marketing iceberg. Peter Drucker, a leading management theorist, puts it this way:

> *There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.*

When Sony designed its Walkman, when Nintendo designed a superior video game, and when Toyota introduced its Lexus automobile, these manufacturers were swamped with orders because they had designed the "right" product based on careful marketing homework.

The American Marketing Association offers the following definition :

- *Marketing (management)* is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals.

Coping with exchange processes calls for a considerable amount of work and skill. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. We see marketing management as the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.

Apart from these core concepts there are additional concepts which will help in understanding the marketing. These concepts are as follows :

Target Markets and Segmentation

A marketer can rarely satisfy everyone in a market. Not every one likes the same soft drink, hotel room, restaurant, automobile, college and movie. Therefore, marketers start with *market segmentation.* They identify and profile distinct groups of buyers who might prefer or require varying products and marketing mixes. Market segments can be identified by examining demographic, psychographic and behavioural differences among buyers. The firm then decides which segments present the greatest opportunity—those whose needs the firm can meet in a superior fashion.

For each chosen target market, the firm develops a *market offering.* The offering is *positioned* in the minds of the target buyers as delivering some central benefit(s). For example, Volvo develops its cars for the target market of buyers for whom automobile safety is a major concern. Volvo, therefore, positions its car as the safest a customer can buy.

Traditionally, a "market" was a physical place where buyers and sellers gathered to exchange goods. Economists now describe a market as a collection of buyers and sellers who transact over a particular product or product class (the housing market or grain market). But marketers view the sellers as constituting the *industry* and the buyers as constituting the *market*. Fig 1.2. shows the relationship between the industry and the market. Sellers and buyers are connected by four flows. The sellers send goods and services and communications (ads, direct mail) to the market; in return they receive money and information (attitutdes, sales data). The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

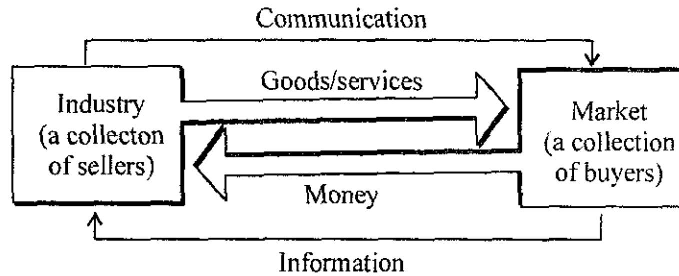


Figure 1.2: A Simple Marketing System

Business people often use the term *markets* to cover various groupings of customers. They talk about need markets (the diet-seeking market); product markets (the shoe market); demographic markets (the youth market); and geographic markets (the Indian market). Or they extend the concept to cover other markets, such as voter markets, labour markets and donor markets.

Modern economies abound in markets. Five basic markets and their connecting flows are shown in Figure 1.3. Manufacturers go to *resource markets* (raw-material markets, labour markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labour and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation's economy and the global economy consist of complex interacting sets of markets linked through exchange processes.

Today we can distinguish between a *marketplace and marketspace*. The marketplace is physical, as when one goes shopping in a store; marketspace is digital, as when one goes shopping on the Internet. Many observers believe that increasing amount of purchasing will shift from the marketplace.

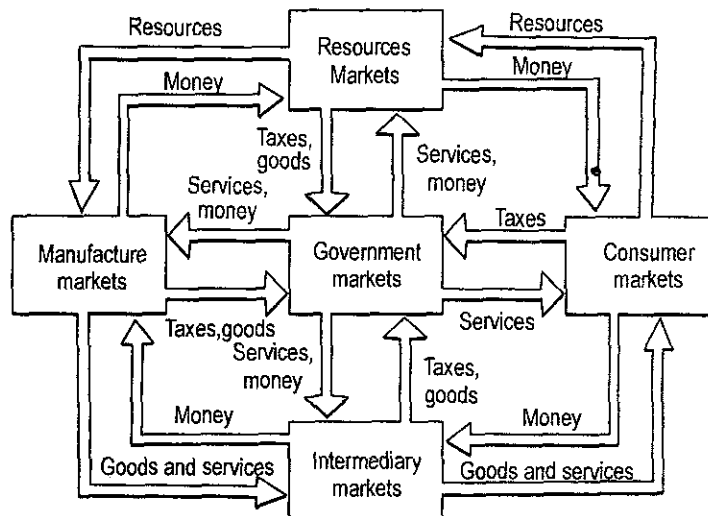


Figure 1.3: Structure of flows in a Modern Exchange Economy

Mohan Sawhney has proposed the concept of a *metamarket* to describe a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries. The automobile metamarket consists of automobile manufacturers, new car and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet. In planning to buy or buying a car, a buyer will get involved in many parts of this metamarket. This has created an opportunity for *metamediaries* to assist buyers to move seamlessly through these groups, although they are disconnected in physical space. One example is Edmund's (www.edmunds. com), a Web site where a car buyer can find the stated prices of different automobiles and easily click to other sites to search for the lowest price dealer, for financing, for car accessories, and for used cars at bargain prices.

Relationships and Networks

Transaction marketing is part of a larger idea called relationship marketing. *Relationship marketing* has the aim of building long-term mutually satisfying relations with key parties—customers, suppliers, distributors—in order to earn and retain their long-term preference and business. Marketers accomplish this by promising and delivering high-quality products and services at fair prices to the other parties over time. Relationship marketing builds strong economic, technical and social ties among the parties. It cuts down on transaction costs and time. In the most successful cases, transactions move from being negotiated each time to being a matter of routine.

The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A *marketing network* consists of the company and its supporting *stakeholders* (customers, employees, suppliers, distributors, retailers, ad agencies, university scientists, and others) with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but rather between marketing networks, with the prize going to the company that has built the better network. The operating principle is simple; Build an effective network of relationships with key stakeholders, and profits will follow.

Marketing Channels

To reach a target market, the marketer uses three kinds of marketing channels. The marketer uses *communication channels* to deliver and receive messages from target buyers. They include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, communications are conveyed by facial expressions and clothing, the look of retail stores, and many other media. Marketers are increasingly adding *dialogue channels* (e-mail and toll-free numbers) to counterbalance the more normal *monologue channels* (such as ads).

The marketer uses *distribution channels* to display or deliver the physical product or service(s) to the buyer or user. There are physical distribution channels and service distribution channels. They include warehouses, transporation vehicles, and various *trade channels* such as distributors, wholesalers, and retailers. The marketer also uses *selling channels* to effect transactions with potential buyers. Selling channels include not only the distributors and retailers but also the banks and insurance companies that facilitate transactions. Marketers clearly face a design problem in choosing the best mix of communication, distribution, and selling channels for their offerings.

Supply Chain

Whereas marketing channels connect the marketer to the target buyers, the supply chain describes a longer channels stretching from raw materials to components to final products that are carried to final buyers. The supply chain for women's purses starts with hides, tanning operations, cutting operations, manufacturing, and the marketing channels bringing products to customers. The supply chain represents a *value delivery system*. Each company captures only a certain percentage of the total value generated by the supply chain. When a company acquires competitors or moves up stream or downstream, its aim is to capture a higher percnetage of supply chain value.

Competition

Competition includes all the actual and potential rival offerings and substitutes that a buyer might consider.

We can broaden the picture further by distinguishing four levels of competition, based on degree of product substitutability :

1. ***Brand competition:*** A company sees its competitors as other companies offering a similar product and services to the same customers at similar prices. Maruti Zen might see its major competitors as Tata Indica, Santro, and other manufacturers of medium-price automobiles. It would not see itself as competing with May bach or with Mahindra Scorpio.
2. ***Industry competition:*** A company sees its competitors as all companies making the same product or class of products. Maruti Zen would see itself as competing against all other automobile manufacturers.
3. ***Form competition:*** A company sees its competitors as all companies manufacturing products that supply the same service. Maruti Zen would see itself competing against not only other automobile manufacturers but also against manufacturers of motorcycles, bicycles and trucks.
4. ***Generic competition:*** A company sees its competitors as all companies that compete for the same consumer rupees. Maruti Zen would see itself competing with companies that sell major consumer durables, foreign vacations, and new homes.

Marketing Environment

Competition represents only one force in the environment in which the marketer operates. The marketing environment consists of the *task environment* and the *broad environment*.

The task environment includes the immediate actors involved in producing, distributing and promoting the offering. The main actors are the company, suppliers, distributors, dealers, and the target customers. Included in the supplier group are material suppliers and service suppliers such as marketing research agencies, advertising agencies, banking and insurance companies, transportation and telecommunications companies. Included with distributors and dealers are agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers.

The broad environment consists of six components : *demographic environment, economic environment, natural encironment, technological environment, political-legal environment*, and *social-cultural environment*. These environments contain forces that can have a major impact on the actors in the task environment. Market actors must pay close attention to the trends and developments in these environments and make timely adjustments to their marketing strategies.

Evolution of Marketing

Once upon a time, when the needs and wants were satisfied by the barter trade, there was no need for marketing. Two parties interested in each other's poducts simply negotiate with each other regarding the quantities of each product that must be exchanged. Even at the time of industrial revolution when the demand for different products was far greater than the supply, even in that scenario there was no need for marketing. In fact producers were focussed on production aspects. With the advancement of production technology and the increase in competition, the focus shifted through various functional areas towards marketing. The evolution of marketing can be easily understood by understanding the company orientations toward the market pla

Company Orientations toward the Marketplace

We have defined marketing management as the conscious effort to achieve desired exchange outcomes w target markets. But what philosophy should guide a company's marketing efforts ? What relative weights sho be given to the interest of the organization, the customers, and society ? Very often these intere conflict

Clearly, marketing activities should be carried out under a well-thought-out philosophy of efficient, effective, and socially responsible marketing. However, there are five competing concept under which organizations conduct marketing activities : the production concept, product concept, selling concept, marketing concept, and societal marketing concept.

The Production Concept

The production concept is one of the oldest concepts in business.

- The ***production concept*** holds that consumers will prefer products that are widely available and inexpensive.

Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. They assume that consumers are primarily interested in product availability and low prices. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features. It is also used when a company wants to expand the market.

Some service organizations also operate on the production concept. Many medical and dental practices are organized on assembly-line principles, as are some government agencies (such as unemployment offices and licence bureaus). Although this management orientation can handle many cases per hour, it is open to charges of impersonal and poor-quality service.

The Product Concept

Other businesses are guided by the product concept.

- The ***product concept*** holds that consumers will favour those products that offer the most quality, performance, or innovative features.

Managers in these organizations focus on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs. Management might commit the "better-mousetrap" fallacy, believing that a better mouse-trap will lead people to beat a path to its door.

Product-oriented companies often design their products with little or no customer input. They trust that their engineers can design exceptional products. Very often they will not even examine competitors' products. A General Motors executive said years ago: "How can the public know what kind of car they want until they see what is available?" GM's designers and engineers would design the new car. Then manufacturing would make it. The finance department would price it. Finally, marketing and sales would try to sell it. No wonder the car required such a hard sell ! GM today asks customers what they value in a car and includes marketing people in the very beginning stages of design.

The product concept can lead to *marketing myopia.* Railroad managemnet throught that travellers wanted trains rather than transportation and overlooked the growing competition from airlines, buses, trucks and automobiles. That happened in America and is likely to happen in India where middle class families are opting for their own vehicle. Slide-rule manufacturers thought that engineers wanted slide rules and overlooked the challenge of pocket calculators. Colleges, departmental stores, and the post office will assume that they are offering the public the right product and wonder why their sales slip. These organizations too often are looking into a mirror when they should be looking out of the window.

The Selling Concept

The selling concept is another common business orientation.

- The ***selling concept*** holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization's products. The organization must, therefore, undertake an aggressive selling and promotion effort.

This concept assumes that consumers typically show buying inertia or resistance and must be coaxed into

buying. It also assumes that the company has a whole battery of effective selling and promotion tools to stimulate more buying.

The selling concept is practised most aggressively with unsought goods, goods that buyers normally do not think of buying, such as insurance etc. These industries have perfected various sales techniques to locate prospects and hard-sell them on their product's benefits.

The selling concept is also practised in the non-profit area by fund-raisers, college admissions offices, and political parties. A political party vigorously "sells" its candidate to voters. The candidate moves through voting precincts from early morning to late evening, shaking hands, kissing babies, meeting donors, and making speeches. Countless money is spent on radio and television advertising, posters, and mailings. The candidate's flaws are concealed from the public because the aim is to make the sale, not worry about post purchase satisfaction. After the election, the new official continues to take a sales-oriented view. There is little reaearch into what the public wants and a lot of selling to get the public to accept the politician the party wants.

Most firms practise the selling concept when they have overcapacity. *Their aim is to sell what they make rather than make what the market wants.* In modern industrial economies, productive capacity has been built up to a point where most markets are buyer markets (the buyers are dominant) and sellers have to scramble for customers. Prospects are bombarded with TV commercials, newspaper ads, direct mail, and sales calls. At every turn, someone is trying to sell something. As a result, the public often identifies marketing with hard selling and advertising.

But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it; and if they don't, that they won't bad-mouth it or complain to consumer organizations and will forget their disappointment and buy it again. These are indefensible assumptions. One study showed that dissatisfied customers may bad-mouth the product to 10 or more acquaintances; bad news travels fast.

The Difference Between Selling and Marketing

Before we move on to the marketing concept, let us analyse the difference between *selling* and *marketing*

Marketing is much wider than selling, and much more dynamic. In fact, there is a fundamental difference between the two. Selling revolves around the needs and interests of the seller; marketing revolves around the needs and interests of the buyer. Selling starts with the existing products of the corporation and views business as a task of somehow promoting these products. Marketing on the contrary starts with the customers—present and potential—and views business as a task of meeting the needs of the customers by producing and supplying those products and services that would meet such needs. Selling seeks profits by 'pushing' the products on the buyers. Marketing too, seeks profits, but not through aggressive pushing of products, but by meeting the needs of customers and by creating value satisfactions for them. In other words, marketing calls upon the corporation to choose products, prices and methods of distribution and promotion, which will meet the needs of the customers. It does not unwisely limit its role to persuading the customers to accept what the corporation already has or what it can offer readily.

To quote Theodore Levitt, "The difference between selling and marketing is more than semantic. A truly marketing-minded firm tries to create value-satisfying goods and services which the consumers will want to buy. What it offers for sale is determined not by the seller but by the buyer. The seller takes his cues from the buyer and the product becomes the consequence of the marketing effort, not vice-versa. Selling merely concern itself with the tricks and techniques of getting the customers to exchange their cash for the company's products; it does not bother about the value satisfactions that the exchange is all about. On the contrary, marketing views the entire business as consisting of a tightly integrated effort to discover, create, arouse and satisfy customer needs."

Chart 1.1: The Difference Between Selling and Marketing

Selling	Marketing
Selling starts with the seller, and is preoccupied all the time with the needs of the seller.	Marketing starts with the buyer and focuses constantly on the needs of the buyer.
Seller is the centre of the business universe; activities start with the sellers' existing products.	Buyer is the centre of the business universe; activities follow the buyer and his needs.
Emphasises on saleable surplus available within the corporation.	Emphasises on identification of a market opportunity.
Seeks to quickly convert 'products' into 'cash'.	Seeks to convert customer 'needs' into 'products'.
Concerns itself with the tricks and techniques of getting the customers to part with their cash for the products available with the salesman.	Emphasises on fulfilling the needs of the customers.
Views business as a 'goods producing process'.	View business as a 'customer satisfying process'.
Overemphasises the 'exchange' aspect, without caring for the 'value satisfactions' inherent in the exchange.	Concerns itself primarily and truly with the 'value satisfactions' that should flow to the customer from the exchange.
Seilers 'preference dominates the formulation of the 'marketing mix'.	Buyer determines the shape the 'marketing mix' should take.
	What is to be offered as a product is determined by the customer.
The firm makes the product first and then figures out how to sell it and make profit.	The firm makes a 'total product offering' that will match and satisfy the identified needs of the customer.
	The 'product' is the consequence of the marketing effort; the marketing effort leads to products that the customers actually want to buy in their own interest.
Emphasis on staying with the existing technology and reducing costs.	Emphasis on innovation in every sphere; on providing better value to the customer by adopting better technology.
Sellers' motives dominate marketing communications.	Marketing communications is looked upon as the tool for communicating the benefits/satisfactions provided by the product.
Cost determines the price.	Consumer determines price; price determines costs.
Transportation, storage and other distribution functions are perceived as mere extensions of the production function.	They are seen as vital services to be provided to the customer, keeping customer's convenience in focus.
Emphasis is on 'somehow selling' : there is no coordination among the different functions of the total marketing task.	Emphasis is on integrated marketing; an integrated strategy covering product, promotion, pricing and distribution.
Different departments of the business operate as separate watertight compartments.	All departments of the business operate in a highly integrated manner, the sole purpose being generation of consumer satisfaction.
In firms practising 'selling', production is the central function of the business.	In 'firms practising 'marketing', marketing is the central function of the business; the entire company or business is organised around the marketing function.
'Selling' views the customer as the last link in the business.	'Marketing' views the customer as the very purpose of the business; sees the business from the point of view of the customer; customer consciousness permeates the entire organisation—all departments and all people in the organisation—all the time.

The Marketing Concept

The marketing concept is a business philosophy that challenges the three business orientations we just discussed. Its central tenets crystallized in the mid-1950s.

- The ***marketing concept*** holds that the key to achieving its organizational goals consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its chosen target markets.

The marketing concept has been expressed in many colorful ways :

"Meeting needs profitably."

"Find wants and fill them."

"Love the customer, not the product."

"Have it your way." (Burger King)

"You're the boss." (United Airlines)

"Putting people first." (British Airways)

"Partners for profit." (Milliken and Company)

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts:

> *Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.*

The marketing concept rests on four pillars : *target market, customer needs, integrated marketing,* and *profitability.* They are illustrated in Figure 1.5, where they are contrasted with a selling orientation. The selling concept takes an inside-out perspective. It starts with the factory, focuses on existing products, and calls for heavy selling and promoting to produce profitable sales. The marketing concept takes an outside-in perspective. It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers, and produces profits by satisfying customers.

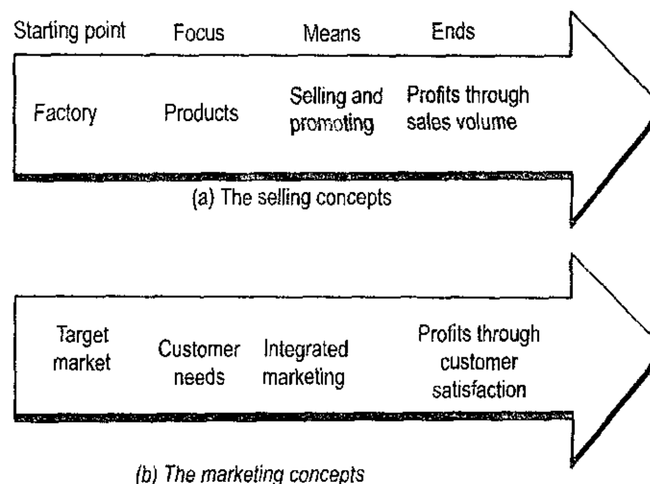


Figure 1.5: Selling vs marketing concept

Target Market

Companies do best when they choose their target market(s) carefully and prepare tailored marketing programs. Palmolive is offering different types of soaps depending on the different types of skins.

Customer Needs

A company can define its target market but fail to understand correctly the customers' needs.

Understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious. Or they cannot articulate these needs. Or they use words that require some interpretation. What does it mean when the customer asks for an "inexpensive" car, a "powerful", a "fast" lathe, an "attractive" shirt, or a "restful" hotel ?

Consider the customer who says he wants an inexpensive car. The marketer must probe further. We can distinguish among five types of needs :

1. *Stated needs* (the customer wants an inexpensive car)
2. *Real needs* (the customer wants a car whose operating cost, not its initial price, is low)
3. *Unstated needs* (the customer expects good services from the dealer)
4. *Delight needs* (the customer would like the dealer to include a gift of a Indian road atlas.
5. *Secret needs* (the customer wants to be seen by friends as a savvy consumer).

Reponding only to the stated need may shortchange the customer. Consider a woman who enters a hardware store and asks for a sealant to seal glass window panes. This customer is stating a *solution*, not a need. The salesperson might suggest that tape would provide a better solution. The customer may appreciate that the salesperson met her need, not her stated solution.

A distinction needs to be drawn between *responsive marketing, anticipative marketing* and *creative marketing.* A responsive marketer finds a stated need and fills it. An anticipative marketer looks ahead into what needs customers may have in the near future. A creative marketer looks ahead into what needs customers may have in the near future. A creative marketer discovers and produces solutions customers did not ask for but to which they enthusiastically respond. Hamel and Prahalad believe that companies must go beyond just asking consumers what they want :

> *Customers are notoriously lacking in foresight. Ten or 15 years ago, how many of us were asking for cellular telephones, fax machines, and copiers at home, 24-hour discount brokerage accounts, multivalve automobile engines, compact disc players, cars with on-board navigation systems, hand-held global satellite positioning receivers, automated teller machines, MTB, or the Home Shopping Network* ?

Sony [illegible] a creative marketer because it has introduced many successful new products that customers never asked [illegible] or even thought were possible : Walkmans, VCRs, videocameras, CDs, and so on. Sony goes [illegible] led marketing; it is a *market-driving* firm, not just a market-driven firm. Akio Morita, its [illegible] doesn't serve markets; we create markets.

[illegible] Because a company's sales in each period come [illegible] a new customer can

cost five times as much as pleasing an existing one. And it might cost sixteen times as much to bring the new customer to the same level of profitability as the lost customer. *Customer retention* is thus more important than *customer attraction.*

Integrated Marketing

When all the company's departments work together to serve the customer's interest, the result is *integrated marketing.* Unfortunately, not all employees are trained and motivated to work for the customer. An engineer once complained that the salespeople are "always protecting the customer and not thinking of the company's interest"! He went on to blast customers for "asking for too much." The following example highlights the coordination problem :

> *The marketing vice president of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction through providing better food, cleaner cabins, better trained cabin crews, and lower fares. Yet he has no authority in these matters. The catering department chooses food that keeps down food costs; the maintenance department uses cleaning services that keep down cleaning costs; the human resources department hires people without regard to whether they are naturally friendly; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in creating an integrated marketing mix.*

Integrated marketing takes place on two levels. First, the various marketing functions—sales forces, advertising, customer service, product management, marketing research—must work together. Too often the sales force thinks product managers set prices or sale quotas "too high"; or the advertising director and a brand manager cannot agree on an advertising campaign. All these marketing functions must be coordinated from the customer's point of view.

Second, marketing must be embraced by the other departments; they must also "think customer." According to David Packard of Hewlett-Packard : "Marketing is far too important to be left only to the marketing department!" Marketing is not a department so much as a companywide orientation. Xerox goes so far as to include in every job description an explanation of how that job affects the customer. Xerox factory managers know that visits to the factory can help sell a potential customer if the factory is clean and efficient. Xerox accountants know that customer attitudes are affected by Xerox's billing accuracy and promptness in returning calls.

To foster teamwork among all departments, the company carries out internal marketing as well as external marketing. *External marketing* is marketing directed at people outside the company. *Internal marketing* is the task of hiring, training, and motivating able employees who want to serve customers well. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Managers who believe the customer is the company's only true "profit center" consider the traditional organization chart in Figure 1.6 (*a*)—a pyramid with the president at the top, management in the middle, and front-line people and customers at the bottom—obsolete. Master marketing companies invert the chart, as shown in Figure 1.6 (*b*). At the top are the customers; next in importance are the front-line people who meet, serve, and satisfy the customers; under them are the middle managers, whose job is to support the front-line people so they can serve the customers well; and at the base is top management, whose job is to hire and support good middle managers. We have added customers along the sides of Figure 1.6 (*b*) to indicate that all the company's managers must be personally involved in knowing, meeting, and serving customers.

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest. Yet a number of companies have achieved notable sales and profit gains by adopting and practising the societal marketing concept.

Exhibit: Marketing Concept Put into Practice by British Airways

When I joined British Airways' customer relations department in 1991, I found that the department took more than 12 weeks on an average, to respond to customer grievances. It lost 60 per cent of calls from customers on any given day. And, the cost of compensating customers was rising rapidly.

BA takes a new approach to customer relations : The new team in customer relations, decided to take a proactive role in retaining customers. The new motto was : *To champion the customer, as opposed to defending the company.*

Find out why customers defected : Making quick amendments when a service failure occurred and eliminating the operational weaknesses behind them became the focus. We had first to improve our understanding of why customers defected. Some customers left BA though they had no complaint; their reasons ranged from a job change to another airlines' new frequent flier's programme. As for customers who had some grievances, 50 per cent chose not to tell us anything; they simply defected to other airlines. Out of those who did contact someone at BA about their grievances, 87 per cent did not defect.

Make customers into champions : The conclusion was that those who wished to tell us about the service they had received could be turned around. We found out more about these customers and ultimately developed a model 'Making Customers into Champions'.

Transforming BA's traditional defensive role : We have first we have to transform our culture and methods. All along, customer relations had served as an investigator and adjudicator and had pursued four basic objectives :

(*i*) To insulate the company from unhappy customers. Accordingly, customer relations was highly centralised, conducted little analysis of customer data, and mostly did not disseminate it.

(*ii*) To assign blame for poor service, rather than to help the organisation learn how to prevent or fix problems. As a result, line functions saw the customer relations department as an adversary.

(*iii*) To buy dissatisfied customers' silence for the lowest possible price. Framing detailed rules for compensation was the result.

(*iv*) To focus on the volume of grievance handling activity—to process the largest possible number of customer complaints. Consequently, the level of service to complaining customers was lost sight of. Customers did not find customer relations easily accessible.

The new objectives : The new team insitituted four new objectives :

(*i*) To use customer feedback more effectively for improving the service quality. We installed systems to collect and analyse customer data, and to distribute the findings to BA's operations around the world.

(*ii*) To strive to prevent future service problems through teamwork. We tried to achieve this objective by having line operations join us in monthly reviews to discuss how customers were perceiving service quality.

(*iii*) To change our approach to customer compensation so that it would meet customers' needs. For this, we instituted a policy of dealing with all cases individually and began holding internal reviews each month to identify the most effective means of retaining customers.

(*iv*) To practise customer retention, not adjudication. Accordingly, we changed the way of measuring our performance. We started assessing it on the basis of customer-retention rates, that is, on the basis of the

division's effectiveness in retaining customers with the resources available. Preventing customer defection became the main aim. It was translated into modus operandi of 'retain, invest, prevent', which was incorporated into all training programmes, coaching sessions and performance criteria.

Retaining the customer is job one : First and foremost, we had to retain the customer. Debating whether the customer was correctly perceiving facts was a non-issue. We had to deal with their perception, if we were *going to hold on to them. In training, we helped staff to understand the following :*

- If BA replies to a customer and claims that events did not happen as the customer had stated, then the customer perceives BA to be calling him a liar.
- If after investigating, BA reports back that events indeed took place as the customer claimed, then the customer could become even more agitated because he infers that BA did not believe him at first.
- If BA passes on some information to the customer to the effect that he did not know, he may think that BA is finding excuses for poor service.

To deal with these issues, customer relations developed a four-step process and incorporated it into all our technical and human systems.

- Apologise and own the problem. Customers do not care whose fault it was or who was to blame; they want an apology and they want someone to champion their cause.
- Do it quickly. Aim to reply to the customer the same day, and if that is not possible, certainly do it within 72 hours.
- Assure the customer that the problems are being fixed.
- Do it by phone.

Towards obtaining information and responding to complaints quickly, we invested in a re-engineering effort that included :

Computerised customer case history : We introduced an image-based computer system, Caress (for Customer Analysis and Retention System), eliminating all paper. Caress also allowed a customer's case history to be shared easily and quickly across the organisation and makes it easier to spot trends.

Redesigning the customer-service process : In conjunction with Caress, we overhauled the number of administrative steps required to serve a customer from 13 to 3.

Throwing out the rule book : The rule book mindset was eliminated. Instead, each customer relations employee was fully autorised to use whatever resources he thought were necessary for keeping a customer's business. The new system for assessing the division's effectiveness in retaining customers ensured that expenditures did not skyrocket.

Building interpersonal skills : Whereas, previously the focus of training had been on writing grammatically correct letters, the new emphasis was on coaching employees on how to allay customer's anger, how to negotiate a win-win situation for the customer and company, how to listen and empathise and how to be assertive without being defensive. In addition, employees were trained to help each other cope with their emotionally gruelling jobs, lest they took it out on customers.

Encouraging customers to communicate : Our research found that less than 10 per cent of customers ever communicated with the airline about service issues—good or bad. Of those with complaints, only 8 per cent contacted customer relations. These customers turned out to be our most loyal : They not only stayed with BA, they also provided invaluable information on service quality. The key, therefore, was to get more customers to communciate back.

Customer retention policy pays back : Data told us that this pursuit was well worth it : *for every single pound invested in our customer retention efforts. BA received two pounds back.* The benefit was made

up of three components. First, by resolving more and more customer problems up front, BA now, had to spend much less on retaining customers. Second, the satisfied customers now gave BA more of their business. Finally, these customers helped win additional business by actively promoting BA to others.

BA listens to customers intently : Customer relations employed new measures to increase its approachability. The first was the establishment of listening posts. These included an international, postage-paid card that customers could use to mail in comments; customer forums attended by BA executives where customers could air grievances; and the 'Fly with Me' programme, in which, BA representatives and customers would fly together, to experience customer problems first hand.

Prevent it from happening again : Finally, success of the strategy required partnerships among customer relations and other BA departments. Only with such partnerships could BA move from cure to prevention, utilising all information to spot service failures and to design an early warning mechanism on potential service failures.

Marketing Mix

Marketing is a process of creating and delivering value. What is the mechanism through which a marketer carries out the value delivery process ? The marketer delivers value to the customer basically through his *market offer*. He takes care to see that the offer fulfils the needs of the customers. He also ensures that the customer perceives the terms and conditions of the offer as more attractive, vis-a-vis other competing offers.

How is this actually accomplished ? If we turn to the nuts and bolts of this task, we can see that in the first place, the marketer creates the product that will meet the identified needs of the consumer. Second, he carries out functions such as transportation, so that the product can conveniently reach the consumer. Third, he communciates the benefits of the offer to the consumer by carrying out various promotional activities such as personal selling, advertising and sales promotion. Lastly, he tackles the price mechanism and consummates the marketing task by arriving at a price that is acceptable to the consumer. These are the elements with which the marketer accomplishes his value-delivering task.

The four elements mentioned above—product, distribution, promotion and pricing—constitute the *marketing mix* of the firm. The marketing mix is the sole vehicle for creating and delivering customer value.

It can be easily seen that all activites and programmes, which a marketer designs and carries out in his effort at winning customers, relate to one or the other of the above four elements—product, distribution, promotion and pricing. It can also be seen that in each of these elements, there are several sub-elements. For example, packaging is one of the sub-elements of product and warehousing is one of the sub-elements of distribution.

It was James Culliton, a noted marketing expert, who coined the expression *marketing mix* and described the marketing manager as a mixer of ingredients. To quote him. 'The marketing man is a decider and an artist—a mixer of ingredients, who, sometimes follows a recipe developed by others and sometimes prepares his own recipe. And, sometimes he adapts his recipe to the ingredients that are readily available and sometimes invents some new ingredients, or, experiments with ingredients as no one else has tried before.' The dynamics of the marketing process and the versatility of the marketing mix tool cannot be described any better.

Marketers use numerous tools to elicit desired responses from their target markets. These tools constitute a *marketing mix.*

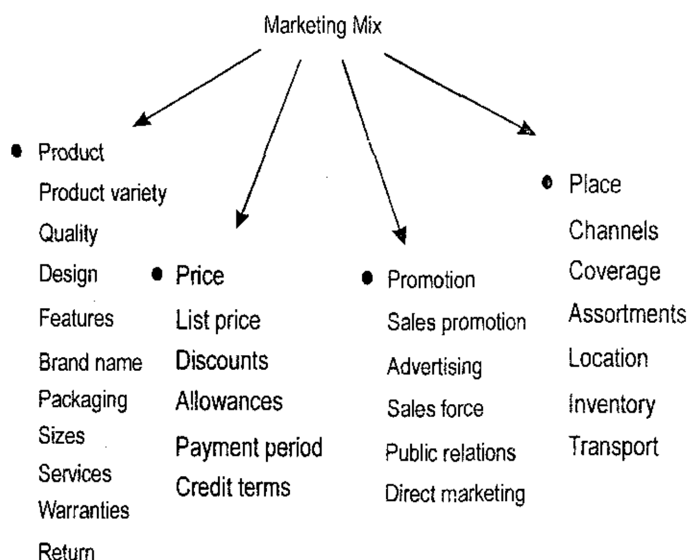


Figure 1.7: The Four P Components of the Marketing Mix

- ***Marketing mix*** is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

McCarthy classified these tools into four broad groups that he called the four Ps of marketing : product, price, place and promotion. The particular marketing variables under each P are shown in Figure 1.7. Marketing-mix decisions must be made for influencing the trade channels as well as the final consumers. Figure 1.8 shows the company preparing an *offering mix* of products, services, and prices, and utilizing a *promotion mix* of sales promotion, advertising, sales force, public relations, direct-mail, telemarketing, and Internet to reach the trade channels and the target customers.

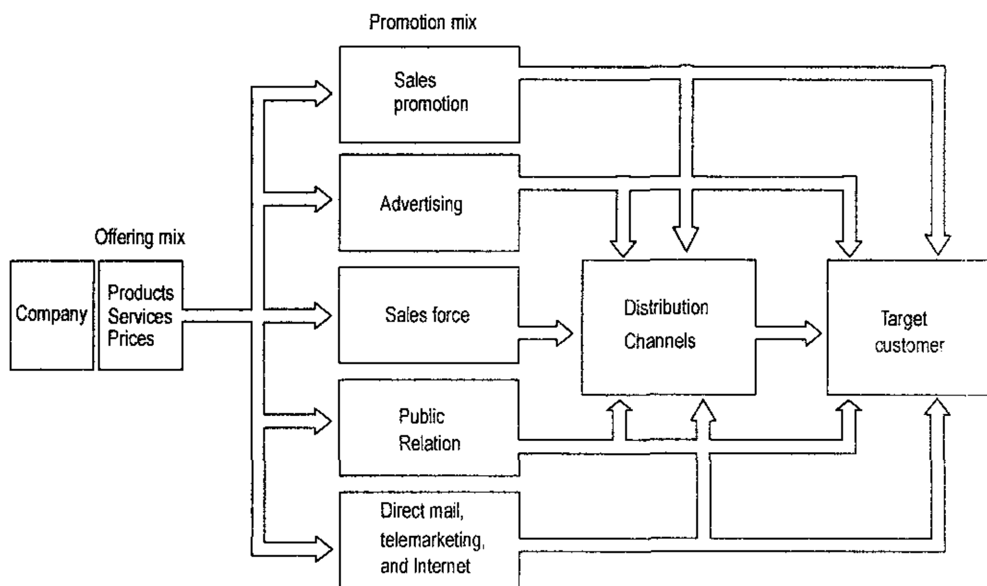


Figure 1.8: Marketing mix strategy.

Typically, the firm can change its price, sales force size, and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. Thus the firm typically makes fewer period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest.

Note that the four Ps represent the sellers' view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is designed to deliver a customer benefit. Robert Lauterborn suggested that the sellers' four Ps correspond to the customers' four Cs.

Four Ps	***Four Cs***
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Winning companies will be those who can meet customer needs economically and conveniently and with effective communication.

The First Element—Product

The term **product** refers to what the business or non-profit organization offers to its prospective customers or clients. The offering may be a tangible good, such as a car; a service, such as an insurance plan; or an intangible idea, such as the importance of donating eyes after the death.

Product *A good, service, or idea that offers a bundle of tangible and intangible attributes to satisfy consumers of marketing, because they can be controlled and manipulated by the market.*

Because customers often expect more from an organization than a simple, tangible product, the task of marketing management is to provide a complete offering— a "total product"—that includes not only the basic good or service but also the "extras" that go with it. The core product of a D.T.C. may be rides or transportation, for exmaple, but its total product offering should include courteous service, buses that run on time, and assistance in finding appropriate bus routes.

The product the customer receives in the exchange process is the result of a number of product strategy decisions. Developing and planning a product involves making sure that it has the characteristics and features customers want. Selecting a brand name, designing a package, developing appropriate warranties and service plans, and other product decisions are also part of developing the "right" product.

As you will see, product strategies must take into consideration the other three elements of the marketing mix. Price, distribution and promotion enhance the attractiveness of the product offering.

The Second Element—Place

Place (distribution) : *The element of the marketing mix that encompasses all aspects of getting products to the consumer in the right location at the right time.*

Place, or distribution, activities involve bridging the physical separation between buyers and sellers to assure that products are available at the right place. Determining how goods get to the customer, how quickly, and in what condition are decisions that are made to place products where and when buyers want them. Transportation, storage, materials handling, and the like are physical distribution activities. Selecting wholesalers and retailers or choosing to be an e-commerce company operating exclusively on the Internet are decisions about the structure and extent of distribution.

The examples so far have shown that every organization engages in marketing. Not every organization, however, has the resources or ability to manage all the activities that make up the distribution process. Thus, organizations may concentrate on activities in which they have a unique advantage and rely on wholesalers, retailers, and various other specialists to make the distribution process more efficient. For example, the Pepsi-Cola Corporation, which specializes in the production and promotion of soft drinks, finds it efficient to utilize independent bottlers and retailers to distribute its products to the ultimate consumer.

Channel of distribution : *The sequence of marketing organizations involved in bringing a product from the producer to the*

consumers.

A channel of distribution is the complete sequence of marketing organizations involved in bringing a product from the producer to the consumer. Its purpose is to make possible transfer of ownership and/or possession of the product. Figure 1.9 illustrates a basic channel of distribution consisting of the manufacturer, the wholesaler. the retailer, and the ultimate consumer. Each of these four engages in a transaction that involves movement of the physical good and/or a transfer of title (ownership) of that product. As you look at Figure 1.9, consider the following definitions :

A **manufacturer** is an organization that recognizes a consumer need and produces a product from raw materials. components parts, or labour to satisfy that need.

A **wholesaler** is an organization that serves as an intermediary between manufacturer and retailer to facilitate the transfer of products or the exchange of title to those products, or an organization that sells products to manufacturers or institutions that resell the products (sometimes in another form). Fig 1.9 shows the type of wholesaler that sells to retailers. Wholesalers neither produce nor consume the finished product.

A **retailer** is an organization that sells products it has obtained from a manufacturer or wholesaler to the ultimate consumer. Retailers neither produce nor consume the product.

The **ultimate consumer** is the individual who buys or uses the product for personal consumption.

The actual distribution path that a product or title takes may be simpler or much more complex than the one illustrated. For example, a computer manufacturer such as Dell may provide information about its products on the Internet, allow customers to place orders on the Internet, and then ship directly to a buyer.

Excluded from the channel of distribution are numerous specialists that perform specific facilitating activities for manufactuers, wholesalers, or retailers—for example, the truck or the railways that transports a product from Bangalore to New Delhi or the advertising agency like Mudra that creates the advertising message and selects the appropriate media. These specialists, or *collaborators*, are hired because they can perform a certain marketing activity in a basic marketing channel more effiiciently or more effectively than a producer can. However, they are not among the organizations included in our definition of channel of distribution.

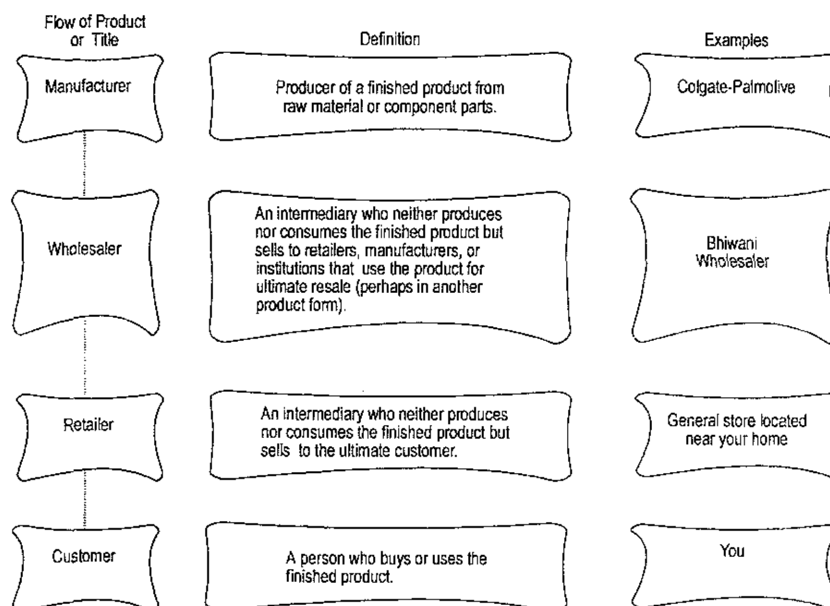


Figure 1.9: Who is involved in a Basic Channel of Distribution?

It is important to realize that distribution mixes vary widely even among companies selling directly competititve products. For example Amway use sales representatives selling directly to consumers as their primary source of distribution; Gillette and Colgate-Palmolive, selling similar goods, deal with many wholesalers and retailers in their distribution systems.

Further, a single organization may use different methods of distribution in different parts of the world.

The Third Element—Promotion

Promotion *: The element of the marketing mix that includes all forms of marketing communciation.*

Marketers need to communicate with consumers. **Promotion** is the means by which marketers "talk to" existing customers and potential buyers. Promotion may convey a message about the organization, a product, or some other element of the marketing mix, such as the new low price being offered during a sale period. Simply put, promotion is marketing communication.

Advertising, personal selling, publicity and sales promotion are all forms of promotion. Each offers unique benefits, but all are forms of communication that inform, remind, or persuade. For example, advertising that tells us "Thanda Matlab Coca-Cola" or "Chhotta Coke" reminds us of our experiences with a familiar cola. Or, when an IBM sales representative delivers a personal message during a sales presentation, this personal selling effort may be designed to explain how IBM's experience on the Internet and its computer servers help provide business solutions. The essence of all promotion is communication aimed at informing, reminding, or persuading potential buyers.

Different firms emphasize different forms of promotional communication, depending on their marketing objectives. Some firms advertise heavily, for example, whereas others advertise hardly at all. A firm's particular combination of integrated communication tools is its promotional mix.

THE FOURTH ELEMENT—PRICE

The money—or something else of value—given in exchange for something is its price. In other words, price is what is exchanged for a product. The customer typically buys a product with cash or credit, but the price may be a good or service that is traded. In not-for-profit situations, price may be expressed in terms of volunteered time or effort, votes, or donations.

Marketers must determine the best price for their products. To do so, they must ascertain a product's value, or what it is worth to consumers. Once the value of a product is established, the marketer knows what price to charge. However, because consumers' evaluations of a product's worth change over time, prices are subject to rapid change.

According to economists, prices are always, "on trial." Pricing strategies and decisions require establishing appropriate prices and carefully monitoring the competititive marketplace.

Price *: The amount of money or other consideration—that is, something of value—given in exchange for a product.*

THE ART OF BLENDING THE ELEMENTS

A manager selecting a marketing mix may be likened to a chef preparing a meal. Each realizes that there is no one best way to mix ingredients. Different combinations may be used, and the result will still be satisfactory. In marketing, as in cooking, there is no standard formula for a successful combination of ingredients. Marketing mixes vary from company to company and from situation to situation.

Marketing Mix Element	Company or Organization	Example
Product		
Product development	NOKIA	NOKIA-1100 Made for India (Shock & dust resistant mobile phone).
	Gillette Company	Gillette MACH-3 (Triple blade shaving system)
Product modification	Colgate-Palmolive	Colgate Total (toothpaste)
	ICICI Bank	Net Banking (Check your account on-line)
	Citizen	Eco-Drive Wrist watch (Never need a battery)
Branding	Bajaj Auto	Bajaj WIND 125 (The world bike)
Trademark	Asian Paints	Gattu
	Onida	Devil

Warranty	Panasonic	5 yr. warranty on Television.
PLACE (DISTRIBUTION)		
Channels of distribution	Hindustan Lever Limiter	Ships to wholesalers in different cities who then delivers to the retailers.
	Asian Sky Shop	Sells through franchisee (One in each city)
Physical distribution	Text Book Publishers	Use Courier services to send sample copy to faculty members
PROMOTION		
Advertising	Hutch	(1) Hi, (2) Wherever you go our network
	Fevicol	Lagta hai Fevicol Ka Jod hai, tootega nahin
PRODUCT		
Personal selling	Eureka Forbes	Water filter & Vacuum Cleaner.
	ICICI Bank/HDFC Bank	New Account Opening; Salary Account; Loans (Home & Car)
Sales promotion	Britannia Ind. Ltd.	Britannia Khao, Cricketer Ban Jao
	HLL	Lifebuoy : Buy 3, Get 1 Free
	HLL	Clinic Plus : Buy 1, Get 1 Free
Publicity	Film Stars & Crickets	Opening Boutique & Beauty Parlour
PRICE		
Price strategy	Colorplus	Premium ready to wear.
	Bazee.com	Website that offers products at low prices.

Figure 1.10

Figure 1.10, provides examples of many marketing mix elements. The vast majority of marketers agree that the blending of these elements is a creative activity. For example, though both firms are successful at selling motorcycles, the marketing mix strategies of Hero Honda's Splender and Kawasaki Bajaj's "Eliminator" differ greatly. For greater differences can be seen in marketing mixes for different products, such as Godrej GE washing machine and Cadbury Chocolates. The field of marketing encompasses such differing approaches because the design, implementation, and revision of a marketing mix is a creative activity.

Some experts claim that marketing is—or could be—a science. Certain aspects of marketing, such as the gathering and analyzing of information by marketing researchers, are indeed scientific in nature. The fact remains, however, that there are no pat solutions in marketing. Even frequently encountered problems have unique aspects requiring creative solutions. This absence of certainity may annoy those who are accustomed to solving math or accounting problems and arriving at one "right" answer. But marketing is different. Its relationship to the everchanging environment requires that it be dynamic, constantly altering its approaches to suit the marketplace. Each product's marketing mix must be critically analyzed and altered as the environment changes and new problems develop.

Chart 1.2: Marketing Mix/Four Ps of Marketing

Product

Product design, features, brand name, models, style, appearance.

Product quality.

Warranty.

Package : Design type, material, size, appearance and labelling.

Service : Pre-sale and after-sale, service standards, service charges.

Place

Channels of distribution : Channel design, types of intermediaries, location of outlets, channel remune-ration, dealer-principal relations, etc.

Physical distribution : Transportation, warehousing, inventory levels, order processing, etc.

Price

Pricing policies, margins, discounts and rebates

Terms of delivery, payment terms credit terms and instalment purchase facilities

Resale price maintenance.

Promotion

Personal selling Selling expertise, size of sales force and quality of sales force

Advertising . Media mix, vehicles programmes

Sales promotion.

Publicity and public relations.

Chapter 2

Strategic Marketing Planning

Nature, Importance and Scope of Strategic Planning

Strategic planning is the management task concerned with the growth and future of a business enterprise. Strategic planning can be viewed as a stream of decisions and actions that lead to effective strategies and which, in turn, help the firm achieve its growth objectives. The process involves a thorough self-appraisal by the corporation, including an appraisal of the businesses it is engaged in and the environment in which it operates.

Rapid Changes in Environment Necessitate a Strategic Perspective

It is no exaggeration to say that it is the fluctuating environment that renders strategic planning an indispensable task for the business firm. If the environment is by-and-large stable, things will be more predictable and convenient for the firm; it can stay with existing strategies, structures, products and markets. But, it is not so in actual practice. In the present times, in particular, the environment—and all its constituents—are changing fast. In fact, practically everything outside the four walls of the firm is changing and changing fast, resulting in a discontinuity with the past. The things happening are totally disconnected from the past experiences of the firm. Strategic planning navigates the corporate ship through the uncertain and turbulent environmetal waters.

Strategic Planning Provides the Direction to the Corporation and Indicates How Growth is to be Achieved?

A business firm cannot afford to travel in haphazard manner; it has to travel with the support of a road map. Strategic planning provides the road map for the corporation. It ensures that the enterprise keeps moving in the right direction. It serves as the hedge against risk and uncertainty, the hedge against costly mistakes and overnight vulnerability. It lends a framework for the corporation, which can ensure that decisions concerning the future—decisions on matters like product-market choices, and investments—are taken in a systematic and purposeful way. The focus of the corporation thus gets decided through this process.

Strategic planning works as the pathfinder to the various business opportunities; simultaneously, it serves as a corporate defence mechanism, which helps a firm avoid costly mistakes.

Enables Long-term Decisions Concerning the Firm

Starting from the corporation's mission and philosophy, down to choice of businesses and strategies, all vital aspects in the governance of business are chartered through strategic planning. It is through strategic planning that a corporation takes decisions concerning its mission, the businesses it will pursue and the markets it will serve it is through strategic planning, that it lays down its growth objective and formulates its strategies. In other words, all decisions of high significance and consequence to a corporation are taken through the strategic planning process.

Strategy is not something that can be taken out of one's hat and pushed into the market. To forge appropriate strategies, a company has to go through the strategic planning process. It has to do a good deal of homework. It has to bring to the fore the corporation's ambitions, identify its core competencies and competitive advantages, decide the businesses in which it should stay, the business it should quit, and the ones it should enter. It has to then decide on the actual strategies to employ.

Ensures Optimum Utilisation of Resources

Usually, the resources available to any business firm are limited. Naturally, the firm has to utilise its resources creatively and optimally. Strategic planning ensures such utilisation. It lends a frame of reference for investment decisions. It aids the concentrated application of the resources on vital areas, i.e. areas of best potential.

Prepares the Firm to Face the Future

Strategic planning is not a matter of merely projecting the future. It also prepares a corporation to face the future. It even shapes the future in the corporation'a favour. Its ultimate burden is to influence the mega environs in the corporation's favour, working into the environs and shaping them, instead of merely watching them, or getting carried away by them.
Strategic planning also helps a firm acquire the benfit of a lead time for all its crucial decisions and actions, as it helps the firm anticipate trends.

Helps Acquire Relevant Competitive Advantages

Strategic planning has the burden of equipping a corporation with the relevant competitive advantages in its fight for survival and growth. The more intense the competition, the more critical is the need for competitive advantage. And, they emanate through strategic planning.

Chart 2.1: Nature, Importance and Scope of Strategic Planning

- Serves as a road map for the corporation.
- Lays down the growth objectives of the firm and also provides the strategies need for achieving them.
- Serves as a hedge against uncertainty arising from environmental turbulence.
- Ensures that the firm remains a prepared organisation.
- Helps the firm understand trends in advance and provides the benefit of a lead time for taking crucial decisions and actions.
- Helps avoid haphazard response to environment.
- Provides the best possible fit between the firm and the external environment.
- Ensures that the firm's businesses, products and markets are chosen wisely.
- Ensures best utilisation of the firm' resources among the product-market opportunities.
- Helps build competitive advantages and core competencies.
- Prepares the firm to not only face the future but even to shape the future in its favour; helps the firm influence its mega environs in its favour to the extent possible.
- Draws from both institution and logic.

Overview

The environment within which marketing operates includes a number of factors directed by top management and others by marketing. To coordinate these factors and provide guidance for decision making, it is helpful to deploy a formal strategic planning process. To marketers, such a process consists of two main components: a strategic business plan and a strategic marketing plan.

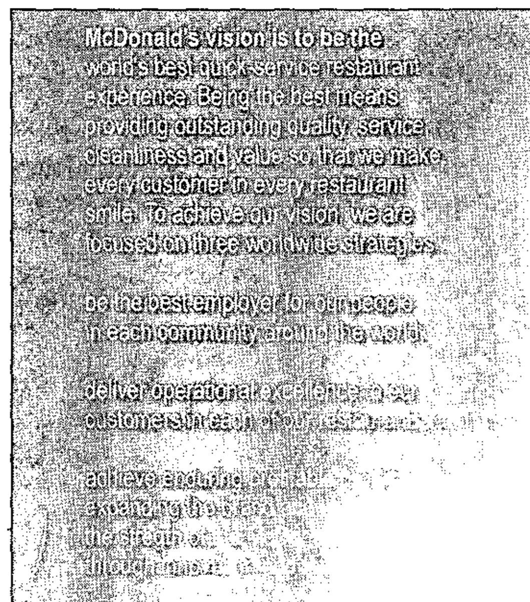


Figure 2.1: McDonald's: The Clear Srategic Vision of the Market Leader

Strategic planning involves both a strategic business plan and a strategic marketing plan.

A ***strategic business plan*** "describes the overall direction an organization will pursue within its chosen environment and guides the allocation of resources and effort. It also provides the logic that integrates the perspectives of functional departments and operating units, and points them all in the same direction." It has (1) an external orientation (2) a process for formulating strategies; (3) methods for analyzing strategic situations and alternatives; and (4) a commitment to action.

A ***strategic marketing plan*** outlines the marketing actions to undertake, why they are needed, who is responsible for carrying them out, when and where they will be completed, and how they will be coordinated. Thus, a marketing plan is carried out within the context of a firm's broader strategic plan.

Our discussion of strategic planning and marketing is presented early in this book for several reasons. One, strategic planning gives a firm direction and better enables it to understand the dimensions of marketing research, consumer analysis, and the marketing mix. It is a hierarchical process, moving from company guidelines to specific marketing decisions. Two, a strategic plan makes sure each division's goals are integrated with firmwide goals. Three, different functional areas are encouraged to coordinate efforts. Four, strategic planning forces a firm to assess its strengths and weaknesses and to consider environmental opportunities and threats. Five, the alternative actions or combinations of actions a firm can take are outlined. Six, a basis for allotting resources is set. Seven, the value of assessing performance can be seen. Figure 2.1 highlights how a firm can have a clear and directive strategic plan.

Marketing's Role in Strategic Planning is Indeed a Crucial Ine

The contribution to strategic planning and implementation begins with the analysis of market segments and an assessment of a firm's ability to satisfy customer needs. This includes analyzing demand trends, competition, and in industrial markets, competitive conditions. Marketing also plays a key role by working with top management to define business purpose, in terms of customer-need satisfaction. In a market-oriented view of the strategic planning process, financial goals are seen as results and rewards, not the fundamental purpose of business.

In this Chapter we discuss a total quality approach to strategic planning, various kinds of strategic plans, relationships between marketing and other functional areas, and the strategic planning process—and show how strategic marketing plans may be outlined and applied.

A Total Quality Approach to Strategic Planning

When devising strategic plans, any firm—small or large, domestic or global, manufacturing or services driven—should adopt a total quality viewpoint. ***Total quality*** is a process and output-related philosophy, whereby a firm strives to fully satisfy customers in an effective and efficient manner. To flourish, a total quality program needs a customer focus; top management commitment; an emphasis on continuous inprovement; and support from employees, suppliers, and distribution intermediaries:

- *Process-related philosophy*—Total quality is based on all the activities that create, develop, market, and deliver a good or service for the customer. A firm gains a competitive advantage if it offers the same quality good or service at a lower cost or if it offers better quality than other companies.
- *Output-related philosophy*—Although process-related activities give a good or service its value, the consumer usually can only judge the total quality of the finished product that he or she purchases. Many consumers care about what they buy, rather than how it was made.
- *Customer satisfaction*—To the consumer, total quality refers to how well a good or service performs. Thus, customer service is a key element in a person's ultimate satisfaction, which is affected by the gap between that person's expectations of product performance and actual performance.

- *Effectiveness*—To a marketer, this involves how well various marketing activities (such as adding new product features) are received by consumers.
- *Efficiency*—To marketer, this involves the costs of various marketing activities. A firm is efficient when it holds down costs, while offering consumers the appropriate level of quality.
- *Customer focus*—With a total quality viewpoint, a firm perceives the consumer as a partner and seeks input from that partner as it creates, develops, markets, and delivers a good or service.
- *Top management commitment*—Senior executives must be dedicated to making a total quality program work and to ensuring that corners are not cut in an attempt to be more efficient. In the best firms,"total quality" becomes ingrained as part of the corporate culture.
- *Continuous improvement*—In most cases, today's total quality will become tomorrow's suboptimal quality; so, a firm must continuously improve its quality. A complacent firm will be hurt by the dynamics of the marketplace and fast-paced technological and global marketplace trends.
- *Employee support and involvement*—For a total quality program to work, employees must "buy into" it. Empowering employees not only gets them involved in the total quality process, but it also assures that customer problems are promptly addressed and resolved in the customer's favour.
- *Supplier and distributor support and involvement*—Due to their involvement in creation total quality, suppliers and resellers can greatly affect it. They too must "buy into" firm's total quality efforts.

Figure 2.2 shows how a successful total quality program works. At the left are the participants in a total quality program, who together create total quality. There is an interchange among the parties and between the parties and the process. Through this process, a good's or service's effectiveness and efficiency are influenced; likewise, those factors are considered during the process. Total quality is the output of the process. The process and total quality itself are regularly improved. If a consumer feels a goods or service has superior total quality, a purchase is made. When experience with a good or service is pleasing, customer satisfaction occurs. Since one effectiveness measure is customer satisfaction, there is an impact arrow. Finally, satisfaction is

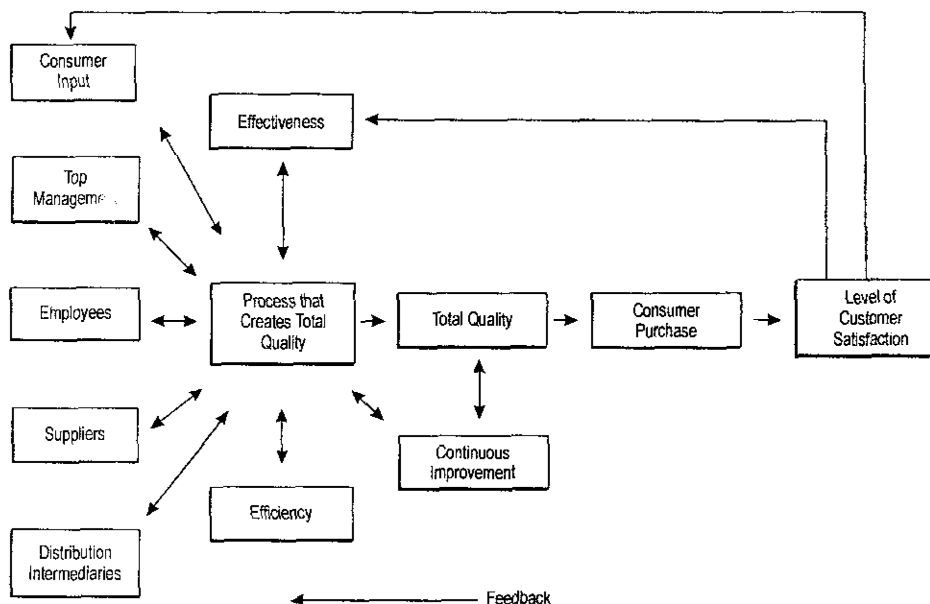


Figure 2.2: The keys to a Successful Total Quality Program

feedback that affects the consumer's future input into the process. The consumer's central focus is evident because the consumer appears three times: consumer input, consumer purchase, and customer satisfaction.

Sometimes, the total quality process breaks down in a way that may be difficult to fix. For example, many firms have had glitches with their Web sites, including heavy traffic causing system overloads, poor inventory and shipping coordination, too long a time for replies to E-mail, and so forth. These problems require expensive and time-consuming solutions.

Kinds of Strategic Plans

Strategic plans can be categorized by their duration, scope, and method of development. They range from short run, specific, and department generated to long run, broad, and management generated.

Plans may be short run (typically one year), moderate in length (two to five years), or long run (5 to 10 or even 15 years). Many firms rely on a combination: Short-run and moderate-length plans are more detailed and operational in nature than long-run plans.

At Japan's Canon, the maker of cameras, machines, and optical products: "For 30 years from its foundation, Canon focused on expanding its business in the field of cameras. In the next 30 years, we used camera-related technologies as a base for diversification into new businesses. Throughout our history, we have developed our operations while remaining attentive to the needs of the times. Now, as we target the next stage of growth, we have set multimedia as the key factor that will let us contribute in a continually advancing network society. In line with the digitization and integration of products from input (scanners and cameras) to output devices (printers and displays), we are working aggressively to take a leading role in the information and communications industries, the key sectors of the future."

The scope of strategic plans also varies. There may be separate marketing plans for each of a firm's major products; a single, integrated marketing plan encompassing all products; or a broad business plan with a section devoted to marketing. Separate marketing plans by product line are often used by consumer-goods manufacturers; a single, integrated marketing plan is often employed by service firms; and a broad business plan is often utilized by industrial-goods manufacturers. A firm's diversity and the number of distinct market segments it seeks both have a strong influence here.

Last, plans may be devised by a bottom-up, top-down, or combination approach. In bottom-up planning, input from salespeople, product managers, advertising people, and other marketing areas is used to set goals, budgets, forecasts, timetables, and marketing mixes. Bottom-up plans are realistic and good for morale. Yet, it may be hard to coordinate bottom-up plans and to include different assumptions about the same concept when integrating a companywide plan. Shortcomings of bottom-up plans are resolved in the top-down approach, whereby senior managers centrally direct planning. A top-down plan can use complex assumptions about competition or other external factors and provide a uniform direction for marketing. Input from lower-level managers is not actively sought and morale may diminish.

A combination of the two approaches could be used if senior executives set overall goals and policy, and marketing personnel form plans for carrying out marketing activities. As the chief executive of one firm once remarked : "You can't have a workable strategy forced down from the top. Empowering middle managers is a necessity. They manage what we as a corporation want to accomplish. To make them think strategically comes from sharing the direction and from having set of supportive organizational systems. So it's real work, not sermons, that makes us and our middle managers strategic thinkers."

Strengthening Relationships Between Marketing and other Functional Areas in an Organization

An organization's strategic planning must accommodate the distinct needs of marketing and other functional areas. This is not always simple, due to the different orientations of each area, as shown in Table 2.1. Marketers may seek tailor-made products, flexible budgets, non-routine transactions, many product versions, frequent purchases, customer driven new product, employee compensation incentives, and aggressive actions against competitors. This may conflict with goals of other functional areas to seek mass production (production),

stable budgets(finance), routinized transactions (accounting) limited models (engineering), infrequent orders (purchasing), technology-driven new products (research and development), fixed employee compensation (Personnel), and passive actions against competitors (legal).

Top management's job is to make sure every functional area sees the need for a balanced view in company decision making and has input on decisions. While some degree of tension among departments is inevitable, conflict can be reduced by encouraging interfunctional contact; seeking personnel with both technical and marketing expertise; forming multifunctional task forces, committees, and management-development programs; and setting goals for each department that take other deparments into account.

Table 2.1: The Orientations of Different Functional Areas

Functional Area	Major Strategic Orientation
Marketing	To attract and retain a loyal group of consumers through a unique combination of product, distribution, promotion, and price factors.
Production	To utilize full plant capacity, hold down per-unit production costs, and maximize quality control.
Finance	To operate within established budgets, focus on profitable items, control customer credit, and minimize loan costs for the company.
Accounting	To standardize reports, detail costs fully, and routinize transactions.
Engineering	To develop and adhere to exact product specifications, limit models and options, and concentrate on quality improvements.
Purchasing	To acquire items via large, uniform orders at low prices and maintain low inventories.
Research and Development	To seek technological break throughs, improvements in product quality, and recognition for innovations.
Personnel	To hire, motivate, supervise, and compensate employees in an efficient manner.
Legal	To ensure that a strategy is defensible against challenges from the government, competitors, channel members, and consumers.

The Strategic Planning Process

The *strategic planning process* has seven interrelated steps: defining organizational mission, establishing strategic business units, setting marketing objectives, performing situation analysis, devloping marketing strategy, implementing tactics, and monitoring results. Because the process encompasses both strategic business planning and strategic markiting planning it should be combination of senior company executives and marketers. It is depicted in Figure 2.3.

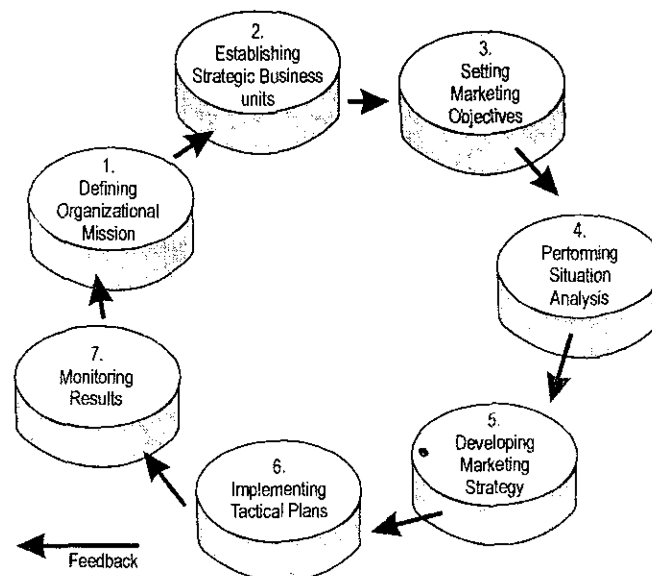


Figure 2.3:The Strategic planning Process

This process applies to small and large firms, consumer and industrial firms, goods and services based firms, domestic and international firms, and profit-oriented and non-profit oriented institutions. Planning at each step in the process may differ by type of firm, but using a thorough strategic plan is beneficial for any company.

The steps in strategic planning are discussed in the following sections.

Defining Organizational Mission

Organizational mission refers to a long-term commitment to a type of business and a place in the market. It "describes the scope of the firm and its dominant emphasis and values," based on that firm's history, current mangement preferences, resources, and distinctive competences, and on environmental factors.

An organizational mission can be expressed in terms of the customer group (s) served, the goods and services offered, the functions performed, and/or the technologies utilized. It is more comprehensive than the line of business concept. And it is considered implicitly whenever a firm seeks a new customer group or abandons an existing one, introduces a new product (good or service) category deletes an old one, acquire another company or sells a business, engages in more marketing functions (a wholesaler opening retail stores) or in fewer marketing functions (a small innovative toy maker licensing its inventions to an outside company that produces, distributes, and promotes them), or shifts its technological focus (a phone manufacturer placing more emphasis on cellular phones). Organizations that diversify too much may not have a clear sense of direction.

At the Coca-Cola Company, our mission is to maximize share-owner value over time. To achieve this mission, we must create value for all the constituents we serve, including our consumers, our resellers, our bottlers, and our communities. The Company creates value by executing a comprehensive strategy guided by six key beliefs: (1) Consumer demand drives everything we do. (2) Brand Coca-Cola is the core of our business. (3) We will serve consumers a broad selection of the nonalcoholic ready-to-drink beverages they want to drink throughout the day. (4) We will be the best marketers in the world . (5) We will think and act locally. (6) We will lead as a model corporate citizen. The ultimate objectives of our strategy are to increase volume, expand our share of worldwide nonalcoholic ready-to-drink beverage sales, maximize our long-term cash flows, and create economic-value-added by improving economic profit.

Exhibit 2.1. Examples of Mission Statements

Unilever: The mission of our company, as William Hasketh Lever saw it, is to make cleanliness commonplace, to lessen work for women, to foster health and to contribute to personal attractiveness, so that life may be more enjoyable for the people who use our products.

Merck: To preserve and improve human life.

McKinsey & Co: To help business corporations and governments to be more successful.

Cadbury India: To attain leadership position in the confectionery market and achieve a strong national presence in the food drinks sector.

Tata Information Systems: To be India's most successful and most respected IT company.

Reliance Industries: To become a major player in the global chemicals business and simultaneously grow in other growth industries like infrastructure.

Mukund Steel: Mukund Steel has spelt out its mission elaborately. A company characterised by explosive growth. Growth in business terms. Growth in character. A company with an attitude of constant achievement, movement, and inner strength. But always with feelings of warmth humanity and above all, pride in ouselves. These are the fou: dation of our company and they constantly amaze and thrill us.

Establishing Strategic Business Units

After defining its mission, a firm can form strategic business units. Each ***strategic business unit*** (SBU) is a self-contained division, product line or product department in an organization with a specific market focus and a manager with complete responsibility for integrating all functions into a strategy. An SBU may include all products with the same physical features or products bought for the same use by customers, depending on the mission of the organization. Each SBU has these general attributes:

- A specific target market.
- Its own senior marketing executive.
- Control over its resoursces.
- Its own marketing strategy.
- Clear-cut competitors.
- Distinct differential advantages.

The SBU concept lets firms indentify the business units with the most earnings potential and allocate to them the resources needed for growth. For instance, at General Electric, every SBU must have a unique purpose, identifiable competitors, and all its major business functions (manufacturing, finance, and marketing) within the control of that SBU's manager. Units not performing up to expectations are constantly reviewed and, if necessary, consolidated with other units, sold, or closed down.

The proper number of SBUs, depends on a firm's organizational mission, its resources, and the willingness of top management to delegate authority. A small or specialized firm can have as few as one SBU, a diversified one up to 100 or more.

Setting Marketing Objectives

A firm needs overall marketing objectives, as well as goals for each SBU. Objectives are often described in both quantitative terms (rupee sales, percentage profit growth, market share, etc.) and qualitative terms (image, level of innovativeness, industry leadership role, etc.)

Small firms' goals are often less ambitious than those set by their larger counterparts, but they are no less important. The goals are necessay to focus the firm and to be able to monitor the level of success or failure. Without Goals, how can a firm really measure its performance ?

Exhibit Corporate Objectives-Example of Reliance Industries

Taking into account the opportunities emerging in the environment and its own growth ambitions, strengths, and past performance, Reliance Industries has set its corporate objectives for the period 1997 —2002 as follows:

- Shareholder value of Reliance would be doubled by the year 2002.
- Sales revenue would reach Rs 20,000 crore by the year 2002.

- In petrochemicals, production capacity would be raised by 50 per cent from 6 million tonnes to 9.3 million tonnes.
- In Earnings Per Share and Return on Net worth 20 percent Compounded Annual Growth Rate
- A dividend of around 25 per cent would be paid out every year.
- The company will be choosing the 'best in class' technologies in all its businesses; emphasis would be on gaining strength in advanced process control and computer integrated manufacturing.
- There will be substantial investment towards enhancing the expertise of staff. The company will set up a Management Development Centre.
- Best of attention will be given to community health, safety and environmental protection, consistent with the company's position as a signatory to the Global Voluntary Responsible Care Initiative.

Performing Situation Analysis

In ***situation analysis,*** also known as SWOT analysis, an organization identifies its internal strengths *(S)* and weaknesses *(W),* as well as external opportunities *(O)* and threats *(T).* Situation analysis seeks to answer: Where is a firm now? In what direction is it headed? Answers are derived by recognizing both company strengths and weaknesses relative to competitors, studying the environment for opportunities and threats, assessing the firm's ability to capitalize on opportunities and to minimize or avoid threats, and anticipating competitor,' responses to company strategies.

Situation analysis can, and should be, conducted at any point in a firm's life. Consider this example.

What might Nike's customers want besides shoes and running apparel? When the company started asking that question a few years ago, it realized runners needed specialized sunglasses and watches. Then, it devised a speed-and-distance monitor that attaches the watch to the footwear; then a light weight wearable MP3 music player. What Nike calls its equipment business is doing $400 million a year and growing fast. On a much larger, industrial scale, GE's Power Systems business asked a similar question when it hit hard times several years ago and found that its customers—major electric utilities—were eager to buy a wide range of consulting and maintenance services. This was more than a good source of bonus revenue; margins on those services are considerably higher than on turbines and transformers, Power Systems' core products. This strategy is useful anytime, but a downturn often provides the motivation to make it happen

Here's what an accounting firm's SWOT analysis might look like: *Strengths:* experienced associates, prime location, reputation/image, income tax expertise. *Weaknesses:* seasonality dependence on senior partner, limited funds. *Opportunities:* idle resources during off-season (offices, computers, employees), joint marketing arrangements with noncompeting firms, fee-based seminars, tax reform. *Threats:* learning required to be expert in new regulations, technology (enabling self-preparation), IRS policies that simplify tax returns, competition from newer types of firms (such as online tax preparers).

Sometimes, situation analysis reveals weaknesses or threats that cannot be overcome, and a company opts to drop or sell a product line or divison.

Chart 2.2: Strength-Weakness Appraisal

Factors to be analysed in each function

Marketing

- Market standing
- Market share
- Innovation in marketing
- Customer satisfaction level
- Customer service level
- New product capability
- Pricing
- Channel position
- Marketing communications on the whole
- Advertising
- Sales promotion
- Personal selling
- Market research capability
- Marketing organisation
- Marketing costs
- Product mix and product lines

Product-wise position with respect to:

- Profitability
- Product quality
- Stage of the product life cycle
- Product design
- Product's sophistication/technological strength
- Differentiation
- Positioning
- Brand power
- Marketing capability in total

Finance

- Assets
- Liquidity
- Leverage
- Cash flow
- Cost of capital
- Profitability
- Costs
- Quality of financial management
- Knowledge and dynamism in tax planning
- Overall resource position/resource allocation by the corporation

Manufacturing/Operations

- Size or capacity of production
- Locational advantage
- Production facilities
- Post-production facilities
- Capacity utilisation
- Raw materials—their cost, quality and delivery
- Maintenance
- Cost of production
- Break-even position
- Productivity
- Inventory management
- Value engineering capability
- Experience curve benefit
- Flexibility
- Automation

R&D

- Nature, depth and quality of R&D capability
- Resource allocation for R&D
- Quality, expertise and experience of R&D personnel
- Speed of R&D
- Capability for engineering products based on R&D
- Record of patents generated/innovation
- Comparisons of R&D investment vs new products launched

Human resources

- Quality, knowledge, expertise and experience of personnel
- Morale and motivation of personnel
- Personnel turnover
- Labour costs
- Industrial relations

General factors: Image, relative priority assigned by the corporation, etc.

- Image of the unit
- Quality of management at the unit level
- Innovation record
- Performance record in recent years
- Organisational structure, especially marketing organisaton
- Adequacy of organisation for current and future strategies
- Share of corporate resources to the unit, priority assigned by the corporation
- Resources available in terms of money, people, materials, technology and facilities
- Adequacy of resources
- Use of IT—extent of use and degree of sophistication

Chart O-T Profile Developed by a Passenger Car Firm in India

Environmental factor	Opportunity	Threat
I. Macro environmental factors		
Political Environment	There is political stability in the country, though the days of single party rule are over. Democratic form has taken firm roots. There is political consensus on pitching the growth targets at a high level. Socialist moorings of the past have disappeared. Economic reforms have come to stay. On the whole, the political environment is investment friendly and enterprise supportive.	Since the government survives on slim majority, the policy environment lacks dynamism and boldness.
Social Environment	Burgeoning middle class. Double income, nuclear families with more disposable income on the rise. Socially, they are upwardly mobile. Increased urbanisation. Major changes are taking place in lifestyle. Demand for products—durable, soft, services—all going up. Demand for prsonal transport is high. Upper end of middle class is moving up from two-wheelers to cars. Living on credit facilities becomes the accepted pattern.	Rapid changes in consumption habits and lifestyles impose a degree of vulnerability on corporates.
Economic Environment	Economic reforms, liberalisation and globalisation carry good opportunities. Collaboration with foreign firms possible. FDI has also become easy. Big growth is taking place in services sector. Exchange rate and inflation are not too bothersome.	Liberalisation plus encouragement to foreign investment has made the passenger car industry highly competitive. All global players are here. One has to match them; otherwise, the game is up. Petroleum products are becoming more, scarce and costly. There is search for alternative energy.
Technology Environment	Technology import has been liberalised. Within the country too, efforts are on at technology development. One can move up the technology ladder through right strategies.	Those who cannot compete in technology are vulnerable.
Natural Environment	Generally conducive. India being a major producer of steel, raw material is ensured.	Though availability of the main raw material–steel–is no problem, cost competitiveness is lacking; Producti-vity has to improve compared to inter-national standards. A petroleum deficit country , it may impact the passenger car business.
Legal Environment	World recognises India's legal system as sound, fair and open. This is a great plus point for the international players; it will support inflow of foreign investment and MNCs commitment.	The legal process is rather slow. Labour law being stringent, exit for entrepreneurs is difficult.
II. Environmental factors specific to the industry		
The Consumer/Demand	Large consumer base; growing urban middle class. Increasing affluence; Double income families; aspirational life style; Two persons daily commuting for job will keep pushing up demand for personal transport, including cars. The wide choice available in cars, supported by easy facilities of hire-puchasing, has enhanced	Consumers are becoming more choosy while buying cars. They look for styling, comfort, etc., in addition to fuel efficiency. Now that Indian buyers have seen variety, they wait for new models.

	consumer interest. Consumers no longer see it as luxury; it has become a utility. Change in lifestyle and aspirations will support demand for passenger cars in the mid-price segment too. Demand is constantly on the increase, especially for small compact cars.	
The Industry/Competition	Demand will go up further when government policies, especially excise rates, help bring down prices of cars. A growth industry over the short as well as medium term. Though the industry is 50 years old, only now has it entered the real growth phase. Now, it is poised for high growth. Industry attractiveness/ profitability generally good in the medium term. Industry is gaining export orientation.	The rapid change in the industry-structure consequent to liberalisation, (de-licensing of the industry and permission of foreign investment) has taken away the protection enjoyed by the incumbent domestic players. For the new entrants too, competition is a major factor to reckon with. Intense competition and overcrowding likely to lead to a shakeout in the coming years. The demand cannot support so many players.
Technology	Those who command the best technology have the scope to stay on top. People are keen to buy a well-designed and well-made car.	Technology is in the hands of a few MNCs. The others will find the going tough. Now that the window to the world of technology has been opened, buyers are satisfied with nothing but the best. More investments and effort in technology and R&D are required on the part of every car maker.

Chart Strength-Weakness profile of Asian Paints

Area/Function: Marketing	Strength	Weakness
Market standing	Strong presence in the market; Steady growth in sales	Weak position in industrial paints; Asian Paints is far behind the leader Nerolac. Since this is the major growth segment, a lag here will be a major weakness.
Market coverage	Nationwide coverage; semi-urban and rural areas also well covered.	
Market share	Market leader in decoratives; closest competitor does not have even half of AP's share.	Market share in industrial paints is unsatisfactory.
Innovation in marketing	Very innovative, especially in distri-bution	
Product mix	Wide range; a large number of shades and pack sizes; 40 different decoratives, some in 150 shades and 8 different pack sizes	Wide product mix puts strain on production, distribution, accounting and administration. Competitors go in for hi-tech with spot mixing/ automated paint blending in retail points. J&N's Instacolour, ICI's Touch Colour, and Berger's Colour Bank, have become popular. AP has just joined the rest with it Colour World.
Packaging	Small packs, a major strength	Innovation in new products inadequate.
New product capability	Limited strength	
Pricing	Costs are controlled and prices pegged; High volumes are realised.	
Physical distribution service level	High; 85 per cent as against 50-60 per cent for competition; 100 fastest moving SKUs monitored daily for sales/stocking	

Contd.

Inventory management	Very good. Finished products inventory at 28 days against 51 days for the industry as a whole. Inventory holding cost lowest in the industry.	Ever expanding product mix exerts some strain on inventory management.
Channel strength	14,000 retail dealers in its fold. High market penetration in semi-urban and rural markets. 200-250 retailers added annually. Highly motivated channel	Competitors operate through a few wholesale distributors. Administra-tively, this is convenient. AP's system is complex.
Marketing communica-tion/promotion/adertising	Quite effective	
Personal selling	Effective	
Marketing organisation	Nationwide marketing outfit; 4 regional offices, 35 branch offices/depots, sales supervisor, representa-tives, plus 14,000 retailers	
Marketing costs	Marketing costs below competitors, Modern systems plus efficient marketing keep costs under check	High involvement in distribution coupled with ever-enlarging product range, keep pushing up costs.
Brand power	Has good brands in different price slots, like Utsav for rural lower-end markets, and Apcolite, Ace, and Apex for higher-end markets. Logo Gattu is very popular	Rural bias of Logo, Gattu. It is likely to contradict the new positioning for the premium brands meant for urban markets.
Credit policy	Efficient credit control. Credit Outstanding below 25 days sale, compared to competition's 40 days	
Market research	A good MR outfit. Fully computerised MIS.90 per cent accurate sales forecast helps finetune production, marketing and inventory control	
Marketing capabllity overall	High; AP's corporate success is largely an outcome of its high marketing capability	More innovation needed for the future; Competition is catching up fast; hi-tech facilities gives abundant choice. AP has to catch up with the trend to sustain leadership.

Developing Marketing Strategy

A marketing strategy outlines the way in which the marketing mix is used to attract and satisfy the target market(s) and achieved an organization's goals. Marketing-mix decisions center on product distribution, promotion, and price plans. A separate strategy is necessary for each SBU in an organization; these strategies must be coordinated.

A marketing strategy should be explicit to provide proper guidance. It should take into account a firm's mission, resources, abilities, and standing in the marketplace; the status of the firm's industry and the product groups in it (such as cola versus non-cola soft drink); domestic and global competitive forces; such environmental factors as the economy and population growth; and the best opportunities for growth—and the threats that could dampen it. For instance, IBM does a lot of image advertising as part of its overall marketing strategy in order to enhance its stature in the business community.

Four strategic planning approaches are presented next: product/market opportunity matrix, Boston Consulting Group matrix, General Electric business screen, and Porter generic strategy model.

The Product/Market Opportunity Matrix

The product/market opportunity matrix identifies four alternative marketing strategies to mainatain and/or increase sales of business units and products : market penetration, market development, product development,

Contd...

and diversification. See Figure 2.5. The choice of an alternative depends on the market saturation of an SBU or product and the firm's ability to introduce new products. Two or more alternatives may be combined.

Market penetration is effective when the market is growing or not yet saturated. A firm seeks to expand the sales of its present products in its present markets through more intensive distribution, aggressive promotion, and competitive pricing. Sales are increased by attracting nonusers and competitors' customers and raising the usage rate among current customers.

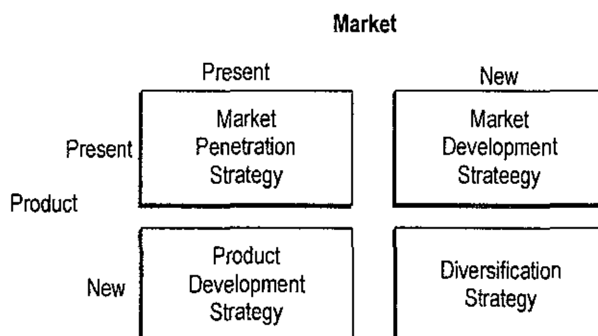


Figure 2.5: The product/Market Opportunity Matrix

Market development is effective when a local or regional business looks to widen its market, new market segments are emerging due to changes in consumer life styles and demographics, and innovative uses are discovered for a mature product. A firm seeks greater sales of present products from new markets or new product uses. It can enter new territories, appeal to segments it is not yet satisfying, and reposition existing items. New distribution methods may be tried; promotion efforts are more descriptive.

Product development is effective when an SBU has a core of strong brands and a sizable consumer following. A firm develops new or modified products to appeal to present markets. It stresses new models, better quality, and other minor innovations closely related to entrenched products—and markets them to loyal customers. Traditional distribution methods are used ; promotion stresses that the new product is made by a well-established firm.

Diversificaltion is used so a firm does not become too dependent on one SBU or product line. The firm becomes involved with new products aimed at new markets. These products may be new to the industry or new only to the company. Distribution and promotion orientaions are both different from those usually followed by the firm.

Here is how the product/market opportunity matrix can be applied to United Parcel Service—UPS.

Market penetration— UPS is the world's largest package-delivery firm. It advertises extensively on TV and in magazines. The current slogan is "Moving at the Speed of Business." It handles 1.8 million customers through its automatic daily pickup service.

Market development— It is stepping up efforts around the world, where client use of delivery services tends to be much less than in the United States. In 1990, UPS International operated in 40 nations; now, it is in more than 200 countries and territories. The firm's Web site is accessible in 15 languages and dialects, and has dedicated content for 112 countries.

Product development— It now offers more shipping choices than ever before, including Best Flight Same Day, Next Day Air Early A.M., Next Day (Air, Next Day), Air Saver, 2nd Day Air A.M., 2nd Day Air, 3 Day Select, Ground Next Day Air, and Worldwide Express services.

Diversification- While UPS' major focus is package delivery, it also runs such subsidiaries as UPS Worldwide Logistics—which offers inventory management, facilities planning, site location, and other services; UPS Business Communications Services, E-commerce, quality measurement, and telecommunications consulting; and UPS professional Services—a global management consulting group that delivers strategic business solutions through innovative technologies, financial analysis, and logistics know-how.

The Boston Consulting Group Matrix

The ***Boston Consulting Group matrix*** lets a firm classify each SBU in items of market share relative to key competitors and annual industry growth. A firm can see which SBUs are dominant compared to competitors and whether the industries in which it operates are growing, stable, or declining. The matrix highlights these SBUs: star, cash cow, question mark, and dog, as well as the strategies for them. See Figure 2.6.

The assumption is that the higher an SBU's market share, the better its long-run marketplace position because of rather low per-unit costs and high profitability. This is due to economies of scale (larger firms can automate or standardize production, service tasks, distribution, promotion, and so on), experience (as operations are repeated, a firm becomes more effective), and better bargaining power. At the same time, the industry growth rate indicates a firm's need to invest. A high growth rate means a big investment will be needed to maintain or expand the firm's position in a growing market.

A *star* is a leading SBU (high market share) in an expanding industry (high growth). The main goal is to sustain differential advantages despite rising competition. It can generate substantial profits but needs financing to grow. Market share can be kept or increased by intensive advertising, product introductions, greater distribution, and/or price reductions. As industry growth slows, a star becomes a cash cow.

A cash cow is a leading SBU (high market share) in a mature or declining industry (low growth). It often has loyal customers, making it hard for competitors to woo them. Since sales are rather steady, without high cost for product development and the like, a cash cow produces more cash (profit) than needed to keep its market share. Profits support the growth of other company SBUs. Marketing is oriented to reminder ads, periodic price discounts, keeping up distribution channels, and offering new styles or options to encourage repurchases.

A *question mark* is an SBU that has had little impact (low market share) in an expanding industry (high growth). There is low consumer support, differential advantages are weak, and competitors are leaders. To improve, a big marketing investment is needed in the face of strong competition. A firm must decide whether to beef up promotion, add distributors, improve product attributes and cut prices—or to abandon the market. The choice depends on whether a firm believes the SBU can compete successfully with more support and what that support will cost.

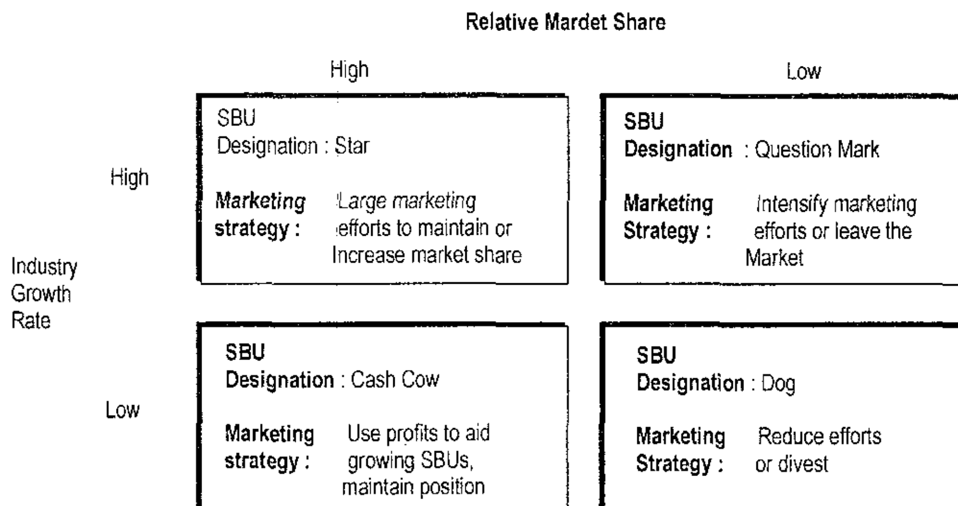


Figure 2.6: The Boston Consulting Group Matrix

A *dog* is an SBU with limited sales (low market share) in a mature or declining industry (low growth). Despite time in the marketplace, it has a small customer following—and lags behind competitors in sales, image, and so on. A dog usually has cost disadvantages and few growth oppotunities. A firm with such an SBU can appeal to a specialized market, harvest profits by cutting support, or exit the market.

The General Electric Business Screen

The ***General Electric business screen*** categorizes SBUs and products in terms of industry attractiveness and company business strengths. It uses more variables than the product/market opportunity matrix or the Boston Consulting Group matrix. Industry attractiveness factors include market size and growth, competition, technological advances, and social & legal environment. Company business strengths embody differential advantages, market share, patent protection, marketing effectiveness, control over prices, and economies of scale.An SBU may have high, medium, or low industry attractiveness, as well as high, medium, or low business strengths; it would be positioned accordingly on the screen in Figure 2.7.

SBUs in green are investment/growth areas. They are in strong industries and performing well. They are similar to stars in the Boston Consulting Group matrix. Full marketing resources are proper, and high profits are expected. Innovations, product-line extensions, product and image ads, distribution intensity, and solid price margins are pursued.

SBUs in yellow are selectivity/earnings areas. They are not positioned as well as investment/growth ones. An SBU may be strong in a weak industry (as a cash cow), okay in a somewhat attractive industry, or weak in an attractive industry (as a question mark). A firm wants to hold the earnings and strength of cash cows, and use marketing to maintain customer loyalty and distribution support. For question marks, a firm must decide whether to raise its marketing investment, focus on a specialized market niche, acquire another business in the industry, or trim product lines. The medium/medium SBU is an opportunity to appeal to underserved segments and to invest selectively in marketing.

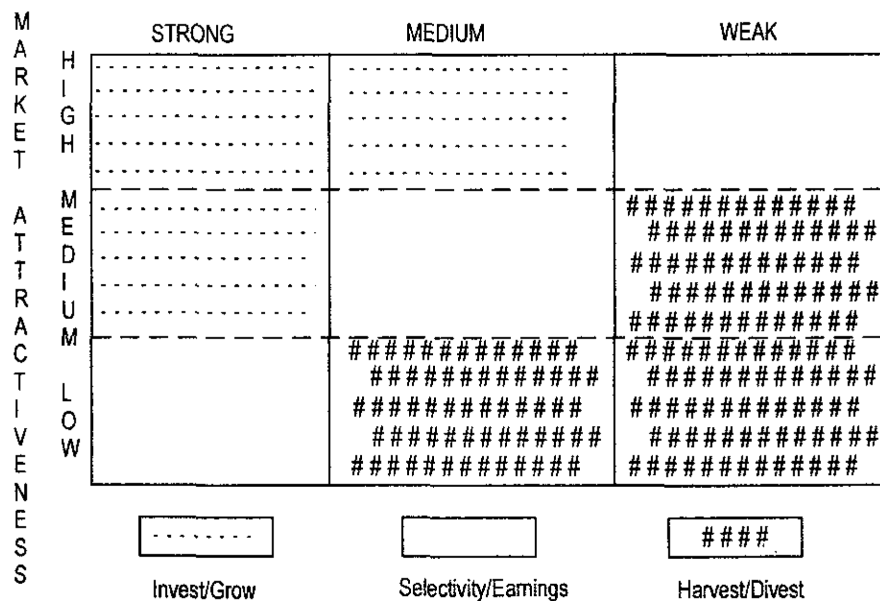


Figure 2.7: The General Electric Business Screen.

SBUs in red represent harvest divest areas. They are similar to dog in the Boston Consulting Group matrix. A firm can minimize its marketing effort, concentrate on a few products rather than a product line, divest, or close down the SBU. Profits are harvested because investments are minimal.

Bausch & Lomb applies the fundamentals of the business screen. It is building its current eye care businesses, as well as pursuing new opportunities within the global eye care market: "The company is a leading maker of contact lenses and lens care solution (including the ReNu and Boston brands). In addition to its eye care products, the firm also makes ophthalmic surgical equipment and prescription and over-the counter medications. The company has expanded these operations through acquisitions and increased R&D funding. To focus on and strengthen its core business, Bausch & Lomb has sold its sunglasses division (including the Ray-Ban brand), its Miracle Ear hearing aid business, and its Charles Rover Laboratories animal research business."

The Porter Generic Strategy Model

The ***porter generic strategy model*** identifies two key marketing planning concepts and the options available for each: competitive scope (broad or narrow target) and competitive advantage (lower cost or differentiation). The model pinpoints these basic strategies cost leadership, differentiation, and focus. See Figure 2.8

With a *cost-leadership strategy,* an SBU aims at a broad market and offers goods or services in large quantities. Due to economies of scale, a firm can reduce per-unit costs and have low prices. This gives it higher profit margins than competitors, responds better to cost rises, and/or lures price-conscious consumers. Among those using cost leadership are Aditya Vikram Birla Group (Cement, Steel), Reliance (Yarn).

In a *differentiation strategy,* an SBU aims at a large market by offering goods or services viewed as quite distinctive. The goods or services have a broad appeal, yet are perceived by consumers as unique by virtue of features, availability, reliability, etc.; price is less important. Among those using differentiation are Hutch, LG, Motorola Mobile Phones.

With a *focus strategy,* an SBU (which could be a small firm) seeks a narrow market segment via low prices or a unique offering. It can control costs by concentrating on a few key products aimed at specific consumers (cost focus) or by having a specialist reputation and serving a market unsatisfied by competitors (differentiation focus). For *e.g.*, HBO (movie channel) Star Sports—ESPN (Sports Channel) Colorplus (ready-to-wear garments)

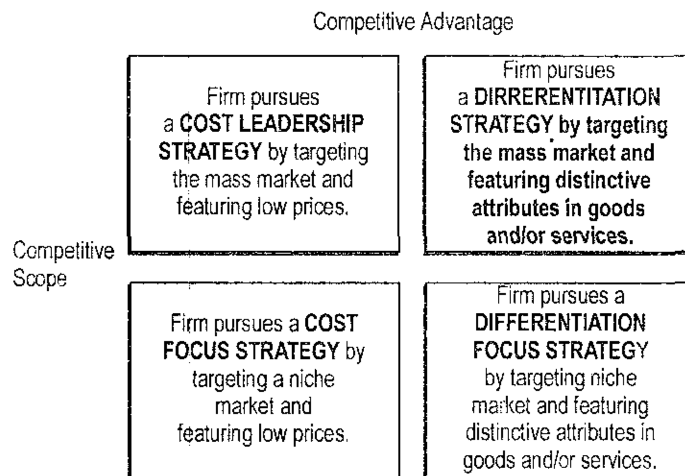


Figure 2.8: Porter Generic Strategy Model

The Porter model shows that a small firm can profit by concentrating on one competitive niche, even though its total market share may be [illegible]. Firm does not have to be large to do well.

Evaluation of strategic Planning Approaches

The strategic planning approaches just discussed are widely utilized—at least informally. Many firms assess alternative market opportunities; know which products are stars, cash cows, question marks, and dogs; recognize what factors affect performance; understand their industries; and realize they can target broad or narrow customer bases. Formally, strategic planning models are most apt to be used by larger firms; and the models are adapted to the needs of the specific firms employing them.

The approaches' major strengths are that they let a firm analyze all SBUs and products, study various strategies' effects, learn the opportunities to pursue and the threats to avoid, compute marketing and other resource needs, focus on meaningful differential advantages, compare performance with designated goals, and discover principles for improving. Competitors' actions and trends can also be studied.

The approaches' major weaknesses are that they may be hard to use (particularly by a small firm), may be too simplistic and omit key factors, are somewhat arbitrary in defining SBUs and evaluative criteria (like relative market share), may not be applicable to all firms and situations (a dog SBU may be profitable and generate cash), do not adequately account for environmental conditions (like the economy), may overvalue market share, and are often used by staff planners rather than line managers.

These techniques only aid planning. They do not replace the need for managers to engage in hands-on decisions by studying each situation and basing marketing strategies on the unique aspects of their industry, firm, and SBUs.

Implementing Tactical Plans

A *tactical plan* specifies the short-run actions (tactics) that a firm undertakes in implementing a given marketing strategy. At this stage, a strategy is operationalized. A tactical plan has three basic elements: specific tasks, a time frame, and resource allocation.

The marketing mix (specific tasks) may range from a combination of high quality, high service, low distribution intensity, personal selling emphasis, and above-average prices to a combination of low quality, low service, high distribution intensity, advertising emphasis, and low prices. There would be a distinct marketing mix for each SBU, based on its target market and strategic emphasis. The individual mix elements must be coordinated for each SBU and conflicts among SBUs minimized.

Proper timing (time horizon) may mean being the first to introduce a product, bringing out a product when the market is most receptive, or quickly reacting to a competitor's strategy to catch it off guard. A firm must balance its desire to be an industry leader with clear-cut competitive advantages against its concern for the risk of being innovative. Marketing opportunities exist for limited periods of time, and the firm needs to act accordingly.

Marketing investments (resource) are order processing or order generating. Order processing costs involve recording and handling orders, such as order entry, computer-data handling, and merchandise handling. The goal is to minimize those costs, subject to a given level of service. Order-generating costs, such as advertising and personal selling, produce revenues. Reducing them may be harmful to sales and profits. A firm should estimate sales at various levels of costs and for various combinations of marketing functions. Maximum profit rarely occurs at the lowest level of expenditure on order-generating costs.

Tactical decisions differ strategic decisions in several key ways:

- They are less complex and more structured.
- They have a much shorter time horizon.
- They require a considerably lower resource commitment.
- They are enacted and adjusted more often.

Monitoring Results

Monitoring results involves comparing the actual performance of a firm, business unit, or product against planned performance for a specified period. Actual performance data are then fed back into the strategic planning process. Budgets, timetables, sales and profit statistics, cost analysis, and image studies are just some measures that can be used to assess results.

When actual performance lags, corrective action is needed. For instance, "if implementation problems persist, it is not (in most instances) because employees mean to do the wrong thing. It is because they do not know the right thing to do. The first task in making strategy work is to identify the right behaviour—which reduces costs, improves quality, pleases customers, and adds to profits."

Some plans must be revised due to the impact of uncontrollable factors on sales and costs. Thus, many farsighted firms develop contingency plans to outline their responses in advance, should unfavourable conditions arise.

Exhibit Corporate Strategy Statement

Firm	ITC
Planning Period	2000-2005
Corporate Objectives	Income should double from the present level of Rs 6,000 crore per annum Return on Net Worth should reach 22 per cent.
Businesses/Product Market Posture	Foreign exchange earnings in the coming five years should be doubled that of current five years of US$ 1,100 million. Tobacco and cigarettes; Hotel and tourism; Packaging and printing; and Paper and paperboards will be the main businesses. In all these businesses, the entire national market plus attractive foreign markets will be targeted.
Growth Vector	Expansion of cigarettes unit through intensification and integration. Expansion in hotel business mainly through acquisition and alliances. Market development by entering new segments like semi-luxury and executive class. Divestment of troubled businesses like agri-business, financial business, and global trading, in case the strategy of repositioning and JVs does not work out.
Competitive Advantage and Synergy	In cigarettes: strength in tobacco farming, strong brands, 60 per cent market share. BAT connection and the permission to use BAT international brands in India. In hotel and tourism: Sheraton connection; this will be used to strengthen the Welcome group chain; already more than 60 per cent of Welcome group turnover is in forex, thanks mainly to Sheraton connection. In packaging: the 'leading supplier status' to cigarettes and liquor industries. In paperboards: Bhadrachalam's international quality plus its cost advantage with the recent modernisation; The new captive power facility; Captive farms with heavy expansion in social forestry to provide the raw material at lower cost; An international alliance will also be sought to strengthen Bhadrachalam brand.

The Marketing Process

Planning at the corporate, division, and business levels is an integral part of the marketing process. To fully understand that process, we must first look at how a company defines its business.

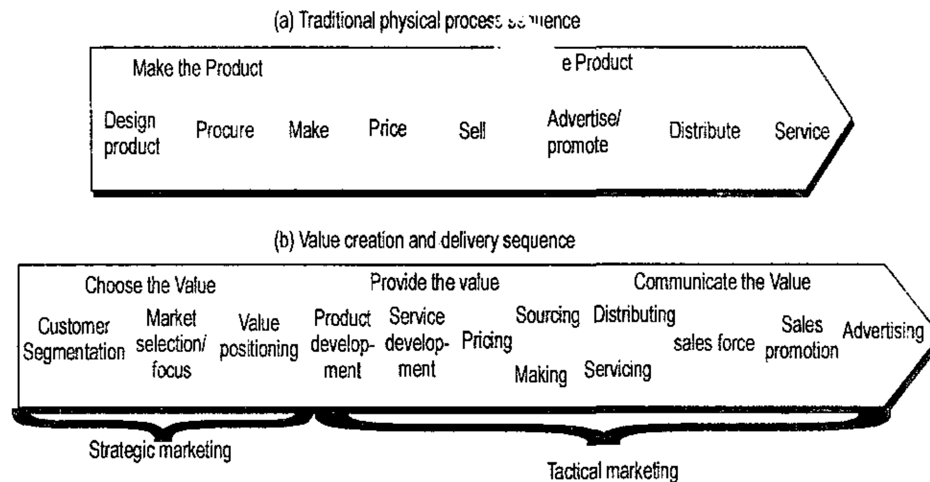


Figure 2.9: Two views of the Value-Delivery.

The task of any business is to deliver value to the market at a profit. There are at least two views of the *value-delivery process.* The traditional view is that the firm makes something and then sells it [Fig 2.9(a)]. For example, Thomas Edison invents the phonograph and then hires people to make and sell it. In this view, marketing takes place in the second half of the value-delivery process. The traditional view assumes that the company knows what to make and that the market will buy enough units to produce profits for the company.

Companies that subscribe to this traditional view have the best chance of succeeding in economies marked by goods shortages where consumers are not fussy about quality, features, or style. But the traditional view of the business process will not work in more competitive economies where people face abundant choices. The "mass market" is actually splintering into numerous micro markets, each with its own wants, perceptions, preferences, and buying criteria. The smart company therefore must design the offer for well-defined target markets.

The Value-delivery Sequence

This belief is at the core of the new view of business processes, which places marketing at the beginning of the planning process. Instead of emphasizing making and selling, companies see themselves as part of a value creation and delivery sequence [Figure 2.9(b)]. This sequence consists of three parts.

The first phase, choosing the value, represents the "homework" that marketing must do before any product exists. The marketing staff must segment the market, select the appropriate market target, and develop the offer's value positioning. The formula *"segmentation, targeting, positioning (STP)"* is the essence of strategic marketing.

Once the business unit has chosen the value, the second phase is providing the value. The tangible product's specifications and services must be detailed, a target price must be established, and the product must be made and distributed. Developing specific product features, prices, and distribution occur at this stage and are part of *tactical marketing.*

The task in the third phase is communicating the value. Here further tactical marketing occurs in utilizing the sales force, sales promotion, advertising, and other promotional tools to inform the market about the product. As Figure 2.9 (b) shows, the marketing process begins before there is a product and continues while it is being developed and after it becomes available. The Japanese have further developed this view by promulgating the following concepts:

- *Zero customer feedback time:* Customer feedback should be continuously collected after purchase to learn how to improve the product and its marketing.
- *Zero product-improvement time:* The company should evaluate all the customers' and employees' improvement ideas and introduce the most valued and feasible improvements as soon as possbile.

- *Zero purchasing time:* The company should receive the required parts and supplies continuously though just-in-time arrangements with suppliers. By lowering its inventories, the company can reduce its costs.
- *Zero setup time:* The company should be able to manufacture any of its products as soon as they are ordered, without facing high setup time or costs.
- *Zero defects:* The products should be of high quality and free of flaws.

Steps in the Planning Process

To carry out their responsibilities, marketing—whether at the corporate, division, business, or product level—follow a marketing process. Working within the plans set by the levels above them, product managers come up with a marketing plan for individual products, lines, or brands.

- **The** ***marketing process*** consists of analyzing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programs, and organizing, implementing, and controlling the marketing effort.

We will illustrate each step here in connection with the following situation:

Zeus, Inc. (name disguised) operates in several industries, including chemicals, cameras, and film. The company is organized into SBUs. Corporate management is considering what to do with its Atlas camera division. At present, Atlas produces a range of 35 mm cameras. The market for standard cameras is intensely competitive. On a growth-share matrix, this business is becoming a weak cash cow. Zeus's corporate management wants Atlas's marketing group to produce a strong turn-around plan. Marketing management has to come up with a convincing marketing plan, sell corporate management on plan, and then implement and control it.

The sections that follow apply to marketing planning at all levels of the organization. Later in this chapter, we will examine the components of a specific marketing plan developed to support a product line.

Analyzing Market Opportunities

The first task facing Atlas is to identify its potential long-run opportunities given its market experince and core competencies. Atlas can, of course, develop standard film cameras with better features. It can also consider designing a line of digital cameras or video cameras. Or Atlas can use its core competency in optics to design a line of binoculars and telescopes.

To evaluate its various opportunities, Atlas needs to manage a reliable marketing research and information system. Marketing research is indispensable marketing tool for assessing buyer wants and behaviour and assessing market size. The marketing people can research secondary sources, run focus groups, and conduct telephone, mail and personal surveys. By analyzing the collected data, Atlas will gain a better picture of the size of each market opportunity.

Marketing research gathers significant information about the marketing environment. Atlas's *microenvironment* consists of all the players who affect the company's ability to produce and sell cameras–suppliers, marketing intermediaries customers, competitors. Atlas's *macroenvironment* consists of demographic, economic, physical, technological, political-legal, and social-cultural forces that affect its sales and profits. An important part of gathering environmental information includes measuring market potential and forecasting future demand.

Atlas needs to understand *consumer markets.* It needs to know: How many households plan to buy cameras ? Who buys and why do they buy? What are they looking for in the way of features and prices? Where do they shop? What are their images of different brands? Atlas also sells cameras to *business markets,* including large corporation, professional firms, retailers, and government agencies. Purchasing agents or buying committees make the decisions. Atlas needs to gain a full understanding of how organizational buyers buy. It needs a sales

force that is well trained in presenting product benefits. Atlas must also pay close attention to competitors, anticipating its competitors' moves and knowing how to act quickly and decisively. It may want to initiate some surprise moves, in which it needs to anticipate how its competitors will respond.

Once Atlas has analyzed its market opportunities, it is ready to select target markets. Modern marketing practice calls for dividing the market into major market segments, evaluating each segment, and targeting those market segments that the company can best serve.

Developing Marketing Strategies

Suppose Atlas decides to focus on the consumer market and develop a *positioning* strategy. Should Atlas position its cameras as the "Cadillac" brand, offering a superior camera at a premium price with excellent service and strong advertising? Should it build a simple low-price camera aimed at more price-conscious consumers? Or should it develop a medium-quality, medium-price camera? Once Atlas decides on its product positioning, it must initiate new-product development, testing, and launching. Different decision tools and controls are needed at different stages of the new-product development process.

After launch, the product's strategy will need modification at the different stages in the product life cycle. introduction, growth , maturity, and decline. Furthermore, strategy choice will depend on whether the firm is a market leader, challenger, follower, or nicher. Finally, strategy will have to take into account changing global opportunities and challenges.

Planning Marketing Programs

To transform marketing strategy into marketing programs, marketing managers must make basic decisions on marketing expenditures, marketing mix, and marketing allocation. First, Atlas must decide what level of marketing expenditures will achieve its marketing objectives. Companies typically establish their marketing budget at a percentage of the sales goal. A particular company may spend more than the normal percentage ratio in the hope of achieving a higher market share. Second, the company has to decide how to divide the total marketing budget among the various tools in the marketing mix: product, price, and promotion.

Finally, marketers must decide on the allocation of the marketing budget to the various products, channels, promotion media, and sales areas. How many dollars should support Atlas's two or three camera lines? Direct versus distributor sales? Direct-mail advertising versus trade-magazine advertising ? To make these allocations, marketing managers use *sales-response function* that show how sales would be affected by the amount on money spent in each application.

The most basic marketing-mix tool is product—the firm's tangible offering to the market, which includes the product quality, design, features, branding, and packaging. As part of its product offering, Atlas may provide various services, such as leasing, delivery, repair, and training. Such support services can provide a competitive advantage in the globally competitive marketplace.

A critical marketing-mix tool is *price*. Atlas has to decide on wholesale and retail prices, discounts, allowances, and credit terms. Its price should be commensurate with the offer's perceived value. Otherwise, buyers will turn to competitors' products.

Place includes the various activities company undertakes to make the product accessible and available to target customers. Atlas must identify, recruit, and link various marketing facilitators to supply its products and services efficiently to the target market. It must understand the various types of retailers, wholesalers, and physical-distribution firms and how they make their decis[illegible]

Promotion includes all the acitivities the company undertak[illegible] [illegible]municate and [illegible]mote its products to the target market. Atlas has to hire, train, and motivate salespeople. It has to set up communication and promotion programs consisting of advertising, sales promotion, public relations, and direct and on-line marke[illegible]

Managing the Marketing Effort

The final step in the marketing process is organizing the marketing resources and then implementing and controlling the marketing plan. The company must build a marketing organization that is capable of *implementing* the marketing plan. In a small company, one person might carry out all the marketing tasks. Large companies such as Atlas will have several marketing specialists: salespeople, sales managers, marketing researchers, advertising personnel, product and brand managers, market-segment managers, and customer service personnel.

Marketing departments are typically headed by a marketing vice president who performs three tasks. The first is to coordinate the work of all of the marketing personnel. The second task is to work closely with the other functional vice presidents. The third is selecting, training, directing, motivating, and evaluating marketing personnel.

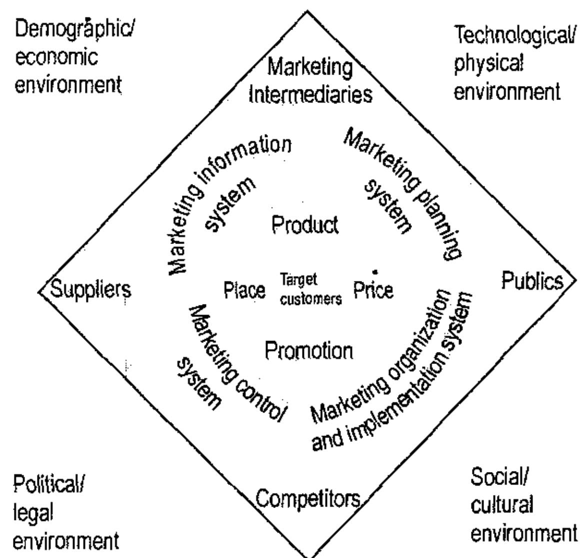


Figure 2.10: Factors Influencing Company Marketing Strategy

Because of surprises and disappointments as marketing plans are implemented the company needs feedback and control. There are three types of marketing controls.

1. *Annual-plan control* is the task of ensuring that the company is achieving its current sales, profits, and other goals. First, management must state well-defined goals for each month or quarter. Second, management must measure its performance in the marketplace. Third, mangement must determine the underlying causes of any serious performance gaps. Fourth, management must choose corrective actions to close gaps between goals and performance.

2. *Profitability control* is the task of measuring the actual profitability of products, customer groups, trade channels, and order sizes. This is not a simple task. A company's accounting system is seldom designed to report the real profitability of different marketing entities and activites. *Marketing profitability analysis* measures the profitability of different marketing activities. *Marketing efficiency studies* try to determine how various marketing activities could be carried out more efficiently.

3. *Strategic control* is the task of evaluating whether the company's marketing strategy is appropriate to market conditions. Because of rapid changes in the marketing environment, each company needs to

reassess its marketing effectiveness periodically through a control instrument known as the *marketing audit.*

Figure 2.10 presents a grand summary of the marketing process and the environment shaping the company's marketing strategy.

Contents of the Marketing Plan

- *Executive summary and table of content:* The marketing plan should open with a brief summary of the plan's main goals and recommendations. The executive summary permits senior management to grasp the plan's major thrust. A table of contents should follow the executive summary.
- *Current marketing situation:* This section presents relevant background data on sales, costs, profits, the market, competitors, distribution, and the macroenvironment. The data are drawn from a product fact book maintained by the product manager.
- *Opportunity and issue analysis:* After summarizing the current marketing situation, the product manger proceeds to identify the major opportunities/threats, strengths/weaknesses, and issues facing the product line.
- *Objectives :* Once the product manager has summarized the issues, he or she must decide on the plan's financial and marketing objectives.
- *Marketing strategy:*The product manager now outlines the broad marketing strategy or "game plan" to accomplish the plan's objectives. In developing the strategy, the product manager talks with the purchasing and manufacturing people to confirm that they are able to buy enough material and produce enough units to meet the target sales volume levels. The product manager also needs to talk to the sales manager to obtain sufficient sales force support and to the financial officer to obtain sufficient funds for advertising and promotion.
- *Action programs:*The marketing plan must specify the broad marketing programs for achieving the business objectives. Each marketing strategy element must be elaborated to answer these questions: What will be done? When will it be done? Who will do it? How much will it cost?
- *Projected profit-and-loss statement:* Action plans allow the product manager to build a supporting budget. On the revenue side, this budget shows the forecast sales volume in units and the average price. On the expense side, it shows the cost of production, physical distribution, and marketing, broken down into finer categories. The difference between revenues and sales is projected profit. Once approved, the buget is the basis for developing plans and schedules for material procurement, production scheduling, employee recruitment, and marketing operations.
- *Controls:* The last section of the marketing plan outlines the controls for monitoring the plan. Typically the goals and budget are spelled out for each month or quarter. Senior management can review the results each period. Some control sections include contingency plans. A contingency plan outlines the steps management would take in response to specific adverse developments, such as price wars or strikes.

Table 2.2: Contents of a Marketing Plan

I.	*Executive summary and table of contents*	presents a brief overview of the proposed plan.
II.	*Current marketing situation*	Presents relevant background data on sales, the market, competiors, distribution, and the macroenvironment.
III.	*Opportunity and issue analysis*	Identifies the main opportunities/threats, strengths/ weakness, and issues facing the product line.
IV.	*Objectives*	Defines the plan's financial and marketing goals in terms of sales volume, market share, and profit.
V.	*Marketing strategy*	Presents the broad marketing approach that will be used to achieve the plan's objectives.
VI.	*Action programs*	Presents the special marketing programs designed to achieve the business objectives.
VII.	*Projected profit-and-loss statements*	Forecasts the plan's expected financial outcomes.
VIII.	*Controls*	Indicates how the plan will be monitored.

Chapter 3
Marketing Environment

Why Analyse the Marketing Environment?

Knowledge of Marketing Environment is Central to Marketing Management

Marketing management rests squarely on the knowledge of the marketing environment. Environment plays a crucial role in marketing and that securing the right fit between the environment and the firm, using the marketing mix as the tool, is the crux of marketing. The firm has to know where the environment is heading, what trends are emerging therein and what should be its response to the environmental changes. Only by analysing the environment, can the firm grapple with these issues.

Strategic Response to Environment is Possible only with Proper Environment Analysis

Facilitating the corporation's strategic response to the changes taking place in environmental factors is the ultimate purpose of environment analysis. The firm has to come up with alternative programmes and strategies in line with environmental realities. This is possible only with proper environment analysis. It helps strategic response by highlighting opportunities, the pursuit of which will help the firm attain its objectives. It helps assess the attractiveness and profitability position of these opportunities, and helps prepare a shortlist of those which are relevant to the firm and which can be pursued by it.

Chart 3.1: Purpose of Marketing Environment Analysis.

- To know where the environment is heading; to observe and size up the relevant events and trends in the environment
- To discern which events and trends are favourable from the standpoint of the firm, and which are unfavourable to figure out the opportunities and threats hidden in the environmental events and trends.
- To project how the environment—each factor of the environment—will be at a future point of time.
- To assess the scope of various opportunities and shortlist those that can favourably impact the business
- To help secure the right fit between the environment and the business unit, which is the crux of marketing; to help the business unit respond with matching product—market strategies; to facilitate formulation of a marketing strategy in the right way—in line with the trends in the environment and the opportunities emerging therein.

Chart 3.2: Presents in a nutshell the purpose of environment analysis

Spotting the Opportunities and Threats

Spotting the opportunities and threats is the central purpose here. It is in the environment that the firm finds its opportunities; it is in the environment that it finds the threats it has to encounter; and, it is by tapping the opportunities present and countering the threats embedded there in that the firm achieves its growth objective. The starting point is thus to spot the opportunities and threats.

The Task Involved in Marketing Environment Analysis

Marketing environment analysis is the process of gathering, filtering and analysing information relating to the marketing environment. Involved in the process are the tasks of monitoring the changes taking place in the environment and forecasting the future position in respect of each of the factors. The analysis spots the opportunities and threats in the environment, and pinpoints the ones that are specifically relevant to the firm.

The marketing environment can be divided into two parts :

- The Macro-environment
- The Micro-environment

The Macroenvironment

Macroenvironment : Broad societal forces that shape the activities of every business and non-profit marketer. The physical environment, socio-cultural forces, demographic factors, economic factors, scientific and technical knowledge, and political and legal factors are components of the macroenvironment.

Whether it is the domestic environment, a foreign environment, or the world environment that is under consideration, the environment can be divided into two categories : the macroenvironment and the microenvironment. The broad societal forces that influence every business and non-profit marketer comprise the **macroenvironment.** Every company, however, is more directly influenced by a **microenvironment** consisting of its customers and the economic institutions that shape its marketing practices.

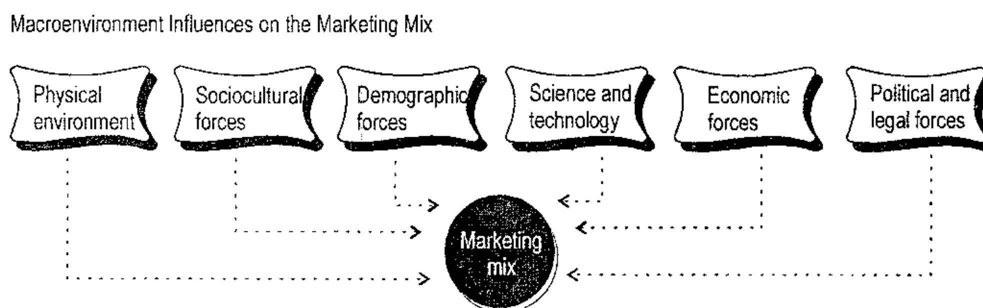


Figure 3.1

Microenvironment : Environmental forces, such as customers, that directly and regularly influence a marketer's activity.

The macroenvironment consists of the physical environment, sociocultural forces, demographic forces, scientific and technical knowledge, economic forces and political and legel forces.

The Physical Environment

Physical environment: Natural resources and other aspect of the natural world that infleunce marketing activities.

The analysis of the mega environment must also cover aspects like extent of endowment of natural resources in the country, ecology, climate, etc. These constitute the natural environment.

Natural resources: Business firms depend on natural resources. The extent to which the country/region under reference is endowed with these resources has an impact on the functioning of the firms. Raw materials is one major part of these resources and firms are concerned with their availability; they need to know whether there will be a shortage in any of the critical raw materials; they also need to know the trends governing their costs. Besides raw materials, they are also concerned about energy, its availability as well as cost. Escalations in energy cost is of particular concern to any business firm.

The availability of natural resources may have a direct and far-reaching impact on marketing activities in a geographic region. Areas rich in petroleum, for example, may concentrate on the production and marketing of fuel oil, kerosene, benzene naphtha, paraffin, and other products derived from this natural resource.

Climate : Climate is another aspect of the natural environment that is of interest to a business firm. Firms with products whose demand depends on climate, and firms depending on climate-dependent raw materials will be particularly concerned with this factor. These firms have to study the climate in-depth and decide their production locations and marketing territories appropriately.

Marketing is influenced by many aspects of the natural environment as well. Climate is one example. It is not difficult to understand why umbrella sales are greater in rainy Meghalaya than in desert-like Rajasthan or why more winter clothing is sold in Himachal Pradesh than in Tamil Nadu.

Climate also greatly influences the timing of marketing activities. In India, more than 65 percent of soft drinks are sold during the blazing hot months of June through September, for instance. Marketers adapt their strategies to such environemntal differences.

Ecology : Firms are also concerned with ecology. In modern times, all societies are very much concerned about ecology, especially about issues like environmental pollution, protection of wild life and ocean wealth. And, governments are becoming active bargainers in environmental issues. Business firms will have to know the nature and dimensions of environmental regulations and to what extent these factors will affect their business prospects. They also need to know the role of environmental activists in the region.

Finally, consideration of the physical environment of marketing must include an awareness of activities or substances harmful to the earth's ecology. Smog, acid rain, and pollution of the ocean are among the many issues in this category. Such issues are highly interrelated with aspects of the socio-cultural environment.

Green marketing : Marketing ecologically safe products and promoting activities beneficial to the physical environment

In the case of India, the country is rich in natural resources like iron, coal, rare minerals, ocean wealth, etc. The country also receives good rainfall and has a strong network of rivers. As regards climate, the tropical climate in the country generally favours agriculture and industry. In the matter of energy, in recent years, costs are constantly on the rise.

Socio-cultural Forces

Culture : The institutions, values, beliefs, and behaviours of a society, everything people learn, as opposed to the basic drive with which people are born.

Every society has a culture that guides everyday life. In the environment of marketing, the word **culture** refers not to classical music, art and literature but to social institutions, values, beliefs, and behaviours. Culture includes everything people learn as members of a society, but does not include the basic drives with which people are born.

Culture is shaped by mankind. It is learned rather than innate. For example, people are born with a need to eat—but what, when, and where they eat, and whether they season their food with ketchup or curdled goat's is learned from a particular culture. Similarly, the fact that many European women are free from traditional restraints, whereas few Saudi women are, is a cultural phenomenon. Material artifacts and the symbolic meanings associated with them also vary by culture.

Values and Beliefs

Social value : A value that embodies the goals a society view as important and expresses a culture's shared ideas of preferred ways of acting.

- A **social value** embodies the goals a society views as important and expresses a culture's shared ideas of preferred ways of acting. Social values reflect abstract ideas about what is good, right, and desirable (and bad, wrong, and undesirable). For example, we learn from those around us that it is wrong to lie or steal. The following social values reflect the beliefs of most people in the United States :

  Freedom: The freedom of the individual to act as he or she pleases is a fundamental aspect of U.S culture.

  Achievement and success : The achievement of wealth and prestige through honest efforts is highly valued. Such achievement leads to a higher standard of living and improves the quality of life.

  Work ethic : The importance of working on a regular basis is strongly emphasized. Those who are idle are considered lazy.

  Equality : Most Americans profess a high regard for human equality, especially equal opportunity, and generally relate to one another as equals.

Patriotism/nationalism : Americans take pride in living in the "best country in the world." They are proud of their country's democratic heritage and its achievements.

Individual responsibility and self-fulfillment. Americans are oriented towards developing themselves as individuals they value being responsible for their achievements. The U.S. Army's slogan "Be all that you can be" captures the essence of the desirability of personal growth.

Belief : A convinction concerning the existence or the characteristics of physical and social phenomena.

- A **belief** is a conviction concerning the existence or the characteristics of physical and social phenomena. A person may believe, for example, that a high-fat diet causes cancer or that chocolate causes acne. Whether a belief is correct or not particularly important in terms of a person's actions. Even totally foolish beliefs may affect how people behave and what they buy.

It is the marketer's job to "read" the social environment and reflect the surrounding culture's values and beliefs in a marketing strategy. For example, a marketer might consider indications that American women's values about the importance of careers may be changing. Research has shown that many women believe that the stress caused by their multiple roles—wife, mother, career woman, nurse, chauffeur—is too intense. Social values are changing to play down work and to focus on family and on emotional enhancement of personal life. In the 21st century, American women will continue to work, but they will be more interested in leisure and in spending more time with family. Such changing social values could result in more spending on products that offer fantasy, romance, humour, and fun.

It is the marketer's job to "read" the social environment and reflect the surrounding culture's values and beliefs in a marketing strategy.

Values and beliefs vary from culture to culture.

- **Social class :** Social class is one important concept in socio-cultural environment. Any society is composed of different social classes. A social class is determined by income, occupation location of residence, etc., of its members. Each class has its own standards with respect to lifestyle, behaviour, etc.; they are known as the class values or class norms. *These values have a strong bearing on the* consumption pattern and buying behaviour of the members of the class. Shifts in class values do take place over time owing to several factors. And, the study of socio-cultural aspects should include the study of such shifts as well.

- **Some facts on socio-cultural environment of India :** For a better understanding of the dimensions of the socio-cultural environment, let us continue with our earlier reference to India. India is a land of many religions. *Almost all the major religions of the world are present here. As many as seven different religious* groups—Hindus, Muslims, Sikhs, Christians, Zorastrians, Buddhists and Jains—live in India in sizeable numbers. The people of India also speak different languages. With 17 major languages, the language scenario is, in fact, even more diverse than the religious one. India is also a land of many cultures. We have seen that religion and language are two elements of a culture. There are other elements such as education and upbringing. People have the freedom to profess the religion, language and culture of their choice. Many religions, languages and cultures actually co-exist and prosper in this large country.

As a general rule, it can be said that the people of the land are tradition bound. And, these traditions also differ from region to region and segment to segment. This is reflected in matters like marriage, family life, rituals, etc. When we speak of cultural factors in Indian society, we must highlight in particular, the significance given to the institution of family. In recent times, some changes are taking place in the culture arena, owing *to increased exposure to different lifestyles, impact of the media, increasing industrialisation and consequent* mobility of population, and the process of globalisation.

Changing position of women : The changing position of women in the society is a case in point. In India, the position of women, especially in the growing middle-class segment of the population, is indeed changing fast. From the role of a simple housewife, she is now being transformed into an educated employed member, sharing the responsibilities of the home with the man.

In an environmental survey, therefore, one actually looks for such shifts taking place, since they can end up as opportunities or threats for the firm.

Demographics

Demography : The study of the size, composition, and distribution of the human population in relation to social factors such as geographic boundaries.

The terms *demography* and *demographics* come from the Greek word demos, meaning "people" (as does the word democracy). **Demography** may be defined as the study of the size, composition (for example, by age or racial group), and distribution of the human population in relation to social factors such as geographic boundaries. The size, composition and distribution of the population in any geographic market will clearly influence marketing. Demographic factors are of great concern to marketing managers.

The U.S. Population

The population of the United States is constantly changing. If marketers are to satisfy the wants and needs of that population, they must be aware of the changes that are occurring and the directions in which these changes are moving the population.

The U.S. Bureau of the Census estimated that there were 274 million people living in the United States when the 21st century began on January 1, 2000. It has been predicted that the population will reach 300 million in the year 2011. The U.S. birth rate is 14.6 per thousand, and the death rate is 8.6 per thousand. The birth rate is expected to continue to decline. About 51.2 percent of the population is female, and about 48.8 percent is male.

Migration : Migration has always been an overwhelmingly important demographic factor in the United States. Much attention has been paid to the effects of Cuban and Haitian migrations into southern Florida and the general migration into the Sunbelt states. However, migration into and around the country has been going on for hundreds of years.

Urbanization : The United States—and, in fact, the entire world—has become increasingly urbanized since the nineteenth century. In the United States, the expansion of some metropolitan areas has brought neighbouring cities and their suburbs so close together that they have, for all practical purposes, merged.

In fact, the 1990 census showed that more than half of the people in the United States live in the 39 metropolitan areas (that is, central cities and suburbs) with populations of more than million. Apporoximately 80 percent live in the nation's metropolitan areas—up from 56 percent in 1950.

Growth in U.S. metropolitan areas has meant growth in the central cities. Crowded conditions, high crime rates, and other discomforts associated with the life, coupled with the great numbers of cars owned by Americans, have encouraged the much-discussed "flight to the suburbs of people seeking to enjoy a blend of rural and city living. It is growth in suburban areas that has caused the populations of metropolital areas to remain stable and even to rise. Indeed, the most dramatic growth of the past decade was in the suburbs. Many citizens of these "second cities" work near their homes and do not commute into the older metropolitan areas to work or shop.

Age and Generations. When the very first U.S. census was taken in 1790, the median age of the population was only 16 years. Today, the median age is 32.6 years. That means that half the population is older and half younger than 32.6.

A consumer's age category—or, as demographers say, age cohort—has a major impact on his or her spending behaviour. Teenagers spend a great deal of money on movies, soft drinks, and fast foods, for example. Many

senior citizens spend a lot on travel and prescription drugs. Understanding the age distribution of the population helps marketers anticipate future trends.

The U.S. population has been growing older in recent decades, and this trend is expected to continue. The trend has occurred for two reasons. One is a lowering of the death rate, and the other is aging of the "baby boomers." The lowering of the death rate means that more people are living longer today. The average life expectancy in the United States has increased to 76 years, and people over 65 years of age constitute a growing segment of the population. Many of these senior citizens do not fit the stereotype of an oldster sitting on a rocking chair waiting for a Social Security check. They are healthy and active, with sufficient finances to enjoy sports, entertainment, international travel, and other things they may have denied themselves while raising families. Some estimates indicate that nearly half of all savings account interest is earned by people over 65. This fact has particular significance to bank marketers but should be considered by all other marketers as well. The "graying of America" has been as potent an influence on U.S. marketing as was the baby boom of years past.

Single-Person and Single-Parent Household. Single-person households—that is, people living alone—account for one of every four households, yet they constitute only 9 percent of the population. The fact that there are single-person households demonstrates that, although many people think a household is the same as a family, it need not be. A household is a dwelling unit occupied by a group of related people, a single person, or several unrelated people who share living quarters. Today, according to the Census Bureau, non-family households account for approximately 30 percent of all households.

There are several reasons for the increase in single-person households. More people than ever before have never been married, and young singles are remaining single longer. A high percentage of marriages end in divorce. The longer life expectancy of women means that widows constitute a sizeable population segment; the number of households maintained by women with no husband present doubled between 1980 and 1990 (from 5.5 million to 10.7 million). An aging mother (or father) may live alone or may live in a retirement community that provides meal services and other assistance.

There are also single-parent households, which account for 27.3 percent of all households. Many of these are headed by women who are divorced or who have never married. (Approximately 28 percent of all U.S. births are to unmarried women.) But the number of single-parent households headed by men is growing 2.5 times as fast as the number headed by women. Buying behaviour in a single-parent household may be different from that in the two-parent household. For example, a teenager may play the shopper role and have the primary responsibility for preparing meals.

Working Women : The advent of the modern career-oriented woman is, in itself, a major change in the American family. With increasing career orientation have come changes in the age at which women have children and in the numbers of women who choose not to have children at all.

The number of people in the work force has grown rapidly in the past decade and will continue to do so. The labour force grew from 128 million workers in 1993 to at least 137 million in 1998. By 2000, women represented 47 percent of the labour force. In more than 60 percent of married-couple households, both the husband and wife work, up from about 40 percent in 1960. Forecasters predicted that in 2000, fewer than 20 percent of all households would be "traditional" husband-wife households with only one partner employed outside the home.

Obvious changes in the marketplace reflect these developments : Many stores are open late at least one or two nights per week. Many retailers offer catalogs or Web sites that permit working people to shop at their convenience. Easily prepared microwave dinners are commonplace. Take-out food, whether from a restaurant or from the prepared-foods section of a supermarket, has gained great popularity.

Family and Household income : The U.S. Bureau of the Census defines a family as a group of two or more persons related by birth, marriage or adoption and residing together. The annual median family income in the United States was $47,469 in 1998, up from $29,943 in 1990 and from $21,023 in 1980.

In 1998, 20 percent of U.S. households had incomes above $75,000 and 20 percent had incomes below $16,200. The top 5 per cent had incomes above $132,000. More than two-thirds of all households earning more than $100,000 were headed by college graduates. The average annual income of college graduates was about double that of high school graduates who did not graduate from college.

In 1998, the wealthiest 20 percent of households earned almost 50 percent of all household income.

The upper-income group has expanded, in part because of an increase in the number of affluent two-income married couples. Working wives contribute about 40 per cent of family income. This affluent group has considerable discretionary income, and it has an impact on the market for luxury goods.

A Multicultural Population : The United States has a multicultural population—that is, a population made up of many different ethnic and racial groups. One out of every five U.S. residents is African American, Hispanic, Asian, Native American Indian, Eskimo, or a member of another minority group. Census Bureau statistics show that in 1998, African Americans (Blacks) represented almost 13 per cent of the U.S. population, Hispanic Americans about 11 per cent, and Asian Americans about 4 per cent. These three minorities account for approximately 34 million, 30 million, and 10 million people, respectively. Native Americans account for less than 1 per cent of the population.

World Population

The world population exceeds 6 billion people. Because markets consist of people willing and able to exchange something of value for goods and services, this total is of great marketing significance. However, the exponential growth of population, particularly in less developed countries, puts a heavy burdern on marketing. The distribution of food, for instance, is a marketing problem whose solution may prove crucial to the survival of this planet. The world population is expected to grow by at least 140 million per year during the first decade of the 21st century. That's about 16,000 new people per hour. The United Nations estimates the world population will reach 8.9 billion in 2050. However, marketers must also recognize that in certain regions of the world, such as western Europe, population is declining. Italians for example, are marrying later, having babies later, and having fewer children.

Vigorous international trade cannot be effectively implemented and maintained unless marketers concern themselves deeply with what is going on in "the rest of the world."

Some facts on the demographic environment of India: If we take the case of India, we can cite the undermentioned facts as the distinguishing elements of the demographic environment. India, with a population of over one billion (based on the 2001 census), is the second largest market in the world. India's population is growing at the rate of 2 per cent per annum. The average life expectancy is now over 62 years. The nation's literacy rate, though still low, has been steadily growing. Now, it is around 65 percent. It was just 17 per cent in 1951. The country now has a large pool of educated/skilled manpower, including over three-and-a-half million engineers and scientists.

Demographic factors of the above kind have to be investigated in-depth and their role in the overall marketing environment of the firm has to be sized up.

Science and Technology

Science : The accumulation of knowledge about humans and the environment.

Technology : The application of science for practical purposes.

Although the two terms are sometimes used interchangeably, **science** is the accumulation of knowledge about human beings and the environment, and **technology** is the application of such knowledge for practical purposes. Thus, the discovery that certain diseases can be prevented by immunization is a scientific discovery, but how and when immunization is administered is a technological issue.

Like other changes in the macroenvironment, scientific and technological advances can revolutionise an industry or destroy one. Examples of organizations that suffered because they did not adapt to changing technology are easy to find. Remington manual typewriter and electronic typewriters were made obsolete by the computers.

Digital Technology and the Internet: Changing Everything

Historians and anthropologists have pointed out that technological innovations can change more than the way business is done in an industry. Indeed, major technological innovations can change entire cultures. For example, the mechanical clock made regular working hours possible. The invention of the steam engine and railroads and the mass production of automobiles changed the way people thought about distance—the words *near* and *far* took on new meaning. Television changed the way people think about news and entertainment.

"Today's computer technology can be characterized by the phrase *digital convergence.* Almost all industries, professions, and trades are being pulled closer together by a common technological bond : the digitizing of the work product into the ones and zeros of computer language. Digital technology, especially the Internet, is having such a profound impact on marketing and society that it deserves special attention.

The Internet

The Internet is a worldwide network of computers that gives users access to information and documents from distant sources. People using the Internet may be viewing information stored on a host computer halfway around the world. The **World Wide Web (WWW)** refers to a system of Internet servers, computers supporting a retrieval system that organizes information into Hypertext documents called Web pages. (Hypertext is a computer language that allows the linking and sharing of information in different formats. HTTP [Hyper Text Transfer Protocol] is the most commonly used method for transferring and displaying information formatted in HTML [Hyper Text Markup Language] on the Internet.)

Internet : A worldwide network of private, corporate, and government computers that gives users access to information and documents from distant sources.

World Wide Web : A portion of the internet; a system of internet servers—computers that support specially formatted documents.

The Internet is transforming society. Time is collapsing. Distance is no longer an obstacle. "Instantaneous" has a new meaning. The Internet is the most important communication medium to come along since television. The Internet, as a new medium for our new era, is a macroenvironmental force that is having a profound impact.

The Internet is changing everything—especially commerce. e-commerce is the business model for the millennium and that marketing's role has been changed for ever by the Internet. This does not mean that the familiar neighbourhood brick-and-mortar stores and all traditional marketing institutions like shopping centers will disappear, but it does mean that they will adapt and change as new forms of Internet marketing become more prevalent.

Today, technology is a major force which industry and business have to reckon with. Technology leads practically all the forces that shape people's lives. For a business firm, technology affect not only its final products but also its raw materials, processes and operations as well as its customer segments. And in the present times, rapid changes are taking place in the realm of technology. The IT industry is one example. Telecom is another.

Options available in technology : The firm has to analyse carefully the overall technology environment and the technology options available in the given industry. The level of technology prevailing generally in the country is also a conern for the firm. It has to assess the relative merits and cost-effeciveness of alternative technologies. It has also to analyse technological changes taking place in its industry at the international level. In addition, it has to assess the scope of substitute products emanating from new technologies.

The Internet is changing everything —especially commerce.

Government's approach in respect of technology : Regulations by the government in matters relating to technology often restrict the freedom of operation of business firms. There may be areas where the governments may support the use of modern technology; there may be areas where they may ban technologies that are potentially unsafe. All such factors demand careful investigation. In modern times, much of the business opportunities are embedded in technology and firms desiring growth have to harness technologies; of course with necessary adaptations.

Technology selection: It is possible that several levels of technologies are floating at the same time in an industry. Firms have to scan the technology environment and select technologies that will be appropriate for the firm and the given product-market situation.

They have to forecast technological trends, assess current and emerging technologies, and develop the inputs for right technology choice. The policies of the government on technology import is also a concern in this regard. India is adopting a fairly liberal approach to technology import. It also supports, at the same time, efforts at internal technology development.

Economic and Competitive Forces

Economic and competitive forces strongly influence marketing activity at all levels. In this section, we discuss macromarketing concerns—economic systems and general economic conditions.

Economic Systems

Economic System: The system whereby a society allocates its scarce resources.

A society's **economic system** determines how it will allocate its scarce resources. Traditionally, capitalism, socialism, and communism have been considered the world's major economic systems. In general, the western world's economies can be classified as modified capitalist systems. Under such systems, competition, both foreign and domestic, influences the interaction of supply and demand. Competition is often discussed in this context in terms of competitive market structures.

The competitive structure of a market is defined by the number of competing firms in some segment of an economy and the proportion of the market held by each competitor. Market structure influences pricing strategies and creates barriers to competitors wishing to enter a market. The four basic types of compettitve market structure are *pure competition, monopolistic competition, oligopoly* and *monopoly.*

Pure competition : A market structure characterized by free entry, a homogeneous product, and many sellers and buyers, none of whom can control price.

Pure competition exists when there are no barriers to competition. The market consists of many small, competing firms and many buyers. This means that there is a steady supply of the product and a steady demand for it. Therefore, the price cannot be controlled by either the buyers or the sellers. The product itself is homogenous—that is, one seller's offering is identical to all the others' offerings. The markets for basic food commodities, such as rice and banana, approximate pure competition. Petrol and diesel now marketed by different companies will also fall in this category.

Monopolistic competition : A market structure characterized by a large number of sellers offering slightly differentiated products and exerting some control over their own prices.

The principal characteristic **monopolistic competition** is product differentiation—a large number of sellers offering similar products differentiated by only minor differences in, for example, product design, style, or technology. Firms engaged in monopolistic competition have enough influence on the marketplace to exert some control over their own prices. The fast-food industry provides a good example of monopolistic competition.

Oligopoly : A market structure characterized by a small number of sellers who control the market.

Oligopoly, the third type of market structure, exists where a small number of sellers dominate the market.

Oligopoly is exemplified by the commercial aircraft industry, which is controlled by two large firms : Boeing and Airbus Industries. Getting established in an oligopoly like the commercial aircraft industry often requires a huge capital investment, which presents a barrier to new firms wishing to enter the industry. The distinguishing characteristic of an oligopoly, however, is not the size of the companies involved, as measured by assets or sales volume, but their control over the marketplace, as measured by market share. Each of the companies in an oligopoly has a strong influence on product offering, price, and market structure within the industry. The companies do not, however, generally compete on price.

Monopoly : A market structure characterized by a single seller in a market in which there are no suitable substitute products.

Finally, markets with only one seller, such as a local telephone company or electric utility, are called monopolies. A **monopoly** exists in a market in which there are no suitable substitute products Antitrust legislation strictly controls monopolies in the United States.

Economic Conditions

Economic conditions around the world are obviously of interest to marketers. The most significant long-term trend in the U.S. economy has been the transition to a service economy. There has been a continuing shift of workers away from manufacturing and into services, where almost 80 percent of U.S. jobs are to be found. This shift has greatly affected economic conditions as well as marketing activity.

The Business Cycle

Business cycle : Recurrent fluctuations in general economic activity. The four phases of the business cycle are prosperity, recession, depression, and recovery.

The **business cycle** reflects recurrent fluctuations in general economic activity. The various booms and busts in the health of an economy influence unemployment, inflation, and consumer spending and saving patterns which, in turn, influence marketing activity. The business cycle has four phases :

- Prosperity—the phase in which the economy is operating at or near full empolyment and both consumer spending and business output are high.
- Recession—the downward phase, in which consumer spending, business output, and employment are decreasing.
- Depression—the low phase, in which unemployment is highest, consumer spending is low, and business output has declined drastically.
- Recovery—the upward phase, when employment, consumer spending, and business output are rising.

Because marketing activity, such as the successful introduction of new products is strongly influenced by the business cycle, marketing managers watch the economic environment closely. Unfortunately, the business cycle is not always easy to forecast. The phases of the cycle need not be equal in intensity or duration, and the contractions and expansions of the economy do not always follow a predictable pattern. Furthermore, not all economies of the world are at the same stage of the business cycle. So a single global forecast may not accurately predict activity in certain countries.

Marketing strategies in a period of prosperity differ substantially from strategies in a period of depression. For example, products with "frills" and "extras" sell better during periods of prosperity than in periods when the economy is stagnant or declining. During periods of depression or recession, when consumers have less spending power. lower prices become more prominent considerations in spending decisions.

The Health of a Country's Economy

Two common measures of the health of a country's economy are **gross domestic product (GDP)** and **gross national product (GNP)**. The GDP measures the value of all the goods and services produced by

workers and capital in a country. The GNP measures the value of all the goods and services produced by a country's residents or corporations, regardless of their location. Thus, profits made by U.S. companies on overseas operations are included in GNP, but not in GDP. Profits that foreign companies make on operations in the United States are included in the U.S. GDP, but not in the U.S. GNP. Both GDP and GNP provide economic yardsticks of business output. Which of these two measures you use has to do with whether you wish to know what is produced inside our borders or what is produced by Americans around the world

In the United States, per capital (GDP) was $31,500 and the inflation rate was 1.6 percent in 1998.

An interesting measure of a country's well-being is Wu's Economic Barometer. Gorden Wu is a Hong Kong billionaire who created an index that describes poor countries moving toward wealth. According to Wu's Economic Barometer, when per capita income starts coming up, the first thing people do is eat out. That's why American fast-food restaurants are spreading rapidly in Asia. After that period, people in developing countries buy new clothes. The third thing they do is start accumulating new appliances. After that, they buy motorcycles, cars, and apartments. The fifth step—as the country moves toward greater affluence—is to travel overseas.

Some facts on the eocnomic environment of India : The Indian economy has been witnessing good growth in recent years, 6 per cent plus on an average. The year 1998-99 saw the growth rate (at factor cost) accelerating to 6.8 per cent from 5 per cent in 1997-98. It grew by approximately 6 per cent in 1999-2000. India's per capita income, however, continues to be low. Industrial growth (as per the Index of Industrial Production 1993-94 series) was 6.2 per cent in 1999-2000.

The capital market is an indicator of the sophistication and growth of an economy. In the case of India, the capital markets grew substantially during the 1980s. And growth was even more in the first half of the 1990s, immediately following liberalisation. Then, there was some sluggishness—in the latter half of the 1990s. The main point is that India's corporate sector, which for a long time depended largely on external borrowings and depreciation provisions for its capital formation, has in recent times started mobilising large funds for investment through the capital market. Foreign direct investment (FDI) too started flowing into the country in a significant manner. The changes in economic policies were shown in the following charts :

Chart 3.3

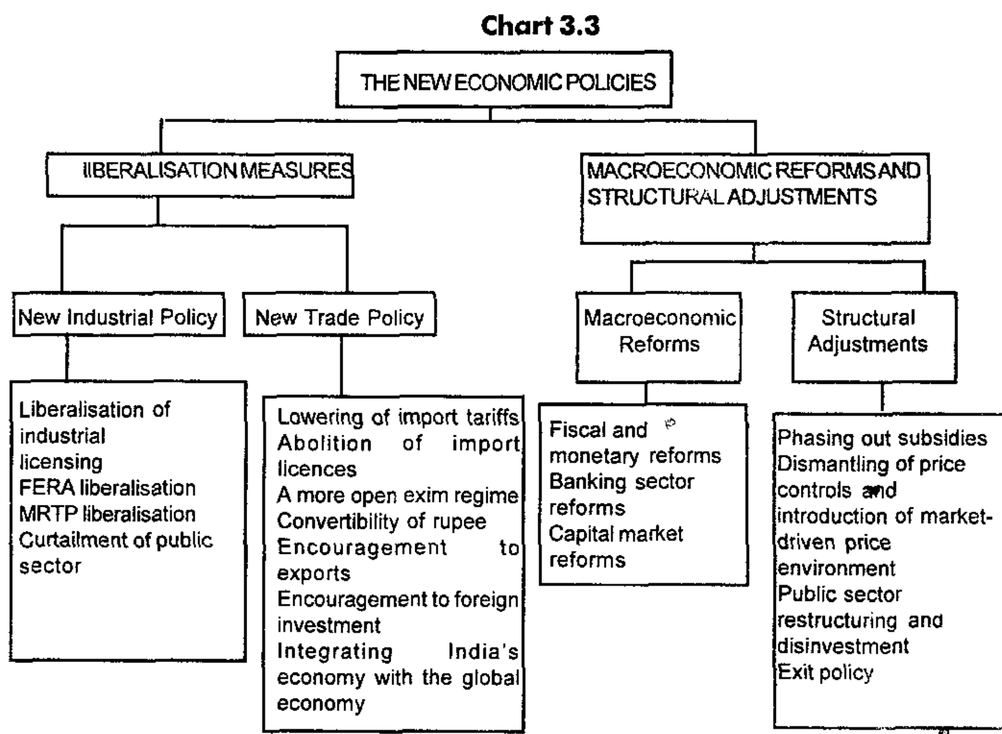
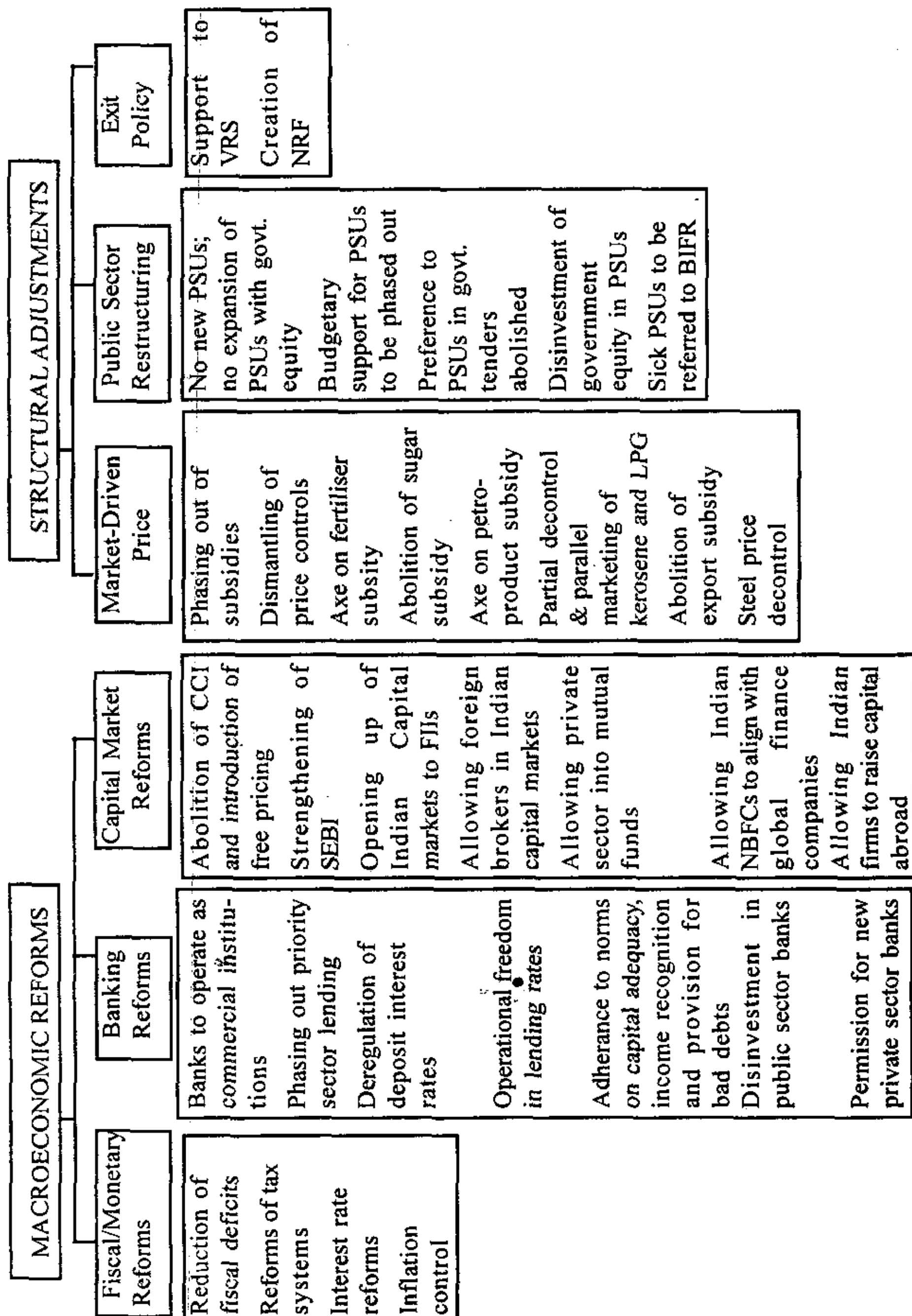


Chart 3.4: The New Industrial Policy : The Main Components

- Liberalisation of industrial licensing
  - De-licensing
  - De-control
  - De-regulation
  - Broad banding
  - Abolition of registration
- FERA Liberalisation
  - Liberalisation of foreign investment
  - Liberalisation of technology import
- MRTP Liberalisation
  - Abolition of threshold assets limit
  - No MRTP clearance needed for expansions, mergers
- Curtailment of Public Sector
  - Several industries hitherto reserved for public sector *opened up to private sector*
  - Only eight core industries remain reserved for the public sector
  - Purview of BIFR extended to the public sector.



Chats 3.5: Macroeconomic Reforms and Structural Adjustments

Chart 3.6: The Sea Change in the Industrial, Business and Marketing Environment

I. **Entrepreneurial freedom vitalises the industrial scene**

- Rush of entrepreneurs.
- Spate of mergers/acquisitions/takeovers; corporates enhance size and synergy.
- The diversification rush

II. **FDI goes up and influences investment pattern in industries**

III. **Ascendancy of multinationals in the Indian markets**

- MNCs acquire majority equity in their Indian enterprises and JVs
- Many MNCs enter India anew
- MNCs become big players even in core industries

IV. **Banking sector comes under competitive environment**

- Competitive existence foisted by deregulation
- Onslaught from New Private Sector Banks (NPSBs) with superior technology and aggressive marketing.
- Capital markets, FIs, MFs and NBFCs compete with banks
- Public sector banks, in particular come under severe pressure; they are compelled to operate as viable, commercial institutions
- Travails arising from disinvestment.

V. **Insurance sector too experiences competition, with new private players**

- Constituted IRDA
- IRDA issues licences/in-principle clearance to several private players and many of them start operations.

VI. **Capital markets undergo radical change**

- FIIs enter Indian capital markets in a big way
- Foreign brokers closely follow the FIIs
- NBFCs register growth and form alliances with global finance companies
- Growth of private mutual funds
- Indian firms raise capital globally and form alliances with global finance firms
- India's capital markets get integrated with global capital markets.

VII. **Financial services emerge as a major business**

- Emergence of many new financial services and financial service companies.
- Business firms spot financial services as a business and float financial companies of their own.

VIII. **Private sector becomes the dominant component of the economy**

- Even in core/infrastructure areas, sector after sector, opened up to private enterprise : Oil, mining, telecom, road building, railways, ports, civil aviation, EPZ/SPZ, defence production, all now open to the private sector
- Import trading becomes a fresh business opportunity for the private sector.

Chart 3.7: Marketing Challenges of the Liberalised Economy

I. The destabilisation that came with entrepreneurial freedom

- Cocoon of protection enjoyed by existing players disappears.
- Existing notions on 'minimum economic size' are shaken; many existing players become uneconomic overnight.
- Industry structure alters in many businesses, forcing players to change strategies.
- Economic Darwinism becomes the order of the day.

II. The MNC onslaught

- With majority equity for the parent MNCs, their Indian enterprises gain a new edge and make it all the more tougher for others
- MNCs also gain majority equity in JVs and start controlling the show
- The takeover threat
- The brand war—MNC brands squeeze Desi brands
- Takeover of brands
- The overall unequal battle

III. The all-pervasive competition

- Competition from several directions and varied sources
- Increased competition from Indian players
- Competition from MNCs
- Competition from imported products
- Competition emanating from easier access to technology.
- Competition is now global in character

IV. The exacting demands of a buyer's market

- From shortage to surplus; the compulsion to become price competitive.
- From shoddy products to excellent products; the quality challenge
- Abundance of choice
- The consumer calls the tune

V. As government shrinks its role as a buyer, firms find marketing difficult

VI. The compulsions to go global

- New trade policy and globalisation of the economy, compel firms go global.
- Heat of competition at home, another compulsion
- Going global remains a difficult game for Indian firms.
- India's lack of competiveness as a nation compounds the problem

VII. The challenge on technology front

- In most industries, technology is the fountainhead of competitive advantage and core competence
- Investment in R&D and innovation becomes inescapable.

VIII. The need for quick response in product innovation

- Cycle times in new product launches are compressed.
- Faster diffusion/adoption of new products
- Product Life Cycle of products become shorter
- Firms face the challenge of speed

IX. Countering the rising vulnerability

- A variety of factors lead to vulnerability
- Vulnerability due to capital inadequacy
- Lack of product clout and brand power
- PSUs become vulnerable due to a combination of factors
- Vulnerability due to loss of monopoly

X. The challenge of achieving marketing excellence under conditions of discontinuity

- Past ceases to be an indicator of the future; marketing at cross-roads
- Marketing capabilities of yesteryears no longer enough; marketing planning and strategy are now put to severe test
- How to deliver superior value under a rapidly changing environment becomes the main question.

Political Environment

Political environment : The practices and policies of governments.

Political environment too is a major component of the mega environment for an industrial/business firm. In fact, economic environment is often a by-product of the political environment, since economic and industrial policies followed by a nation greatly depend on its political environment. Moreover, developments on the political front keep affecting the economy all the time : industrial growth depends to a great extent on the political environment; legislations regulating business are also often a product of the political configuration.

Political environment has several aspects. Form of govenment adopted by the country is the first. Political stability as such is another, for, whatever be the form of government adopted, stability of government is an essential requisite of economic growth. Elements like social and religious organisations, media and pressure groups, and lobbies of various kinds are also part of the political environment.

Some features of India's political environment : The fact that the democratic form of government has endured ever since the country became independent, is one major feature of the political environment of India. Another important feature is that while in the first 40-odd years since independence, the country had a single party government at the centre, in recent times, an experiment with coalition governments has been going on. And, it is also significant that the country has been enjoying a fair amount of political stability despite the absence of a single-party government at the centre. Another significant fact is that a political consensus has emerged to the effect that the country must set and achieve a much higher rate of economic growth. A political consensus of sorts also seems to have emerged on the need for economic reforms. The country has also started moving towards a market economy from the earlier socialist moorings and public sector dominated economy.

Politics and Laws

The political environment—the practices and policies of governments—and the legal environment—laws and regulations and their interpretation—affect marketing activity in several ways. First, they can limit the actions marketers are allowed to take—for example, by barring certain goods from leaving a country, as when Congress passed the Export Administration Act, which prohibited the export of strategic high-technology products to nations such as Iran and Libya. Second, they may require marketers to take certain actions. For instance, cookies called "chocolate chips cookies" are required to contain chips made of real chocolate, and the surgeon general's warning must appear on all cigarette packages. Last policies and laws may absolutely prohibit certain actions by marketers—for example, the sale of products such as narcotic drugs and nuclear

weapons—except under the strictest of controls. Political processes in other countries may have a dramatic impact on international marketers. For example, the dissolution of the former Soviet Union was a historic political action that totally changed the business climate and opened new markets in newly independent states such as Russia, Lithuania and Ukraine. When the British ended their 156 years colonial control of Hong Kong in 1997, Hong Kong embarked on an uncertain new era under the sovereignity of Communist China. It remains to be seen how this major political change will affect marketers who do business in Hong Kong in the 21st century.

Laws, in particular, tend to have stable, long-term influence on marketing strategy. For example, almost all countries with commercial airlines have long-standing bans on foreign ownership of these businesses.

Legal Environment/Business Legislation

Legal environment: Laws and regulation and their interpretation.

Businesses have to operate within the framework of the prevailing legal environment. They have to understand the implications of all the legal provisions relating to their business. In recent times, the world over, legislation regulating businesses has been steadily increasing. And it is particularly true for India. Over the past four or five decades, a great deal of legislation concerning business and industry has entered the statute books. Though a reversal of this trend has commenced with the recent reforms and liberalisation, business firms operating in India are still required to grapple with a heavy load of legislation.

Business legislation can be classified into the following broad categories, based on the area covered by them.

- Corporate affairs
- Consumer protection
- Employee protection
- Sectoral protection
- Corporate protection (protecting companies from each other, preventing unfair competition)
- Protection of society as a whole against unbridled business behaviour
- Regulations on products, prices and distribution

International Laws

Companies operating their businesses in global markets must pay attention to international laws and the laws of foreign lands. Laws and legal systems that govern the marketing of products in foreign countries vary tremendously. For example, in Brazil, advertisers found guilty of harming or misleading consumers may be fined up to $500,000 or given a prison sentence of up to 5 years. This is a harsh punishment by U.S. standards. The rules of competition, trademark rights, price controls, product quality laws, and a number of other legal issues in individual countries may be of immense importance to a global marketer, such as Coca-Cola, Pepsi, Tata Group, AVB Group, Wipro, Infosys etc.

Furthermore, not only individual countries, but also multinational bodies, have legal systems to deal with international commerce, **Multinational marketing groups** are groups of countries aligned to form a unified market with minimal trade and tariff barriers among participating member countries. An example is the European Union (formerly called the Common Market). The European Parliament and the Court of Justice deal with legal issues for the European Union.

Environmental Interactions

Before concluding this discussion of the macroenvironment, we should emphasize that the parts of the macroenvironment interact with each other. Therefore, effective marketers must consider the whole of the marketing macroenvironment, not just its parts. For example, natural phenomena such as the eruption of volcanoes can affect tourism, agriculture, weather patterns, and radio and television transmission; can heighten

public interest in "disaster" movies and books; and can even inspire race-track customers to bet on horses whose names suggest volcanic explosions.

There are many examples of interactions between changes in the economic, technological and social environments. When the U.S. economy is in a period of decline, the divorce rate also declines, because fewer couples can afford the expense of divorce. When medical science reduces the infant mortality rate in a country, that country's birth rate eventually declines, because parents realize that their children can be expected to survive to adulthood. These kinds of interactions make the job of environemtal analysis a complex one. Nonetheless, marketing success cannot be achieved without a careful consideration of environmental constraints and opportunities.

The Microenvironment—The Four Cs

Microenvironment : A company, its customers, and the other economic institutions that influence its marketing practices

The macroenvironment, the broad societal forces that affect every business and non-profit marketer, was discussed. Marketers, however, are more directly influenced by their individual microenvironments. A **microenvironment** consists of a company, its customers, and the other economic institutions that regularly influence its marketing practices.

Four Cs : The microenvironmental participants that perform essential business activities : company, customers, competitors, and collaborators.

To explain the dramatic impact of the microenvironment, it is useful to organize all microenvironmental forces into four basic categories—*company, customers, competitors* and *collaborators*. Each of these represents a participant that performs essential business acivities. We will call these the **four Cs.**

Fig 3.2. illustrates how macroenvironmental forces shape a company's microenvironment, which in turn afects the marketing mix decisions the company makes.

COMPANY

Company : A business or organization that offers products and services to consumers.

The first of the four Cs is the **company,** the business or organization itself. Marketing, although very important, is only one functional activity of an organization. Every marketer must work with people in the organization who perform non-marketing tasks. For example, in a large manufacturing company, manufacturing, engineering, purchasing, accounting, finance, and personnel are all part of the internal company environment. These functional activities, the level of technology, and the people who perform them have an impact on marketing. Marketers, for example, work within the framework of the corporate mission set by top managers who are responsible for the company's operations. Companies like 3M, Sony, and Disney have several divisions and market many different goods and services. The way one product is marketed often affects the marketing of other company products.

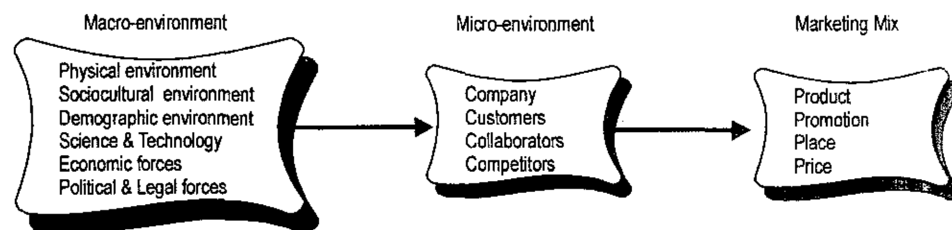


Figure 3.2: The Macroenvironment and the Microenvironment: Forces That Shape the Marketing Mix

Entrepreneur : A risk-taking individual who sees an opportunity and is willing to undertake a venture to create a new product or service.

Owners and managers in today's companies must strive to be flexible to keep up with dynamically changing business environments. In doing so, they often take an entrepreneurial approach to running the business. An **enterpreneur** is someone willing to undertake a venture to create something new. In the traditional view, an entrepreneur is a single individual who sees an opportunity and is willing to work long and hard to turn an idea into a business. Entrepreneurs are typically creative, optimistic, and hard-working individuals who risk their own money to start small companies to make something happen. The story of the entrepreneurial development of the personal computer is well known. Starting out in a garage, two risk-taking individuals with a vision built the first personal computers and then developed Apple Computer into a multinational corporation. Entrepreneurs who assume all the risks associated with their innovative ideas have always been in the forefront of new product development.

Intrapreneurial organisation. An organization that encourages individuals to take risks and gives them the autonomy to develop new products as they see it.

The top managers of many large organizations try to instill an entrepreneurial spirit in their employees. To avoid confusion with the traditional definition of entrepreneur, we define an **intrapreneurial organization** as a large organization that encourages individuals to take risks and gives them the autonomy to develop new products as they see fit.

Managers of intrapreneurial companies try to create company cultures that encourage employees to be proactive. That is, these companies favour organizational structures that allow employees to initiate marketing action swiftly rather than forcing them to follow rigid bureaucratic procedures before taking action.

CUSTOMERS

Customer : One who buys a company's goods or services.

Customers are the lifeblood of every company. A company that does not satisfy its customers' needs will not stay in business over the long run. It is difficult to think of a more direct influence on marketing than the gaining or losing of customers.

Economic utility : The ability of a good or service marketed by an organization to satisfy a consumer's wants or needs. Economic utility includes form utility, place utility, time utility and possession utility.

Historically, consumer needs have been discussed in terms of economic utility. **Economic utility** is the ability of a good or service marketed by an organization to satisfy some aspect of a consumer's wants or needs. There are four specific types of economic utility : form utility, place utility, time utility and possession utility.

Form utility : Economic utility created by conversion of raw materials into finished goods that meet consumer needs.

In converting raw materials into finished goods, an organization's production department alters the materials' form. It creates **form utility**. However, transforming leather and thread into a purse does not create form utility unless the new shape formed by the materials satisfies a consumer need. Marketing helps production create form utility by interpreting consumers' needs for products of various configurations and formulations.

Place utility : Economic utility created by making goods available where consumers want them.

Bridging the physical separation between buyers and sellers is where marketing's roots lie. Products available at the right place—that is, where buyers want them—have **place utility**. A bottle of Pepsi-Cola at a bottling plant far from a consumer's hometown has considerably less place utility than does a Pepsi in a consumer's refrigerator.

Time utility : Economic utility created by making goods available when consumers want them.

Making products or services available when consumers need them creates **time utility.** A bank may close at 6:00 p.m., but by maintaining a 24-hour automatic teller machine, it produces additional time utility for its customers.

Possession utility : Economic utility created by transfer of physical possession and ownership of the product to the consumer.

The fourth type of utility is created at the conclusion of a sale, when the transfer of ownership occurs. House owners enjoy greater freedom to alter their homes, such as the right to paint walls bright orange, than do house renters; they have **possession utility.** Possession utility satisfies the counsumer's need to own the product and to have control over its use or consumption.

These economic utilities serve as the underlying bases of competition, discussed in the following section

Competitors

Competitor : One of two or more rival companies engaged in the same business.

Hero Honda and Yamaha are competitors. So are two general stores in your neighbourhood. **Competitors** are rival companies engaged in the same business. Your competitors are interested in selling their products and services to your company's customers and potential customers. One of the fundamental marketing tasks is identifying and understanding the competition. The marketer does this by analyzing product classes, product categories, and brands.

Product category : A subset of a product class containing products of a certain type.

Product categories are subsets of a **product class.** For example, household cleaners, taken together, constitute a product class, but the subdivisions of powders, and sprays are product categories. Similarly, car is a product class. There are a number of product categories within that class, including expensive cars midprice cars and economy cars.

Product class : A broad group of products that differ somewhat but perform similar functions or provide similar benefits.

Brand : A name or some other identifying feature that distinguishes one marketer's product. Much competition is among brands.

To complete their view of competition, marketing managers must consider matter of brand. **Brands** identify and distinguish one marketer's product from those of its competitors. You are familiar with hundreds of brands of products. For example, the bathing soap category includes brands such as Lux, Liril, Rexona, Fa, Lifebuoy and many more.

All three grouping—product class, product category, and brand—must be considered in answering the question "Who is the competition ?" A liquid cleaner like Top Job can be used to clean floors. So can a powdered cleaner like Spic Span. Liquid Lysol can do anything that spray Lysol can do, except provide the convenience of the spray can itself.

In a sense, any bathing soap, car, or hotel can compete against any other members of its product class. However, brands of products compete primarily within product categories. A marketer must of course be aware of the entire class of goods or services being marketed, but it is the product category that contains the most competitors, because the category reflects a specific consumer's wants, needs and desires.

The Four Types of Competition : There are four general types of competition price, quality, time and location. These types of competition are related to the utilities described earlier.

Price competition : Competition based on price. It is especially important in the marketing of products that are not distinctive, such as raw materials. Price competition is associated with possession utility.

To obtain possession utility, consumers must pay a price. That is, they must exchange something of value, called a price, for the good or service they desire. Economists have spent a great deal of time investigating **price competition,** in general, a price that is lower than competitors' prices will attract customers. However, note that economic price theory is based on the *ceteris paribus* assumption. That is, all things other than price are assumed to remain the same.

Quality-based competition : Competition based on quality. Quality-based competition is associated with form utility.

Form utility increases as product quality improves. Many businesses choose to compete on the basis of product quality rather than on the basis of price.

Quality based competition is more complex than price competition because consumers define quality in many different ways. Durability and reliability are traditionally associated with quality. So are design, colour, style and many other attributes that determine the physical nature of products. Prompt, polite, and friendly service is also associated with consumers' perception of quality. If all other things, including price, are equal, the higher the perceived quality, the more likely consumers are to buy a product.

Time-based competition : Competition based on providing time utility by delivering a product when the consumer wants it.

Time-based competition is directly associated with time utility. To put it simply, buyers prefer to take possession of their goods exactly when they need them, which is often as soon as possible. Time-based competition is very important in many industries, especially those in which customers view competing products as virtually identical. Moreover, time is becoming more important as a competitive weapon in a world of ever-faster global communications. A marketing manager in today's competitive environment "has to think like a fighter pilot. When things move so fast, you can't always make the right decision—so you have to learn to adjust to correct more quickly. Insurance claims representatives once used ballpoint pens, paper, and stacks of huge manuals in their offices to estimate damage from fires and other disasters. Today, they use IBM ThinkPad computers to review building data and calculate and print estimates right at the site of the damage. *Using modern information technology has reduced processing time for claims from weeks to hours.*

Location-based competition : Competition based on providing place utility by delivering a product where the consumer wants it.

Location-based competition is the effort to provide more place utility than competitors do. Location is extremely important for retail businesses. The soft-drink shop conveniently located at a high-traffic intersection will sell more soft drinks than a general store located on a little-travelled road. A small store inside a shopping mall has many drop-in customers who came to the mall to shop at the large department stores.

Today, the Internet allows marketers, even small businesses, to connect instantly with customers all over the globe. In traditional business situations, bridging the physical separation between buyers and sellers meant having a better geographical location, but today barriers caused by distance are easier to overcome than they once were.

Competitive Advantage

A company strives to obtain an edge, or competitive advantage, over industry competitors. To establish and maintain a competitive advantage means to be superior to or different from competitors in some way. More specifically, it means to be superior in terms of price, quality, time, or location. A company may achieve superiority by operating a more efficient factory, by selling its products at a lower price, by designing better-quality products, by being the first on the market with an innovation, or by satisfying customers in other ways. In other words, market-oriented organizations can use many alternative strategies to outperform competitors in terms of price, quality, time, or location.

Collaborators

Collaborator : *A person or company that works with a marketing company. Collaborators help the company run its business* but are not actually part of the company.

For an organization, buying materials and supplies, hiring an advertising agency, or getting a loan from a bank requires that one company work with another company. These companies are collaborators. A **collaborator** is a person or a company that works with your company. Collaborators help a company run its business but they are not part of the company. They are often specialists who provide particular services or supply raw materials, component parts, or production equipment.

Supplier : An organization that provides raw materials, component parts, equipment, services, or other resources to a marketing organization; also called a vendor.

Collaborators that provide materials, equipment, and the like are called **suppliers**. Hyatt Hotel Corporation believes that establishing long-term relationships with a supplier benefits both companies. Whether it's sheets and linens, emergency fire exit signs, or wine, Hyatt buyers circle the globe looking for the highest-quality products. After Hyatt settles on a supplier, the company works hard at maintaining that relationship.

The terms *alliances, networks* and *informal partnerships*, as well as others, have been used to describe the kinds of relationships just mentioned. However, the term *collaborators* works well because it implies that two companies are engaged in an ongoing relationship. In today's business climate, companies must be flexible and able to change quickly. Working with collaborators helps companies enhance their flexibility, especially in global marketing activities and e-commerce activities.

The number of collaborative relationships has grown significantly in recent years, and organizational collaborations are expected to be increasingly important during the 21st century. Contemporary organization no longer perform all business activities internally. Managers recognize that collaborators may have special competencies that allow them to excel at certain tasks. Managers in today's companies believe that there is value in making joint commitments and sharing resources.

Some companies' marketing strategies are highly dependent on collaborations. In fact, business thinkers have created a name for organizations that use collaboration extensively : *virtual corporations.* The word *virtual* is derived from terminology used in the early days of the computer industry. The term *virtual memory* described a way of making a computer act as if it had more storage capacity than it really possessed. Thus, the so-called virtual corporation, which appears to be a single enterprise with vast capabilities, is the result of numerous collaborations with companies whose resources are called on only when they are needed.

The Value Chain

Value chain : Chain of activities by which a company brings in materials, creates a good or service, markets it, and provides service after a sale is made. Each step creates more value of the consumer.

Operating a business involves a system of activities and relationships with collaborators. Each part of the system–each link in the chain—adds value to the product customers ultimately buy. Figure 3.3. shows what is known as a **value chain.** The exhibit illustrates the relationships between a company and its customers

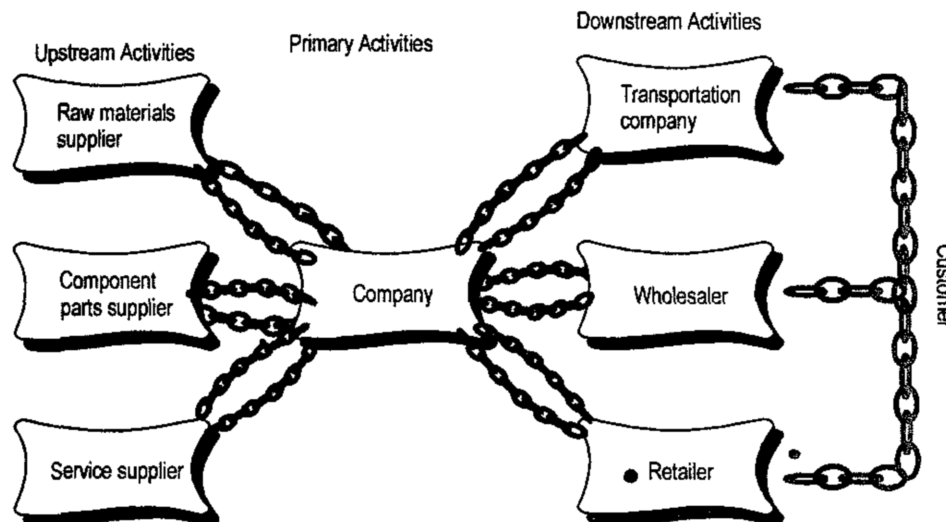


Figure 3.3

and some of its collaborators by dividing activities into primary, upstream, and downstream activities. Notice that before the company engages in its primary operations, such as production, accounting and pricing, it engages in *upstream activities*, such as purchasing equipment and materials from suppliers, *Downstream activities,* performed after the product has been produced, require dealing with other collaborators, such as

transportation companies and retailers. These upstream and downstream activities are called *supportive activities.* They provide the support necessary for carrying out primary activities or for concluding the sale of goods or services to the final buyer. Value chains may be more complex than the one illustrated here. Collaborators in the value chain create new value together. These companies link themselves together to achieve a common purpose. Each company values the skills that its partners bring to the collaboration. By linking their companies' capabilities, the collaborators can increase the value that the ultimate customer obtains.

Core Competencies

Core competency : Expertise in a critical functional area or aspect of a particular business that helps provide a company unique competitive advantage; what a company does best.

Before establishing the role of each collaborator in the value chain, marketers should ascertain the company's core competencies. A **core competency** is a proficiency in a critical functional activity—such as technical know-how or a particular business specialization—that helps provide a company's unique competitive advantage. The company may be able to do something that its competitors cannot do at all or that they find difficult to do even poorly. Simply put, core competencies are what the organization does best.

A company enhances its effectiveness by concentrating its resources on a set of core competencies that will allow it to achieve competitive superiority and provide unique or differentiated value for customers. For example, research and development for product design and marketing are Nike's core competencies, not production. Nike manufactures only key technical components of its Nike Air system. All of its shoe production is performed by Asian collaborators. Nike works with its advertising agency Wieden & Kennedy, and golf star Tiger Woods to create exciting television commercials. It uses Roadway Express and Federal Express to transport its shoes to Athelete's Foot stores, where shoppers receive personalized customer service. Nike also collaborates with top-ranked college football and basketball teams and provides them with everything from pants and jerseys to warm-up jackets. These apparel lines are also for sale in retail stores. Nike thus works with many collaborators who provide special services or contribute unique talents that strengthen and support Nike as a business. Nike understands its core competencies.

A company enhances its effectiveness by concentrating its resources on a set of core competencies that will allow ti to achieve competitive superiority and provide unique or differentiated value for customers.

Outsourcing : Buying or hiring from outside suppliers.

An undetstanding of core competencies helps managers determine what value creating activities can be outsourced. **Outsourcing** means having certain activities performed by collaborators—outside sources. Outsourced activities, such as the production of major parts or subassemblies by suppliers or the operation of an Internet Web site, may be integral to a company's operations.

The major reason for outsourcing is that few companies possess adequate resources and capabilities to perform all primary activities, upstream activities, and downstream activities themselves. In today's era of intense global competition, it would be almost impossible for any organization to have all the necessary competencies to excel at every activity in its value chain. Companies that recognize the fact carefully plan their collaborations with other companies so that they can combine complementary strengths to increase customer value.

Companies often have problems when they stray too far from their core competencies.

Chart 3.8: Examples of Core Competence

Firm	Core Competence
Sony	Capability for miniaturisation; it can make any product tiny.
Philip's	Optical media expertise.
3M	Capability for making substrates, coatings and adhesives and combining them in multiple ways.

Honda	Capability for making engines, which gives it an advantage in diverse products like cars, motorcycles, lawnmowers and generators.
DuPont	Unique strength in chemical technology.
ITT	Unique strength in electronics.
NEC	Unique strength in telecom, semiconductors and computing.
Canon	Unique strength in optics, imaging and microprocessor controls; together, they lend Canon an advantage in diverse products as copiers, laser printers, cameras, and image scanners.
JVC	Unique strength in video recording/videotape technology which has given JVC many unique and novel products

Chart 3.9: Attributes of Core Competence

- Core competence is a fundamenetal, unique and inimitable strength of the firm that:
  - (*i*) Provides the firm, the access to a variety of products/markets.
  - (*ii*) Contributes significantly to customer benefits in the end products.
  - (*iii*) Is an exclusive preserve of the firm and cannot be imitated easily by competitors
- Core competence is largely a tehnological competence, a competence at the root technology in particular.

  This is so because, new businesses/new products are largely the result of technology.

  This is especially true in today's technology-driven world, where technology is fast altering existing boundaries of businesses.

  The examples in Chart 3.8 show that the core competencies of these corporations are the outcome of their command over several overarching technologies.
- Corporations who enjoy a core competence in the root technology/process/expertise keep gaining lasting advantage, through new products and fresh value enhancement.
- In particular, for firms playing the business game through the product route, core competence is very essential.
- Often, command over multiple streams of inter-related and overarching technologies, (*e.g.*, telecomputers-fibre optics) confers a core competence to a firm in the composite area, giving rise to many unique products.
- Core competence is a knowledge base, which gives rise to a variety of products with widely varying product missions.

Chart 3.10: Distinction Between Competitive Advantage and Core Competence

- A competitive advantage does not necessarily imply a core competence while a core competence does imply a competitive advantage, often, a number of competitive advantages.
- A competitive advantage does not constitute a sure success formula for a firm over a long term; a core competence usually does.
- A core competence provides a lasting superiority to the company while a competitive advantage provides a temporary competitive superiority. And behind any lasting competitive superiority, one can always find a core competence.
- While a competitive advantage accrues from a functional strength in any of the manifold functions performed by a firm, a core competence does not normally accrue from functional strength. The strength has to be at the root of businesses and products; it has to be a core strength like a unique capability in technology/process.
- A competitive advantage helps a firm in a specific and limited way; a core competence helps it in a general, far-reaching and multifaceted manner.
- A competitive advantage provides competitive strength to the firm in a given business/product. A core competence helps the firm to excel in a variety of businesses/products.
- A competitive advantage can be easily imitated and competitors catch up fast. A core competence is an exclusive and inimitable preserve of a firm. It is long lasting; competitors cannot easily catch up with the firm.
- A core competence is fundamental and unique to a firm; competitive advantages are not unique to any firm over the long term.

Relationship Management

Relationship management: The building and maintaining of long term relationships with the parties that contribute to an organization's success; the sales function of managing relationships with customers and ensuring that they receive appropriate services.

Effective executives stress managing the relationships that make the value chain productive. These managers work to build long-term relationships with suppliers, resellers, and ultimately customers who buy their products

for consumption. The term **relationship management** refers to a major goal of business : building long-term relationships with the parties that contribute to a company's success.

Companies strive to initiate collaborations and build loyalties. It is the manager's job to create, interpret, and maintain the relationships between the company and its collaborators.

The Impact of Global Forces on the Four Cs

"On a political map, the boundaries between countries are as clear as ever. But on a competitive map, a map showing the real flows of financial and industrial activity, those boundaries have largely disappeared." The world has become a global economy in which corporations market their products in many areas outside their home countries. In consumer electronics, for instance, Japanese marketers like Sony and Panasonic have high market shares in the United States and compete effectively throughout the world. Not only marketing but also manufacturing has taken on an international character for some organizations.

International marketing : Marketing across international boundaries; also called *multinational marketing*.

An organization that sells its products beyond the boundaries of its home nation engages in international marketing. **International marketing** involves a marketing strategy that views the world market rather than a domestic market as the forum for marketing operations.

Import : A foreign product purchased domestically.

Export : *A domestically produced product sold in a foreign market.*

In thinking about marketing in the global economy, it is important to remember two key economic terms. **Imports** are foreign products purchased domestically. **Exports** are domestically produced products sold in foreign markets. Today, U.S. exports amount to almost a trillion dollars. The United States' top export products are (1) agricultural products, (2) electrical machinery, such as circuit breakers, (3) data processing and office equipment, (4) aircraft, and (5) general industrial machinery such as escalators. America's top export customers are (1) Canada, (2) Japan, (3) Mexico, (4) Britain, and (5) Germany. In 1998 imports were approximately $1,110 billion. The goods accounting for much of this trade were crude oil and refined petroleum products, automobiles, industrial raw materials, and capital goods.

Many U.S. companies are thoroughly involved in multinational marketing. Gillette, Coca-Cola, and Johnson & Johnson earn well over 50 per cent of their profits overseas. The U.S. government encourages U.S. companies to expand their international marketing efforts, and the United States is a major exporting country in terms of absolute dollar volume.

The United States has passed through a transition period from a domestic orientation to a global orientation. At one time, an American marketer could be content to ignore world trade and compete with other domestic marketers for business in the growing U.S. economy. Today, however, with multinational organizations employing global marketing strategies, a domestic marketer must be aware of foreign competitors' influences not only in international markets but also in its own domestic market. Competition is global, and the future of marketing is global. Companies must therefore analyze microenvironments in various parts of the world. For that reason, it is useful to consider the impact of global forces on the four Cs. We begin by looking at the global consumer.

Customers—The Era of the Global Consumer

International marketers, like marketers in their home countries, focus on satisfying customer needs. Understanding why people in foreign countries behave and react as they do requires knowing how their values and beliefs affect the success of marketing efforts. Values and beliefs vary from culture to culture. What seems like a normal idea, or even a great idea, to marketers in one country may be seen as unacceptable or even laughable by citizens of other lands. Consider these examples about food preferences :

- When Campbell's offered its familiar (to Americans) red and white—labelled cans of soup in Brazil, it found cultural values there too strong for this product to overcome. Brazilian housewives apparently felt guilty using the prepared soups that Americans take for granted. They believed that they would not be fulfilling their roles as homemakers if they served their families a soup they could not call their own. Faced with this difficulty, Campbell's withdrew the product. However, the company discovered that Brazilian women felt comfortable using a dehydrated "soup starter" to which they could add their own special ingredients and flair. To market soup in Japan, on the other hand, the marketer must realize that soup is regarded there as a breakfast drink rather than a dish served for lunch or dinner.
- Some 80 per cent of Indians are Hindu, adherents of a religion that prohibits the eating of beef and considers cows to be a sacred symbol. Instead of the Big Mac, the Indian menu features the Maharaja Mac—"two all-mutton patties, special sauce, lettuce, cheese, pickles, onions on a seasame-seed bun. "For the strictest Hindus, who eat no meat at all, there are rice-based patties flavoured with peas, carrots, red pepper, beans coriander, and other spices. McDonald which has restaurants in more than 100 countries, adapts its menu to local tastes around the world.

Industrial buyers and government workers may also behave differently in different cultures. In some countries, business dealings are carried on so slowly that U.S. business people are frustrated by what they perceive as delays. Yet this customary slowness may be seen by their hosts as contributing to a friendly atmosphere. Government officials in some countries openly demand "gifts or "tips", without which nothing gets done. Of course, this practice is illegal in the United States because it conflicts with American social values.

Language

Language is an important part of culture, and the international marketer must be aware of its subtleties. For example, although the French words *tu* and *vous* both mean "you", the former is used to address a social equal or an inferior and the latter to signify formality and social respect. In Japan, "yes" may mean "yes, I understand what you said," not necessarily "yes, I agree." Numerous marketing mistakes have resulted from misinter pretations of languages by unwary translators. The Chevrolet brand name Nova translates into Spanish as "no go." Tomato paste becomes "tomato glue" in Arabic. Translated into Spanish, Herculon carpet is "the carpeting with the big derriere." The straightforward slogan "Come alive with Pepsi!" has been translated as "Come out of the grave with Pepsi!" and "Pepsi brings your ancestors back from the grave."

English is spoken in many countries, but sometimes the language in English-speaking countries is not quite the same. A pickup truck is called a bakkie in South Africa, a ute in Australia, and *an utility vehicle* in New Zealand. What Americans call a bar is a *pub* in Great Britain, a hotel in Australia, and a *boozer* in New Zealand. And if you are in Canada, a hoser is just another bubba.

Cultural Symbols

Another aspect of culture is cultural symbols. A *cultural symbol* stands for something else and expresses a particular meaning shared by members of a society. Symbols may be verbal or non-verbal. The colour white may represent purity, for example. A bull may represent strength. Such symbols may act as powerful unconscious forces, silently working to shape consumer attitudes and behaviour. The use of cultural symbols can thus be of great importance in a marketing effort.

Ethnocentrism

Ethnocentrism : The tendency to consider one's own culture and way of life as the natural and no[illegible]

More often than not failure to understand the market leads to unpleasant results. One reason that many managers fail to fully understand foreign cultures and marketing is that people tend to b[illegible]
Ethnocentrism is the tendency to consider one's own culture and way of life as the natural [illegible]

We may mistakenly expect others to share these feelings. This unconscious use of our own cultural values as a reference points has been called the *self-reference criterion.* People doing business in a foreign country may be using the self-reference criterion, or being ethnocentric, when they think their domestic strategy or reputation is better than that of any competitor in that country. But exporting one's own biases into foreign markets results in mistakes—such as when U.S. companies attempted to sell large U.S. built cars with steering wheels on the left side for use in overcrowded Japanese streets, where cars are driven on the left side of the road.

Many Americans expect foreign business people to conduct business the same way people do in the United States. However, often this is not the case. For example, assuming that it is appropriate to send a woman sales representative to Saudi Arabia, Yemen, or some other country in the Middle East shows a lack of understanding of cultural values. The women's movement has not had much impact in many Middle Eastern countries. Marketers must avoid such cultural nearsightedness by consciously recognizing its potentially biasing impact.

Although consumers will no doubt continue to differ from country to country, they are developing some similar tastes and preferences as the business world becomes more global. Global marketers should recognize both similarities and differences among customers in different areas of the world and incorporate this knowledge into their marketing strategies.

Multinational Economic Communities

Multinational economic community : A collaboration among countries to increase international trade by reducing trade restrictions. Typically, a group of countries forms a unified market within which there are minimal trade and tariff barriers, the European Union is an example.

Marketers often view global customers from a regional perspective, reflecting a trend toward economic integration and the formation of multinational economic communities. A **multinational economic community** is a collaboration among countries to increase international trade by reducing trade restrictions. The formation of economic communities not only makes it easier for member nations to trade with each other but also makes it easier for outsiders to trade with member nations.

Perhaps the best-known economic community is the European Union, also known as the European Community or the Common Market.

It consists of Portugal, France, Ireland, the United Kingdom, Spain, Denmark, Germany, the Netherlands, Belgium, Luxembourg, Italy, Greece, Austria, Finland, and Sweden. Although Europeans had been working on a "borderless" economy for more than 30 years, 1992 finally marked the elimination of national trade barriers, differences in tax laws, conflicting product standards, and other restrictions that had kept the member nations from being a single market. Trade within this union is very similar to trade among U.S. states—borders are in minimal significance, and there are no customs controls. In 1999 the Euro became the common currency in the European Union.

Chapter 4
Market Segmentation, Targeting and Positioning

What is Market Segmentation ?

We have already defined what a market is but let us look again at that definition. A market is a group of actual or potential customers for a particular product. More precisely, a market is a group of individuals or organizations that may want the good or service being offered for sale and that meet these three additional criteria :

1. They have the ability or purchasing power to buy the product being offered.
2. They have the willingness to spend money or exchange other resources to obtain the product.
3. They have the authority to make such expenditures.

Economics text books often give the impression that all consumers are alike. Economists frequently, draw no distinctions among different types of buyers, as long as they have a willingness and an abilty to buy. Young and old buyers, men and women, people who drink 12 beers a day and those who drink one beer on New Year's Eve are all lumped together. Experience tells marketers, however, that in many cases buyers differ from one another even though they may be buying the same products. Marketers try to identify groups and subgroups within total markets—that is, they try to segment markets.

Recall that market segmentation consists of dividing a heterogeneous market into a number of smaller, more homogeneous submarkets. Almost any variable age, sex, product usage, life style, expected benefit—may be used as a segmenting variable, but the logic behind the strategy is always the same.

- Not all buyers are alike.
- Sub groups of people with similar behaviour, values, and/or backgrounds may be identified.
- The sub groups will be smaller and more homogeneous than the market as a whole.
- It should be easier to satisfy smaller groups of similar customers than a large group of dissimilar customers.

Usually, marketers are able to cluster similar customers into specific market segments with different, and sometimes unique, demands. For example, the computer software market can be divided into two segments: the domestic market and the foreign market. The domestic market can be segmented further into business users and home users. And the home user segment can be further divided into sophisticated personal computer user, people who hate personal computers but have to buy so their children use it for school work, people who use computers only for e-mail, and so on. The number of market segments within the total market depends largely on the strategist's ingenuity and creativity in identifying those segments.

Neeedless to say, a single company is unlikely to pursue all possible market segments. In fact, the idea behind market segmentation is for an organization to choose one or a few meaningful segments and concentrate its efforts on satisfying those selected parts of the market. Focusing its efforts on these targeted market segments—that is, *targeting*-enables the organization to allocate its marketing resources effectively. Concentrating efforts on a given market segment should result in a more precise marketing program satisfying specific market needs.

The market segment, or group of buyers, toward which an organization decides to direct its marketing plan is called the *target market.* The target market for Shower shaver, for example, is that sub group of women who shave their legs in the shower.

Because it is possible to segment markets in so many ways, target marketing opportunities abound. For example, there are "left-hander"shops specializing in products for left-handed people, tobacco shops catering to wealthy pipe smokers, and dress shops that target women who wear certain clothing sizes. In addition, numerous products bear the names or symbols of sports teams, such as the San Francisco 49ers or the Chicago Bulls, and are marketed to team fans. As you can see, the process of segmentation provides hints on how to market to the targeted segments identified.

Selection of a target market (or markets—in some cases, more than one may be selected for a product) is a three-step process, as shown in Figure 4.1. First, the total market, consisting of many different customers, is studied and broken down (or *disaggregated*) into its component parts—that is, individual customers, families, organizations, or other units. The customers are then regrouped by the marketing strategist into market segments on the basis of one or several characteristics that segment members have in common. Then the strategist must target segments to which the organization will appeal. When that is done, the strategist has answered the question "What are our target markets?"

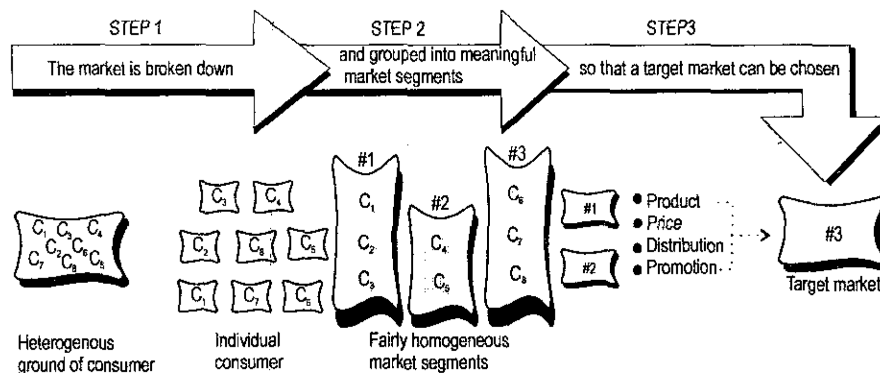


Figure 4.1 The major Steps in Market Segmentation and Selection of Target Markets

To sum up the market for any product is normally made up of several segments. A 'market' after all is the aggregate of consumers of a given product. And, consumers, who make a market, are seldom one homogeneous lot; they vary in their characteristics and buying behaviour. It is thus natural that many differing segments occur within a market.

Marketers usually divide the heterogeneous market for any product into segments, with relatively more homogeneous characteristics, since this helps in tapping it. And, this process of disaggregating a market into a number of sub-markets segments is known as market segmentation.

To put it in a nutshell, market segmentation rests on the recognition that:

(*a*) any market is made up of several sub-markets, or sub-groups of consumers, distinguished from one another by their varying needs and buying behaviour, and

(*b*) it is feasible to disaggregate the consumers into segments in such a manner that in needs, characteristics and buying behaviour, the members would vary significantly *among/across segments,* but would be homogeneous *within* each segment.

Why Segment the Market?

Let us see how segmentation benefits the marketer.

1. Fa[illegible] [illegible]er Cho[illegible] of Target Market

In[illegible] [illegible]ation helps the marketer to distinguish one customer group from another within a

given market and thereby enables him to decide which segment should form his target market.

2. **Facilitates Tapping of the Market, Adapting the Offer to the Target**

   Segmentation also enables the marketer to crystallise the needs of the target buyers. It also helps him to generate an accurate perdiction of the likely responses from each segment of the target buyers. Moreover, when buyers are handled after careful segmentation, the responses from each segment will be homogeneous. This, in turn, will help the marketer develop marketing offers/programmes that are most suited to each group. He can achieve the specialisation that is required in product, distribution, promotion and pricing for matching the particular customer group, and develop marketing offers and appeals that match the requirements of that particular group.

Exhibit 4.1: Adapting Offer to Suit Target Segment

Ford modifies its models for India

Ford modified its models for the Indian target segment as shown below:

- Higher ground clearance to make the car more compatible to the rougher road surface in India.
- Stiffer rear springs to enable negotiating the ubiquitous potholes on Indian roads.
- Changes in cooling requirement, with greater airflow to the rear.
- Higher resistance to dust.
- Compatibility of engine with the quality of fuel available in India.
- Location of horn buttons on the steering wheel.

As the Indian motorist uses the horn far more frquently, for cars sold in India, the horn buttons are kept on the steering wheel and not on a lever on the side as in the models sold in Europe.

The Ford Strategy

Through segmentation, car manufacturers have gained useful insights on the product features/benefits to be provided to different segments of car buyers. It will also be clear that within a given segment, the Indian requirement is often unique, giving rise to an India-specific sub-segment within any segment. Product offerings have to be tailored to suit Indian conditions, especially Indian roads. From the details provided, it will be clear that firms do appreciate this reality and they provide specific offers/models suiting the Indian segment.

Exhibit explains how Ford has gained useful insights through segmentation and adapted its offer to suit the Indian target segment.

In recent years, other carmakers have also identified distinct segments in the Indian car market and offered distinct models for each of them. For example, Daewoo offers eight variants of its Cielo, and Ford Mahindra four versions of the Ford Escort.

3. **Helps 'Divide the Markets and Conquer Them'**

   Through segmentation, the marketer can look at the differences among the customer groups and decide on appropriate strategic offers for each group. This is precisely why some marketing experts have described segmentation as a strategy of *dividing the markets for conquering them.*

4. **Makes the Marketing Effort more Efficient and Economic**

   Segmentation also makes the marketing effort more efficient and economic. It ensures that the marketing effort is concentrated on well defined and carefully chosen segments. After all, the resources of any firm are limited and no firm can normally afford to attack and tap the entire market without any delimitation whatsoever. It would benefit the firm if the efforts were concentrated on segments that are the most productive and profitable ones.

5. Helps Identify Less Satisfied Segments and Concentrate on Them

Segmentation also helps the marketer assess as to what extent existing offers from competitors match the needs of different customer segments. The marketer can thus identify the relatively less satisfied segments and succeed by satisfying such segments.

6. Benefits the Customer as well

Segementation brings benefits not only to the marketer, but to the customer as well. When segmentation attains higher levels of sophistication and perfection, customers and compaines can conveniently settle down with each other, as at such a stage, they can safely rely on each other's discrimination. The firm can anticipate the wants of the customers and the customers can anticipate the capabilities of the firm.

Chart 4.1: Summarises the Advantages of Market Segmentation

- Helps distinguish one customer group from another within a given market.
- Facilitates proper choice of target market.
- Facilitates effective tapping of the market.
- Helps 'divide the markets and conquer them'.
- Helps crystallise the needs of the target buyers and elicit more predictable responses from them; helps develop marketing programmes on a more predictable base; helps develop marketing offers that are most suited to each group.
- Helps achieve the specialisation required in product, distribution, promotion and pricing for matching the customer group and develop marketing offers and appeals that match the needs of such group.
- Makes the marketing effort more efficient and economic.
- Helps concentrate efforts on the most productive and profitable segments, instead of frittering them over irrelevant, or unproductive, or unprofitable segments.
- Helps spot the less satisfied segments and succeed by satisfying such segment.
- Brings benefits not only to the marketer but to the customer as well.
- When segmentation attains high sophistication, customers and companies can choose each other and stay together.

Levels and Patterns of Market Segmentation

We begin by examining the various levels and pattern of market segmentation.

Levels of Market Segmentation

Market segmentation is an effort to increase a company's precision marketing. The starting point of any segmentation discussion is *mass marketing.* In mass marketing, the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. Henry Ford epitomized this marketing strategy when he offered the Model T-Ford "in any color, as long as it is black." Coca-Cola also practised mass marketing when it sold only one kind of Coke in a 6.5-ounce bottle.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. However, many critics point to the increasing splintering of the market, which makes mass marketing more difficult. According to Regis McKenna,

[Consumers] have more ways to shop : at giant malls, speciality shops, and super stores; through mail-order catalogs, home shopping networks, and virtual stores on the Internet. And they are bombarded with messages pitched through a growing number of channels: broadcast and narrow-cast television, radio, on-line computer networks, the Internet, telephone services such as fax and telemarketing at one telemarketing, and niche magazines and other print media.

The proliferation of advertising media and distribution channels is making it difficult to practice "one size fits all' marketing. Some claim that mass marketing is dying. Not surprisingly, many companies are turning to micromarketing at one of four levels: segment, niches, local areas, and individuals.

Segment Marketing

A *market segment* consists of a large identifiable group within a market with similar wants, purchasing power, geographical location, buying attitudes, or buying habits. For example, an auto company may identify four broad segments: car buyers who are primarily seeking basic transportation or high performance or luxury or safety

Segmentation is an approach midway between mass marketing and individual marketing. Each segment's buyers are assumed to be quite similar in wants and needs, yet no two buyers are really alike. Anderson and Narus urge marketers to present *flexible market offerings* instead of a standard offering to all members within a segment. A flexible market offering consists of two parts: *a naked solution* consisting of product and service elements that all segment members value—and *options* that some segment members value. Each option carries an additional charge. For example, Delta Airlines offers all economy passengers a seat, food, and soft drinks. It charges extra for alcoholic beverages and earphones to those ecomomy passengers wanting them.

Segment marketing offers several benefits over mass marketing. The company can create a more fine-tuned product or service offering and price it appropriately for the target audience. The choice of distribution channels and communication channels becomes much easier. The company also may face fewer competitors in the particular segment.

Niche Marketing

A *niche* is a more narrowly defined group, typically a small market whose needs are not well served. Marketers usually identify niches by dividing a segment into sub segments or by defining a group seeking a distinctive mix of benefits. For example, the segment of heavy smokers includes those who are trying to stop smoking and those who don't care

Whereas segments are fairly large and normally attract several competitors, niches are fairly small and normally attract only one or two. Larger companies, such as IBM, lose pieces of their market to nichers: Dalgic labeled this confrontation "guerrillas against gorillas." Some larger companies have therefore turned to niche marketing, which has required more decentralization and some changes in the way they do business. Johnson & Johnson, for example, consists of 170 affiliates (business units), many of which pursue niche markets.

The prevalence of niche—and even 'microniche"—marketing can be seen in the media. Witness the proliferation of new magazines targeting specific niches, divided and subdivided along lines of ethnicity, gender, etc. For e.g. *there is* Outlook Traveller *for those who love travelling; there is* Inside Outside *which focus on design and interior:* there is Osho Times for those who believe in Osho etc.

Niche marketers presumably understand their customers' needs so well that the customers willingly pay a premium. Ferrari gets a high price for its cars because loyal buyers feel no other automobile comes close to offering the product-service-membership benefit bundle that Ferrari does.

An attractive niche is characterized as follows: The customers in the niche have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the nicher gains certain economies through specialization; and the niche has size, profit, and growth potential.

Both small and large companies can practice niche marketing.

Linneman and Stanton claim that there are riches in niches and believe that companies will have to niche or risk being niched. Blattberg and Deighton claim that "niches too small to be served profitably today will become viable as marketing efficiency improves." The low cost of setting up shop on the Internet is a key factor making it more profitable to serve even seemingly minuscule niches. Small businesses, in particular, are realizing riches from serving small niches on the World Wide Web. Fifteen per cent of the commercial Web sites with fewer than 10 employees take in more than $100,000, and 2 per cent even ring up more than $1 million. The recipe for Internet niching success: Choose a hard-to-find product that customers don't need to see and touch.

Local Marketing

Target marketing is leading to marketing programs being tailored to the needs and wants of local customer groups (trading areas, neighbourhoods, even individual stores). McDonald offers different types of offerings in different states of India because the food habits of the people are different.

Those favouring localizing a company's marketing see national advertising as wasteful because it fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale. Logistical problems become magnified when companies try to meet varying local requirements. A brand's overall image might be diluted if the product and message differ in different localities.

Individual Marketing

The ultimate lev el of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing." For centuries,. consumers were served as individuals: The tailor made the suit and the cobbler designed shoes for the individual. Much business-to-business marketing today is customized, in that a manufacturer will customize the offer, logistics, communications, and financial terms for each major account. New technologies—computers, databases, robotic production, e-mail, and fax—permit companies to return to customized marketing, or what is called "mass customization." *Mass customization* is the ability to prepare on a mass basis individually designed products and communications to meet each customer's requirements.

According to Arnold Ostle, chief designer for Mazda, "Customers will want to express their individuality with the products they buy." The opportunities offered by these technologies promise to turn marketing from "a broadcast medium to a dialogue medium," where the customer participates actively in the design of the product and offer.

Today customers are taking more individual initiative in determinig what and how to buy. They log onto the Intemet; look up information and evaluations of product or sevice offers; dialogue with suppliers, users, and product critics; and make up their own minds about the best offer.

Marketers will still influence the process but in new ways. They will need to set up toll-free phone numbers and e-mail addresses to enable buyers to reach them with questions, suggestions, and complaints. They will involve customers more in the product-specification process. They will sponsor an Internet home page that provides full information about the company's products, guarantees, and locations.

Just as mass production was the organizing principle of the last century, mass customization is becoming the organizing principle for the twenty-first century. Two trends are converging to make this so. One is the predominance of the customer and the importance of true customer service. Consumers are demanding not only quality products but also products that meet their individual needs. Marketing expert Regis McKenna says, "Choice has become a higher value than brand in America." Yet, it would be prohibitively expensive, if not downright impossible, to offers customers so many choices if it weren't for another trend : the emergence of new technologies. Computer-controlled factory equipment and industrial robots can now quickly read just assembly lines. Bar-code scanners make it possible to track parts and products. Data warehouses can store trillions of bytes of customer information. Most important of all, the internet ties it all together and makes it easy for a company to interact with customers, learn about their preferences, and respond. Joseph Pine, author of *Mass Customization,* says, 'Anything you can digitize, you can customize."

Consumer-goods marketers aren't the only ones riding these trends. Business-to-business marketers are also finding that they can provide customers with tailor-made goods and services as cheaply, and in the same amount of time, as it used to take to make standardized ones. Particularly for small companies, mass customization provides a way to stand out against larger competitors:

For both consumer marketers and business marketers, relationship marketing is an important ingredient of mass-customization programs. Unlike mass production, which eliminates the need for human interaction, mass customization has made relationships with customers more important than ever.

Patterns of Market Segmentation

Market segments can be built up in many ways. One way is to identify *preference segments.* Suppose ice cream buyers are asked how much they value sweetness and creaminess as two product attributes. Three different patterns can emerge :

- *Homogeneous preferences:* Figure 4.2 (a) shows a market where all the consumers have roughly the same preference. The market shows no natural segments. We would predict that existing brands would be similar and cluster around the middle of the scale in both sweetness and creaminess.
- *Diffused preferences:* At the other extreme, consumer preferences may be scattered throughout the

space (Figure 4.2[b]), indicating that consumers vary greatly in their preferences. The first brand to enter the market is likely to position in the center to appeal to the most people. A brand in the center minimizes the sum of total consumer dissatisfaction. A second competitor could locate next to the first brand and fight for market share. Or it could locate in a corner to attract a customer group that was not satisfied with the center brand. if several brands are in the market, they are likely to position throughout the space and show real differences to match consumer-preference differences.

- *Clustered preferences:* The market might reveal distinct preference clusters, called *natural market segments* (Figure 4.2[c]). The first firm in this market has three options. It might position in the center, hoping to appeal to all groups. It might position in the largest market segment *(concentrated marketing)*. It might develop several brands, each positioned in a different segment. If the first firm developed only one brand, competitors would enter and introduce brands in the other segments.

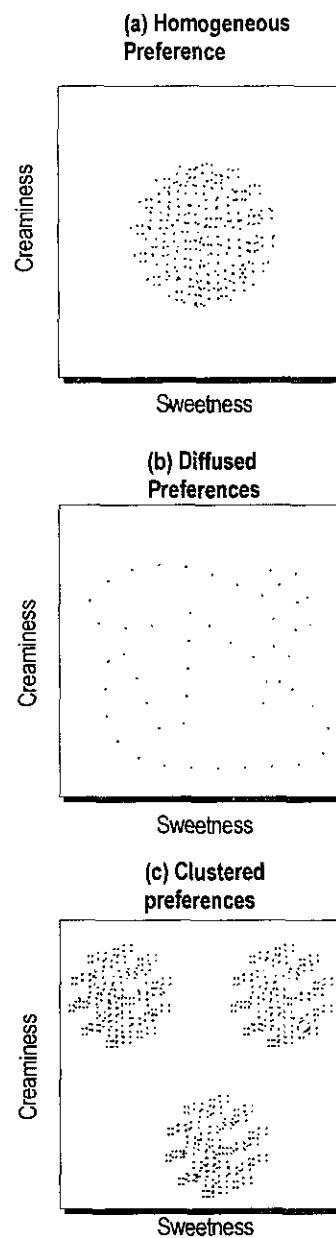


Figure 4.2: Basic Market-perference Patterns

Market-segmentation Procedure

Here is a three-step procedure for identifying market segments: survey, analysis, and profiling.

Step One : Survey Stage

The researcher conducts exploratory interviews and focus groups to gain insight into consumer motivations, attitudes, and behaviour. Then the researcher prepares a questionnaire and collects data on attributes and their importance ratings; brand awareness and brand ratings; product-usage patterns; attitudes toward the product category; and demographics, geographics, psychographics, and mediagraphics of the respondents.

Step Two : Analysis Stage

The researcher applies *factor analysis* to the data to remove highly correlated variables, then applies *cluster analysis* to create a specified number of maximally diffferent segments.

Step Three : Profiling Stage

Each cluster is profiled in terms of its distinguishing attitudes, behaviour, demographics, psychographics, and media patterns. Each segment is given a name based on its dominant characteristic. In a study of the leisure market, Andreasen and Belk found six segments: passive homebody, active sports enthusiast, inner-directed self-sufficient, culture patron, active homebody, and socially active. They found that peforming arts organizations could sell the most tickets by targeting culture patrons and socially active people.

Market segmentation must be redone periodically because market segments change. At one time the personal computer industry segmented its products purely on speed and power, thus appealing to two broad swathes, high-end users and low end users, but missing out on the prosperous middle. Later PC marketers recognized an emerging "SoHo" market, named for "small office and home office." Mail-order companies such as Dell and Gateway appealed to this market's requirement for high performance coupled with low price and user-friendliness. Shortly thereafter PC makers began to see SoHo as comprised of smaller segments. "Small-office needs might be very different from home-office needs," says one Dell executive.

One way to discover new segments is to investigate the hierarchy of attributes that consumers examine in choosing a brand. This process is called *market partitioning.* Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions *(brand-dominant hierarchy).* A buyer might favour General Motors cars and, within this set, Pontiac. Today, many buyers decide first on the nation from which they want to buy a car *(nation-dominant hierarchy).* Buyers may first decide they want to buy a Japanese car, then Toyota, and then the Corolla model of Toyota. Companies must monitor potential shifts in the consumers' hierarchy of attributes and adjust to changing priorities.

The hierarchy of attributes can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (e.g., sports, passenger, station wagon) are type dominant; those who first decide on the car brand are brand dominant.

Segmenting Consumer and Business Markets

Bases for Segmenting Consumer Markets

Two broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at *consumer characteristics:* geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars", and other groups toward, say, "safety"as a car benefit.

Other researchers try to form segments by looking at *consumer response* to benefits sought, use occasions, or brands. Once the segments are formed, the researcher sees whether different characteristics are associated with each consumer-response segment. For example, the researcher might examine whether people who want "quality" versus "low price" in buying an automobile differ in their geographic, demographic, and psychographic makeup.

The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table. 4.1.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, countries, cities, or neighbourhoods. The company can operate in one or a few geographic areas or operate in all but pay attention to local variations.

DEMOGRAPHIC SEGMENTATION

In *demographic segmentation*, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, social class. Demographic variables are the most popular bases for distinguishing customer groups. One reason is that consumer wants, preferences, and usage rates are often associated with demographic variables. Another is that demographic variables are easier to measure. Even when the target market is described in non-demographics terms (say, a personality type), the link back to demographic characteristics is needed in order to estimate the size of the target market and the media that should be used to reach it efficiently.

Table 4.1: Major Segmentation Variables for Consumer Markets

Geographic	
Region	North, South, East, West, Central.
City or metro size	Under 4,999; 5,000-19,999; 20,000-49,999; 50,000-99,999; 100,000-249,999; 250,000-499,999; 500,000-999,999; 1,000,000-3,999,999; 4,000,000 or over
Density	Urban, suburban, rural
Climate	Cold, Hot, Humid
Demographic	
Age	Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65+
Family size	1-2, 3-4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Upto Rs. 5,000; Rs. 5,000–7,500; Rs. 7,500–10,000; Rs. 10,000–15,000; Rs. 15,000 onwards
Occupation	Professional and technical; managers, officials, and proprietors; clerical, sales; craftspeople; operatives; farmers retired; students; homemakers; unemployed
Education	Un educated; upto 12th; Graduate; Postgraduate; Doctrate,
Religion	Hindu, Muslim, Christian, Jain, Buddist, Sikh etc.
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic	
Lifestyle	Easy going, Fashionable, Plain.
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioural	
Occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	*Enthusiastic, positive, indifferent, negative, hostile*

Here is how certain demographic variables have been used to segment markets.

Age and Life-Cycle Stage. Consumer wants and abilities change with age.

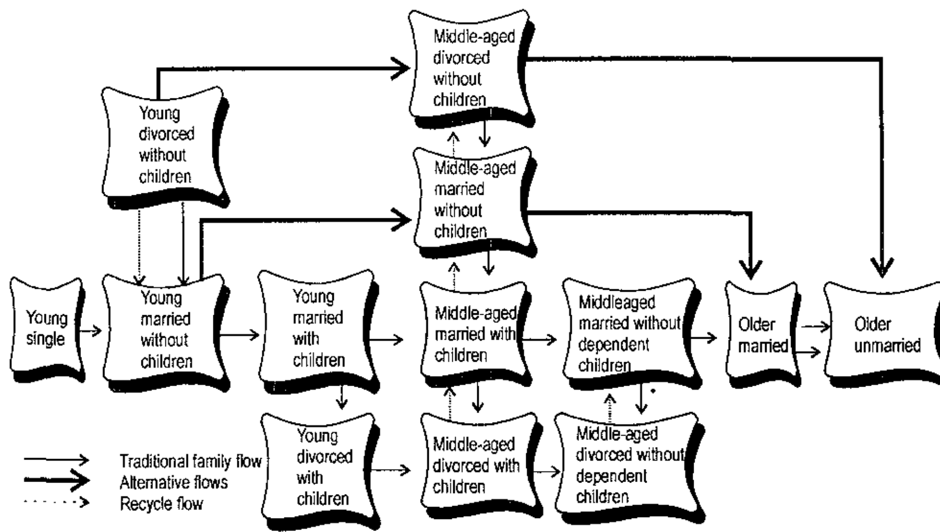


Figure 4.3: A Modernized Family Life Cycle.

Table 4.2: Consumption Patterns of Families in Several Life-Cycle Stages

STAGE	*CONSUMPTION PATTERNS*
Young single	Outdoor sporting goods, sports cars, fashion clothing, entertainment, and recreation services
Young married	Recreation and relaxation products, home furnishings, travel, home appliances
without children	High purchase rate of durables.
Young married	Baby food, clothing, and furniture; starter housing; insurance; washers.
with children	dryers; medical services and supplies for children; toys for children
Young single parent	Money-saving products, frozen foods, rental housing, child care, time-saving appliances, and foods
Middle-aged married	Children's lessons (piano, dance, etc.); large food purchases (respond to bulk
with children at home	buying deals); dental care; higher-priced furniture, autos, and housing ; fast food restaurant meals
Middle-aged married	Luxury products, travel, restaurants, condominiums, recreation
without children at home	Make gifts and contributions; have high discretionary incomes and solid financial position
Older(married or single)	Health care, home security, specialized housing, specialized food products, recreation geared to the retired.

Gender. Gender segmentation has long been applied in clothing, hairstyling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for gender segmentation. Consider the cigarette market, where brands like Virginia Slims have been introduced, accompanied by appropriate flavour, packaging, and advertising cues to reinforce a female image. Females consume more cosmetic products, males in India are also consuming cosmetic products.

The automobile industry is beginning to recognize gender segmentation. With more women car owners, some manufacturers are designing certain features to appeal to women, although stopping short of advertising the cars as women's cars.

Income. Income segmentation is a long-standing practice in such product and service categories as automobiles, clothing, cosmetics, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were the last purchasers of Black & white television sets. The most economical cars are not bought by the really poor, but rather by those who think of themselves as poor relative to their status aspirations. Medium-price and expensive cars tend to be purchased by the overprivileged segments of each social class.

Social Class. Social class has a strong influence in cars, clothing, home furnishings, leisure activities, reading habit, and retailers. Many companies design products and services for specific social classes.

The tastes of social classes can change with the years. The 1980s were about greed and ostentation for the upper

classes, but the nineties were more about values and self-fulfillment. Affluent tastes now run more toward the utilitarian, a Range Rover or Ford Explorer rather than a Mercedes.

Exhibit 4.2: Segmentation of Car Buyers on Price Preference

Segment	Characteristics of the segment
Budget car segment	It is the largest segment of the Indian market, accounting for over 60 per cent of the market.
	Expected to maintain a decent growth in volume, but decline in terms of the share of the total market.
	An entry-level car is what this segment looks for.
	Preferred price range: below Rs 2.2 lakh.
	Maruti 800 and Omni are the dominant offers.
	Extremely difficult to enter because of the competitive advantage enjoyed by Maruti in cost, price.
	This segment is sometimes referred to as the small car segment. But, in the Indian context, it may be more apt to refer to it as the budget car segment. This segment actually wants a low price car and not necessarily a small car. In developed countries, a small car means a compact, maneouverable, city car, with high comfort, and top quality. In India, a majority of the small car buyers are not particular to have a top quality, compact car, nor are they willing to pay the price required for such a car. So, a high priced car, though it may be compact, rules itself out of this segment. And, that is why Volkswagen decided not to enter the Indian market. It knew that its *Polo* would not fit the segment that is loosely termed as the small car segment in India.
Compact car segment	It lies between the budget car and family car segments. As mentioned earlier, in developed countries, this segment is referred to as the small car segment.
	Preferred price range : between Rs 3 lakh and Rs 4.5 lakh.
	Zen, Santro, Matiz, Fiat Uno, and Indica are the main players in the segment.
	Forms a reasonably sizeable segment of the market, commanding around 15 per cent share, but cannot come near the budget car segment in size.
	Is expected to grow at a steady pace in volume as well as in market share.
Family car segment	Forms a reasonably sizeable segment of the market (around 10 per cent).
	Is expected to maintain a decent growth rate in the next few years. But, cannot come near the compact segment (certainly not the budget segment) in size, for many years to come Preferred price range: Rs 4 lakh and Rs 5 lakh.
	An easy to enter segment, relatively crowded already.
	Maruti Esteem, Daewoo Cielo, and HM Contessa belong to the segment; and Maruti Esteem is the reference point.
	The purchasing capacity of buyers in this segment is somewhat higher than that of the budget and 'compact car' segments. But, this segment too, by and large, prefers a less expensive car. It is only because the cars that are sold in India as 'budget car' and 'compact car' do not meet their purpose, especially in terms of space, that they turn to 'the family car'. They, however, find world-class cars (the premium cars), which provide space as well as other benefits, 'high priced'. The 'family car' is their compromise choice.
Premium car segment	This segment represents buyers who need a real world-class car and are willing to pay the due price.
	Preferred price range: They are flexible in this matter. Around Rs 6 lakh is okay with them.
	Forms a relatively sizeable segment of the market for the present. This is mainly because of pent-up demand. Likely to saturate soon; then, the share will start dipping.
	Easy to enter relatively.
	Crowded already and is expected to get even more crowded.
	Opel Astra, Ford Escort, Fiat Siena, Ford Ikon, Honda City, Mitsubishi Lancer, and Audi 1800 belong to the segment.

Super luxury saloon Buyers in this segment look for a real super premium car.

Mercedes Benz E 229, E-250, Rover Montego, Audi 6, BMW, are the players here.

Obviously, this is a tiny segment in the Indian context. To quote BMW, 'At the moment, there is no significant market in India for a car like ours. We will have to develop a market.'

Psychographic Segmentation

In *psychographic segmentation,* buyers are divided into different groups on the basis of lifestyle or personality and values. People within the same demographic group can exhibit very different psychographic profiles.

Lifestyle. People exhibit many more lifestyles than are suggested by the seven social classes. The goods they consume express their lifestyles.

Companies making cosmetics, alcoholic beverages, and furniture are always seeking opportunities in lifestyle segmentation. But lifestyle segmentation does not always work. Nestle introduced a special brand of decaffeinated coffee for "late nighters, " and it failed.

Exhibit 4.3: Segmentation Based on Lifestyle—Titan Watches

- When Titan created a sub-brand, *Fastrack,* under the Titan umbrella, it was on the basis of lifestyle-based segmentation.
- Titan felt there was an opportunity for a casual watch.
- Since Indian consumers do not believe in throwaways, the watch had to be fit for casual wear and yet serious. *Fastrack* filled the bill.
- For the new watch, Titan went in for a new positioning 'Fastrack—Cool Watches by Titan.' It was a lifestyle-based positioning resulting from the lifestyle-based segmentation/targeting.
- *Fastrack* was targeted at the outdoor loving urban youth. To start with, 25 designs were offered. Later, Titan added Fastrack digital for this segment when digital was becoming the trend.
- Advertising, packaging and merchandising were all different for *Fastrack*—young, vibrant and cool—reflecting the lifestyle-based positioning.
- In fact, *Fastrack* was not the solitary attempt by Titan at segmentation with lifestyle as the base. The *European Insignia* watches, which were assembled by hand, with specifications that matched the Swiss counterparts, also belonged to this category. And, so did *the Professional Sports Instruments 2000* range. The *European Insignia was* at the top of the premium pile, with prices ranging between Rs 5,000 and Rs 8,000. *The Professional Sports Instruments 2000* range was meant for the sporty urbanite and was priced between Rs 4,500 and Rs 7,500.

Exhibit 4.4: Segmentation of Car Buyers Based on Lifestyle

Throughout the 1990s, India was an evolving market for different types of passenger cars. Naturally, car makers were discovering newer segments among car buyers.

One significant move has been the spotting of a segment based on lifestyle. By late 1990s, many car buyers in India were showing a preference for a station wagon, with suitable features. It was essentially a lifestyle-based phenomenon.

Passenger car firms in India, who were segmenting car buyers, using several relevant bases, including lifestyle, came out with station wagons, as it suited the particular segment.

Several new offers emerged in the market in response to the needs of this lifestyle based segment.

- They included the following
- Baleno GLX Estate from Maruti
- Nubira Wagon from Daewoo
- Corsa Station wagon from GM
- Opel Swing from GM
- Siena Weekend from Fiat

Personality. Marketers have used personality variables to segment markets. They endow their products with *brand personalities* that correspond to consumer personalities. The buyer of Bajaj Eliminator or Royal Enfield sees himself macho, strong, indepent and impulsive. While the buyer of Hero Honda Splender sees himself as smart money spendor who looks durability and easy ride.

Values. Some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviours. Core values go much deeper than behaviour or attitude, and determine, at a basic level, people's choices and desires over the long term. Marketers that segment by values believe that by appealing to people's inner selves it is possible to influence their outer selves-their purchase behaviour.

Behavioural Segmentation

In *behavioural segmentation,* buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. Many marketers believe that behavioural variables—occasions, benefits, user status, usage rate, loyalty status, buyer readiness stage, and attitude—are the best starting points for constructing market segments.

Occasions. Buyers can be distinguished according to the occasions they develop a need, purchase a product, or use a product. For example, travel in India is triggered by occasions related to business or family.

Occasion segmentation can help firms expand product usage. For example, orange juice is usually consumed at breakfast. An orange juice company can try to promote drinking orange juice on other occasions—lunch, dinner, midday. In India the biggest purchasing occasions were marriage and festivals when shopping is carried out.

Benefits. Buyers can be classified according to the benefits they seek. One study of travellers uncovered three benefit segments: those who travel to be with their family, those who travel for adventure or educational purposes, and people who travel for religious purposes.

Haley reported a successful benefit segmentation of the toothpaste market. He found four benefit segments economics, medicinal, cosmetic, and taste. Each benefit-seeking group had particular demographic, behavioural, and psychographic characteristics. For example, decay-prevention seekers had large families, were heavy toothpaste users, and were conservative. Each segment favoured certain brands. A toothpaste company can use these findings to focus its brand better and to launch new brands.

Table 4.3: Benefit Segmentation of the Toothpaste Market

Benefit Segments	Demographics	Behaviouristics	Psychographics	Favoured Brands
Economy (low price)	Men	Heavy users value oriented	High autonomy, Anchor	Brands on sale,
Medicinal (decay prevention)	Large families	Heavy users	Hypochondriac, conservative	Meswalk
Cosmetic (bright teeth)	Teens, young adults	Smokers	High sociability, active	Close Up
Taste (good tasting)	Children	Spearmint lovers	High self-involvement, hedonistic	Colgate, Close p

Exhibit 4.4: Segmentation Based on Benefit Expected Plus Income Level—Titan Watches

- After carrying out an in-depth market study, Titan identified three distinct market segments for its watches.
- The segments were arrived at using essentially benefit and income level as the bases.
- The first consisted of the high income/elite consumers who were buying a watch as a fashion accessory and not as a mere instrument showing time. They were also willing to buy a watch on impulse. The price tag did not matter much to this segment.
- The next segment consisted of consumers who prefered some fashion in their watches but to them price did matter. While

they had the capacity to pay the price required for a good watch, they would not purchase a watch without comparing the various offers in the market.

- The third segment consisted of the lower-income consumers who saw a watch mainly as a time keeping device and bought mainly on the basis of price.
- For the first segment, Titan offered *Aurum* and *Royale* in the gold/jewellery watch range. They were stylish dress watches in all gold and precious metals. The prices ranged between Rs 20,000 and Rs 1 lakh.
- For the middle segment, Titan offered the *Exacta* range in stainless steel, aimed at withstanding the rigours of daily life. There were 100 different models in the range. The price range was Rs 500-700. Titan also offered the 'Raga' range for women in this segment.
- And, for the third segment, Titan first offered the Timex watches and later, when the arrangement with Timex was terminated, the *Sonatta* range. The price range of Timex watches was Rs 350-500. It was offered in 200 different models. The *Sonatta* range too was low priced. Titan also offered the 'Dash!' range for children.
- In-depth segmentation helped Titan launch segment-specific products.

Exhibit 4.5: Segmentation Based on Buying Behaviour/Benefit/Use Pattern—Ambassador Car

HM Segments Car Buyers on Use Pattern

HM tried to classify the car market, applying five criteria to the purpose/way the car was used.

Criteria	*Position of competitors and HM in the segment*
Bought for personal use or	Ambassdor and Contessa fit the second segment to a large extent, taxi/pool operations? over 30 per cent of their demand coming from taxi/transport companies and tour operators. Competitors had a stronger position in the first category.
Meant for intra-city drive or	Once again, while the various competing cars had a strong showing long distance travel? in the first category, Ambassador and Contessa fit the second category more.
In buyer's perception, was it a regular car or a premium one?	There were many cars in the premium segment. Maruti had the Esteem. And many new arrivals like Cielo were flooding the segment. HM had only Contessa in the segment; Ambassador was perceived as a regular car.
Self-driven or chauffeur-driven?	HM did not have a vehicle that could be preferred by the first category. Both cars of HM—Ambassador and Contessa—fit the second. Competitors had their vehicles in the first category. Maruti in particular had several vehicles in the first category: 800, 800 AC, Zen, and to a good extent, even Maruti-Esteem.
Was the vehicle company-owned but, self-driven?	In more recent times, the company-owned, but self-driven segment was bulging. Corporates were now offering company-owned cars for the use of their executives, but without chauffeurs. Maruti was the big winner here. HM did not have a car for this segment.

HM Identified four distinct segments

1. Taxi/pool car segment
2. Long distance, chaffeur-driven segment
3. Premium segment
4. Self-driven segment (the vehicle may be company-owned, or self-owned)

- It was clear that HM's position was weak in all segments and it did not figure at all in the owner-driven segment.
- HM decided to alter this state of affairs and offer a car to each of the above four segments.
- But, HM preferred to do this using the basic Ambassador.

It offered

- *Ambassador diesel* to the taxi/pool car segment.
- *Ambassador Nova* as a chauffeur-driven sedan for the long distance segment.
- Contessa to the premium segment; and it created afresh an easy-drive model and offered it to the owner-driven segment. (Here again, it retained the basic/core plus point of the Ambassador.)

HM taps the owner-driven segement with a new model

- The major benefit for HM from the above segmentation exercise was the identification of the owner-driven segment. HM tapped it by creating a new vehicle.

- Even in the new vehicle, HM wanted to retain the core value of the Ambassador and offer it as a version of the Ambassador
- The peculiar dumpy look of the Ambassador was part of its core value of spaciousness, safety and easy repairability and it commanded a brand loyality. HM preferred to retain this basic look in the new car.
- But, to suit the owner-driven segment, the car had to be more user-friendly on the road.
- Management Consultants McKinsey pointed a way out and the HM team put together the Ambassador 1800 ISZ with the Isuzu engine.
- While the outer shell remained untouched, the engine, the suspension and the interiors were revamped.
- A fast pick-up and a smooth ride was the outcome.
- To adapt to city driving, a set of power brakes and radial tyres were added.
- To improve driving comfort, a new ergonomic dashboard and steering assembly were also added.

The Result

- A car that looked about the same as Ambassador from the outside, but offered an all-new driving experience.

User Status. Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. Thus blood banks must not rely only on regular donors to supply blood. They must recruit new first-time donors and contact ex-donors, and each will require a different marketing strategy. The company's market position will also influence its focus. Market-share leaders will focus on attracting potential users, whereas smaller firms will try to attract current users away from the market leader.

Usage Rate. Markets can be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. Marketers usually prefer to attract one heavy user rather than several light users, and they vary their promotional efforts accordingly.

Social marketing agencies face a heavy-user dilemma. A family planning agency would normally target poor families who have many children, but these families are usually the most resistant to birth control message. The National Safety Council would target unsafe drivers, but these drivers are the most resistant to safe-driving appeals. The agencies must decide whether to go after a few highly resistant heavy offenders or many less-resistant light offenders.

Loyal Status. Consumers have varying degrees of loyalty to specific brands, stores, and other entities. Buyers can be divided into four groups according to brand loyalty status:

- *Hard-core loyals:* Consumers who buy one brand all the time. eg AAAAAAA
- *Split loyals:* Consumers who are loyal to two or three brands. eg ABBAAABB
- *Shifting loual:* Consumers who shift from one brand to another. eg AABCCCDD
- *Switchers:* Consumers who show no loyalty to any brand. eg ABCDEFGH

Each market consists of different numbers of the four types of buyers. A *brand-loyal market* is one with a high percentage of hard-core brand-loyal buyers. The cigarette, newspaper & shampoo market are fairly high brand-loyal markets. Companies selling in a brand-loyal market have a hard time gaining more market share, and companies that enter such a market have a hard time getting in.

A company can learn a great deal by analyizing the degrees of brand loyalty: By studying its hard-core loyals, the company can identify its products' strengths. By studying its split loyals, the company can pinpoint which brands are most competitive with its own. By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and attempt to correct them.

One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, or a high switching cost, or the nonavailability of other brands. Thus a company must carefully interpret what is behind the observed purchase patterns.

Buyer-Readiness Stage. A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, the some intend to buy. The relative numbers make a big difference in designing the marketing program.

The Pulse-polio immunization drive in India attracts a very big; response because most of the parents are aware of the impact of polio. They only need to know the date on which polio drops will be given to the childrens.

Attitude. Five attitude groups can be found in a market: enthusiastic, positive. indifferent, negative, and hostile. Door-to-door workers in a political campaign use the voter's attitude to determine how much time to spend with that voter. They thank enthusiastic voters and remind them to vote; they reinforce those who are positively disposed; they try to win the votes of indifferent voters; they spend no time trying to change the attitudes of negative and hostile voters. To the extent that attitudes are correlated with demographic descriptors, the political party can more efficiently locate the best prospects.

Targeting Multiple Segments

Very often, companies start marketing to one segment, then expand to others. Consider the experiences of one small technology company :

Paging Network Inc. "PageNet" is a small developer of paging systems and competes with Southwestern Bell and other Bell companies. It sets its prices about 20 percent below its competitors'. PageNet used several segmentation strategies to compete.

1. PageNet initially used geographic segmentation and aimed at areas in Ohio and Texas. In both areas, local competitors were vulnerable to PageNet's aggressive pricing.
2. PageNet then proceeded to develop a profile of users for paging services. It targeted salespeople, messengers, and service people. PageNet used lifestyle segmentation to target additional consumer groups, such as parents who leave their baby with a sitter and elderly people living alone whose families wanted them to have a pager.
3. PageNet then decided to distribute its pagers through retail chain stores. It gave very attractive discounts in return for the right to keep the revenue from the monthly service charges on any pagers sold.
4. PageNet is the first to offer voice mail on the pager.

Many shoppers cannot be neatly pigeonholed into one segment. Many consumers are cross-shoppers. Consider the "cross-shopper" who buys an expensive suit but shops at small store for undergarments. It is dangerous to interpret segment membership by observing only one purchase. Segmentation ignores the whole customer profile, which becomes clear only with individual customer profiling.

Bases for Segmenting Business Markets

Business markets can be segmented with some variables employed in consumer market segmentation, such as geography, benefits sought, and usage rate. Yet business marketers can also use several other variables. Bonoma and Shapiro proposed segmenting the business market with the variables shown in Table. The demographic variables are the most important, followed by the operating variables—down to the pesonal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tyre company should first decide which industries it wants to serve. It can sell tyres to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, a company can further segment by company size. The company might set up separate operations for selling to large and small customers. Consider how Dell is organized:

Table 4.4: Segmentation Bases for Industrial Consumer

Demographic

1. *Industry* which industries should we serve ?
2. *Company size* What size companies should we serve ?
3. *Location* What geographical areas should we serve ?

Operating Variables

4. *Technology* : What customer technologies should we focus on ?
5. *User or nonuser status* : Should we serve heavy users, medium users, light users, or nonusers ?
6. *Customer capabilities* : Shou. we serve customers needing many or few services ?

Purchasing Approaches

7. *Purchasing-function organization* : Should we serve companies with highly centralized or decentralized purchasing organizations ?
8. *Power structure* : Should we serve companies that are engineering dominated, financially dominated, and so on ?
9. *Nature of existing relationships* : Should we serve companies with which we have strong relationships or simply go after the most desirable companies ?
10. *General purchase policies* : Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding ?
11. *Purchasing criteria* : Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency*: Should we serve companies that need quick and sudden delivery or service ?
13. *Specific application*: Should we focus on certain applications of our product rather than all applications ?
14. *Size of order*: Should we focus on large or small orders ?

Personal Characteristics

15. *Buyer-seller similarity*: Should we serve companies whose people and values are similar to ours ?
16. *Attitudes toward risk*: Should we serve risk-taking or risk-avoiding customers ?
17. *Loyalty*: Should we serve companies that show high loyalty to their suppliers ?

Within a given target industry and customer size, the company can segment by purchase criteria. For example, government laboratories, in buying scientific equipment, need low prices and service contracts; university laboratories need equipment that requires little service; and industrial laboratories need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential segmentation process. Consider an aluminium company:

The aluminium company first undertook macrosegmentation consisting of three steps. It looked at which end-use market to serve: automobile, residential, or beverage containers. Choosing the residential market, it needed to determine the most attractive product application: semifinished material, building components, or aluminium mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of microsegmentation. The company distinguished among customers buying on price, service, or quality. Because the aluminum company had a high-service profile, it decided to concentrate on the service-motivated segment of the market.

Business buyers seek different bundles based on their stage in the purchase decision process:

1. *First-time prospects:* Customers who have not yet purchased want to buy from a vendor who understands their business, who explains things well, and whom they can trust.
2. *Novices:* Customers who are starting their purchasing relationship want easy-to-read manuals, hot lines, a high level of training, and knowledgeable sales representatives.

3. *Sophisticates:* Established customers want speed in maintenance and repair, product customization, and high technical support.

These segments may also have different channel preferences. First-time prospects would prefer to deal with a company salesperson instead of a catalog or direct-mail channel, because the latter provides too little information. Sophisticates, on the other hand, may want to conduct more of their buying over electronic channels.

Rangan, Moriarty, and Swartz studied a mature commodity market, steel strapping, and found four business segments :

1. *Programmed buyers:* Buyers who view the product as not very important to their operation. They buy it as a routine purchase item, usually paying full price and receiving below-average service. Clearly this is a highly profitable segment for the vendor.

2. *Relationship buyers:* Buyers who regard the product as moderately important and are knowledgeable about competitive offerings. They get a small discount and a modest amount of service and prefer the vendor as long as the price is not far out of line. They are the second most profitable group.

3. *Transaction buyers:* Buyers who see the product as very important to their operations. They are price and service sensitive. They receive about a 10 per cent discount and above-average service. They are knowledgeable about competitive offerings and are ready to switch for a better price, even at the sacrifice of some service.

4. *Bargain hunters:* Buyers who see the product as very important and demand the deepest discount and the highest service. They know the alternative suppliers, bargain hard, and are ready to switch at the slightest dissatisfaction. The company needs these buyers for volume purposes, but they are not very profitable.

This segmentation scheme can help a company in a mature commodity industry do a better job of figuring out where to apply price and service increases and decreases, because each segment would react differently.

Choosing Meaningful Market Segments

Target marketing rests on the assumption that differences among buyers are related to meaningful differences in market behaviour. The identification of market segments that are not meaningful has little value. The following five criteria make a segment meaningful:

1. The market segment has one or more characteristics that distinguish it from the other market. These characteristics should be stable over time.
2. The market segment have market potential of significant size—that is, large enough to be profitable.
3. The market segment is accessible through distribution efforts or reachable through promotional efforts.

4. The market segment is responsive. The market segment has a unique marketing need, and the likelihood is high that the segment respond favorably to a marketing mix tailored to this.

5. The segment's market potential should be measurable. Ease of measurement facilitates effective target marketing by helping to identify and quantify gross purchasing power and to indicate the differences among market segments. Although ease of measurement is desirable, it is not mandatory.

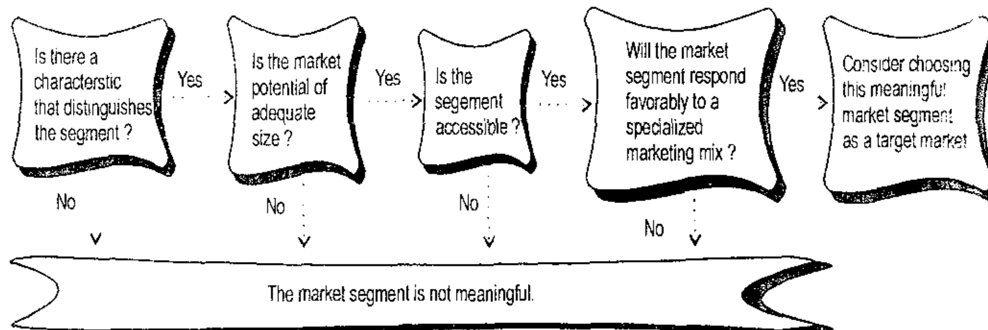


Figure 4.4: Determining Whether a Market Segment is Meaningful

Figure 4.4 Outlines these criteria. Whether a company achieves its general goal of profitability can depend on how well marketers use the criteria to identify target markets. Selecting a group that is not easily distinguishable or accessible or appealing to a segment that is too small to generate adequate sales volume or selecting a group that the company is unable to attract is not effective market segmentation.

Consider an example. Cuban citizens form a possible market segment. This is a large group. But even assuming it has unique market demands, this segment not meaningful. The U.S. government has placed an embargo on exports to Cuba, and these restrictions have completely shut down trade with the island. Thus, the market segment consisting of Cubans living in Cuba does not meet the criterion of accessibility.

Eureka Forbes water purifier was able to appeal to the middle class families for whom good health is a priority. The quality of drinking water supplied by thewater works is very poor and sometimes contaminated and this might led to water borne diseases. So in order to avoid such a situation water filtering came as a solution.

Market Targeting

Once the firm has identified its market-segment opportunities, it has to decide how many and which ones to target.

Evaluating the Market Segments

In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. First, the firm must ask whether a potential segment has the characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk. Second, the firm must consider whether investing in the segment makes sense given the firm's objectives and resources. Some attractive segments could be dismissed because they do not mesh with the company's long-run objectives, or the segment should be dismissed if the company lacks one or more necessary competences to offer superior value

Selecting the Market Segments

Having evaluted different segments, the company can consider five patterns of target market selection shown in Figure 4.5

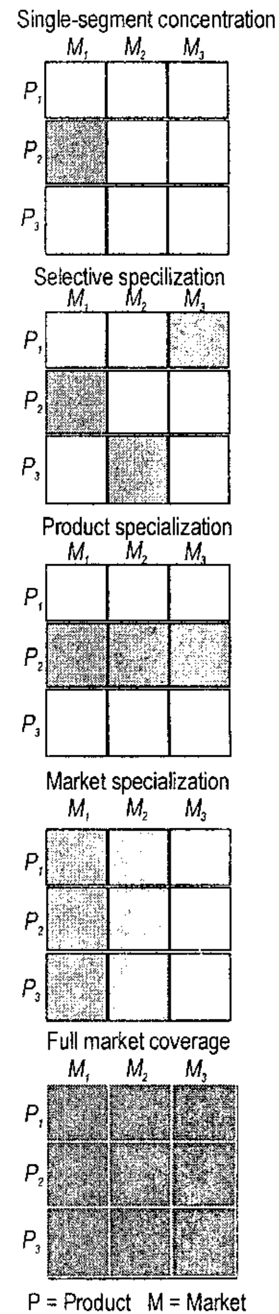


Figure 4.5: Five Patterns of Target Market Selection

SINGLE-SEGMENT CONCENTRATION

The company may select a single segment. Infosys concentrates on providence software solutions and Porsche on the sports car market. Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

However, concentrated marketing involves higher than normal risks. A particular market segment can turn sour of demand may decline. Or a competitor may invade the segment. For these reasons, many companies prefer to operate in more than one segment.

Selective Specialization

Here the firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each segment promises to be a moneymaker. This multisegment coverage strategy has the advantage of diversifying the firm's risk.

Aditya Vikram Birla Group is moving towards selective specialization by concentrating more on selected areas like cement (largest manufacturer in India) & steel (Hindalco). Similarly Reliance Group is concentrating on Petrochemicals, Communciations and Textiles.

Product Specialization

Here the firm specializes in making a certain product that it sells to several segments. An example would be a microscope manufacturer that sells microscopes to university laboratories, government laboratories, and commercial laboratories. The firm makes different microscopes for different customer groups but does not manufacture other instruments that laboratories might use. Through a product specialization sttrategy, the firm builds a strong reputation in the specific product area. The dounside risk is that the product may be supplanted by an entirely new technology. Another example is of text book publisher who sells high priced hard bound editions to the university and college libraries and soft bound editions at lower prive to the studetns through book retailers.

Market Specialization

Here the firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products only to university laboratories, including microscopes, oscilloscopes, Bunsen burners, and chemical flasks. The firm gains a strong reputation in serving this customer group and becomes a channel for

further products that the customer group could use. The downside risk is that the customer group may have its budgets cut. Arvind Mills concentrate on few large buyers for selling denim fabric. By doing so Arvind Mills was able to serve the demands of European and American jeans manufacturers at lower cost than any other denim manufacturer. Arvind Mills became third largest producers of Denim in the world.

Full Market Coverage

Here a firm attempts to serve all customer groups with all the products they might need. Only very large firms can undertake a full market coverage strategy. Examples include IBM (computer market), General Motors (vehicle market), and Coca-Cola (drink market). Large firms can cover a whole market in two broad ways, through undifferetiated marketing or differentiated marketing.

In *undifferentiated marketing*, the firm ignores market-segment differences and goes after the whole market with one market offer. It focuses on a basic buyer need rather than on differences among buyers. It designs a product and a marketing program that will appeal to the broadest number of buyers. It relies on mass distribution and mass advertising. It aims to endow the product with a superior image in people's minds. Undifferentiated marketing is "the marketing counterpart to standardization and mass production in manufacturing." The narrow product line keeps down costs of research and development production, inventory, transportation, marketing research, advertising and product management. The undifferentiated advertising program keeps down advertising costs. Presumably, the company can turn its lower costs into lower prices to win the price-sensitive segment of the market. Coca-cola and Doordarshan before the entry of satellite channels are the two prominent examples.

In *differentiated marketing*, the firm operates in several market segments and designs different program for each segment. General Motors does this when it says that it produces a car for every "purse, purpose, and personality." IBM offers many hardware and software package for different segments in the computer market

Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. The following costs are likely to be higher:

- *Product modification costs:* Modifying a product to meet different market-segment requirements usually involves some R&D, engineering, and special tooling costs.
- *Manufacturing costs:* It is usually more expensive to produce 10 units of 10 different products than 100 units of one product. The longer the production setup time and the smaller the sales volume of each product, the more expensive the product becomes. However, if each model is sold in sufficiently large volume, the higher costs of setup time may quite small per unit.
- *Administrative costs:* The company has to develop separate marketing plans for each market segment. This requires extra marketing research, forecasting, sales analysis, promotion, planning, and channel management.
- *Inventory costs:* It is more costly to manage inventories containing many products.
- *Promotion costs:* The company has to reach different market segments with different promotion programs. The result is increased promotion-planning costs and media costs.

Because differentiated marketing leads to both higher sales and higher costs, nothing general can be said regarding this strategy's profitability. Companies should be cautious about oversegmenting their market. If this happens, they may want to turn to *countersegmentation* to broaden the customer base. Johnson & Johnson, for example, broadened its target market for its baby shampoo to include adults. Smith Kline Beecham launched its Aquafresh toothpaste to attract three benefit segment simultaneously: those seeking fresh breath, whiter teeth, and cavity protection.

Four Strategies for Target Marketing

The idea of zeroing is on a given market segment suggests analogies with rifles and shotguns. The shotgun approach spreads marketing efforts widely, while the rifle approach allows for greater precision by focusing on one target

market. We can develop the logic of this analogy by examining four target marketing strategies based on the uniqueness of consumers segments and organizational objectives.

Undifferentiated Marketing: When Everyone is a Customer

Undifferentiated marketing *A marketing effort not targeted at a specific market segment but designed to appeal to a broad range of customers. The approach is appropriate in a market that lacks divesity of interest.*

Sometimes, when a marketing manager asks, "What is our market?" the answer turns out to be"Almost everyone who has any use for our type of product." When marketers determine that there is little diversity among market segments, they may engage in mass marketing . A firm selling hacksaw blades, brass or silver polish, or garbage cans to consumers may find it more efficient not to distinguish among market segments. This absence of segmentation, which is illustrated in Figure 4.6 is called **undifferentiated marketing.**

In some situations, undifferentiated marketing may result in savings in production and marketing costs, which can be passed on to consumers in the form of lower prices. After all, it should be cheaper to make and sell only one car model in one colour, as Henry Ford did with the Model T, than to produce and sell tens of models in many colours and with various options, as General Motors does today. However, the attempt to appeal to everyone may make an organization extremely vulnerable to competition.

Even producers of common, unexciting products like salt have found this out. No-Salt, Lite Salt, sea salt, popcorn salt, flavoured salts, noniodized salt, and other such products chip away at the customer base of a marketer of common table salt. Similarly, all facial tissues may be pretty much alike, but a product marketed in a package illustrated with Winnie-the-Pooh characters from the Disney Tigger movie may appeal to buyers with small children. Although "everyone" buys salt and tissues, buyers' secondary desires (for example, to please, to please a child with a Tigger package) may provide the basis for segmentation. The undifferentiated brand cannot offer such specialized benefits.

Undifferentiated marketing can succeed. A small grocery store in a small, isolated town seeks all the people in that town as its customers. The store operator can construct one well-prepared marketing mix to please all, or at least most, customers.

Figure 4.6: The Undifferentiated Marketing Approach

Concentrated Marketing : Zeroing in on a Single Target

Concentrated marketing : *Development of a marketing mix and direction of marketing efforts and resources to appeal to a single market segment.*

Suppose a chain saw manufacturer identifies three major market segments casual or occasional user (such as the suburban homeowner), the farmers and the professional lumberjack segment. Each of these user groups has different needs; each uses chain saws in different ways; each reads different magazines watches different television programs. If the chain saw marketer selects one of these segments (say, the farm user), develops an appropriate marketing programme, directs its marketing efforts and resources toward that segment exclusively, he is engaged in **concentrated marketing. Figure 4.7** illustrates this strategy.

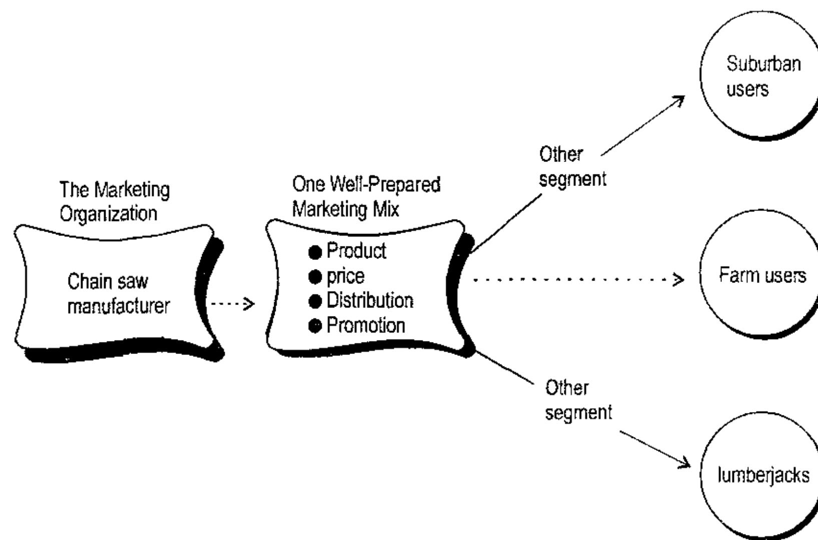


Figure 4.7: The Concentrated Marketing Approach

A firm might concentrate on a single market niche because management believes its company has a competitive advantage in dealing with the selected segment. Chain saws sold to the farm and professional segments are generally gasoline-powered. However, the casual-user segment, with less demanding performance standards and far fewer acres to cover, may be content with less powerful electric saws. Thus, a manufacturer of gasoline-powered lawn mowers may decide to produce gas-powered chain saws, while a maker of electric tools find that its existing production facilities are compatible with the production of electric chain saws. Each can select market segments that provide a match bettween company goals and abilities and customer needs. Concentrated marketing strategies can be employed by both firms.

Examples of firms that concentrate their marketing efforts are easy to find. There are jewellers and clothing manufacturers that products goods with price tags that seem ridiculous to most people. Such products are sold to a small but wealthy market segment. Radio stations use concentrated marketing when they target their programming to a market segment that prefers a particular type of music. That is why you don't often hear rock, classical, and country music on the same station.

Can a business-to-business marketer practise concentrated marketing ? The answer is yes. An example: Leo Burnett is one of the ten largest advertising agencies in the United States, yet it has fewer than thirty clients. Burnett focuses its efforts on servicing a small number of affluent clients with huge advertising budgets specializing seems to work, for in this volatile business, more than half of Burnett's clients have been with the agency for more than 10 years.

Concentrated marketing is not without its risks. If an organization specializes its efforts, it lacks diversity and has the problem of "putting all its eggs in one basket" If the market is too narrow or if growth in the market segment slows, major financial problems arise.

An organization that is extremly successful in targeting a single segment may have great difficulty targeting other segments later. Cadillac spent years concentration on older, well-to-do consumers who wanted big cars. When it tried to reach younger, upwardly mobile consumers with smaller cars, the company was too well entrenched in one market segment to diversify into others.

80/20 Principle *In marketing, a principle describing the fact that usually a relatively small percentage of customers accounts for a disproportionately large share of the sales of a product.*

The 80/20 Principle. Concentrating on one market segment is often more attractive when the marketer knows that a small percentage of all users of a product accounts for a great portion of that product's sales. The **80/20 Principle** is the name given to this phenomenon whereby 20 percent of the custotmers buy 80 per cent of the product sold. This 20 percent (which may really be 25 percent or some similar percentage) may be called "heavy users" or "major customers." For example, marketers of beer know from marketing research that blue-collar workers are the "heavy users" in the beer market. The 80/20 principle operates in both consumer and organisational markets.

Clearly, it may be better for a marketer to go after a small, seemingly less attractive market segment than to pursue the same customers that everyone else is after.

Majority fallacy. *The blind pursuit of the largest, or most easily identified, or most accessible market segment The error lies in ignoring the fact that other marketers will be pursing this same segment.*

The Majority Fallacy. Concentrating on the largest segment or the segment of heaviest users may not be the best course of action. Some organizations mistakenly aim at such a segment just because it is so obviously attractive. These organizations have fallen hook, line, and sinker for the majority fallacy. The **majority fallacy** is the name given to the blind pursuit of the largest, or most easily identified, or most accessible market segment. Why is it a fallacy ? Simply because the segment they are pursing is the one that everybody knows is the biggest or "best" segment, it probably attracts the most intense competition and may actually prove less profitable to firms competing for its attention. Although Procter and Gamble's Prell and Pert shampoos are aimed at broader markets than its dandruff-fighting Head and Shoulders, Head and Shoulders—a more specialized product—sells more than the other brands combined, because many other marketers aim their products at the users of regular shampoo.

Clearly, the majority fallacy points out that it may be better for a marketer to go after a small, seemingly less attractive market segment than to pursue the same customers that everyone else is after.

Differentiated Marketing : Different Buyers, Different Strategies

Differentiated marketing *A marketing effort in which a marketer selects more than one target market and then develops a separate marketing mix for each; also called multiple market segmentation.*

Of course, it is possible for an organization to target its efforts toward more than one market segment. Once the various segments in a total market have been identified, specific marketing mixes can be developed to appeal to all or some of the submarkets. When an organization chooses more than one target market segment and prepares a marketing mix for each one, it is practising **differentiated marketing, or multiple market segmentation.**

Using a differentiated marketing strategy exploits the differences between market segments by tailoring a specific marketing mix to each segment. For instance, the chain saw manufacturer that decided to concentrate on only one of three market segments could have, given appropriate resources, attempted to appeal to each segment of the chain saw market. This would have meant a greater investment of money and effort, because each segment would have required its own specially tailored product, price, distribution, and promotion.

Of course, some markets are much more diverse than the chain saw illustration suggests. A good example of an industry facing a wide diversity of customers is the hair-colouring industry. Some customers want to cover traces of gray, and some want to highlight or brighten hair. Within these large customer groups, additional segments can be found. Figure 4.8 illustrates how Clairol segments the hair-colouring market. In this case, identifying the segments is not particularly difficult. The real work and expense come in creating the marketing mixes that satisfy all the segments.

Differentiated marketing is applicable to many situations, and in many cases, it is easy to implement. For example, a popular way for a manufacturer to attract a differentiated market—and one that requires relatively little effort—is by producing different-sized packages of the same product.

Although differentiated marketing is appropriate in many situations, it must be used with care. As this approach

becomes more elaborate, costs increase. This fact must be taken into account as the marketing manager considers the value of focusing on different segments' needs. Competitive conditions, corporate objectives, available resources and alternative marketing oppotunities for other product lines all influence the decision to utilize a differentiated market segmentation strategy.

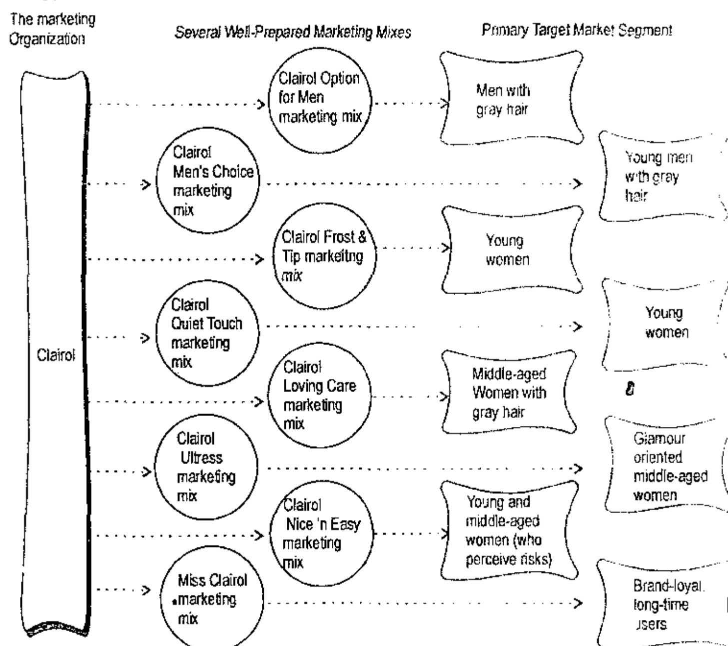


Figure 4.8: The Differentiated Marketing Approach

Custom Marketing : To Each his or Her Own

Custom marketing *A marketing effort in which a marketer seeks to satisfy each customer's unique set of needs. In effect, each customer is an individual market segment.*

Sometimes the market facing a given marketing manager is so diverse, and its members so different from one another, that no meaningful groups of customers can be identified. When this kind of diversity exists, a special kind of marketing effort is necessary. This situation requires **custom marketing,** the attempt to satisfy each customer's unique set of needs. In this case, the marketer must develop a marketing mix suitable to each customer.

A manufacturer of industrial robots faces such a prospect. Industrial robots are usually custom-designed to fit the buyer's special manufacturing problems. Each buyer demands a unique product, with special size and strength characteristics, depending on the job to be done. Each will probably require delivery and installation at a given location, thus somewhat altering the marketer's distributiion system. In addition, individual customers may have difficult technical questions, requiring salespeople with broad technical knowledge. The salesperson, who is the key element in promotional efforts, may be required to alter the company's pricing structure to fit the custom-designed product's cost. In all, for our robot maker, each prospect may be considered a market segment, as illustrated in Figure 4.9

Marketers of services, such as architects, tailors, and lawyers, often employ custom marketing strategies. The nature of these services requires that each customer be treated in a unique way. Effective marketers of custom services recognize this need for unique treatment as an opportunity to promote the notion that each customer gets exactly what he or she wants. Customers can have it their way.

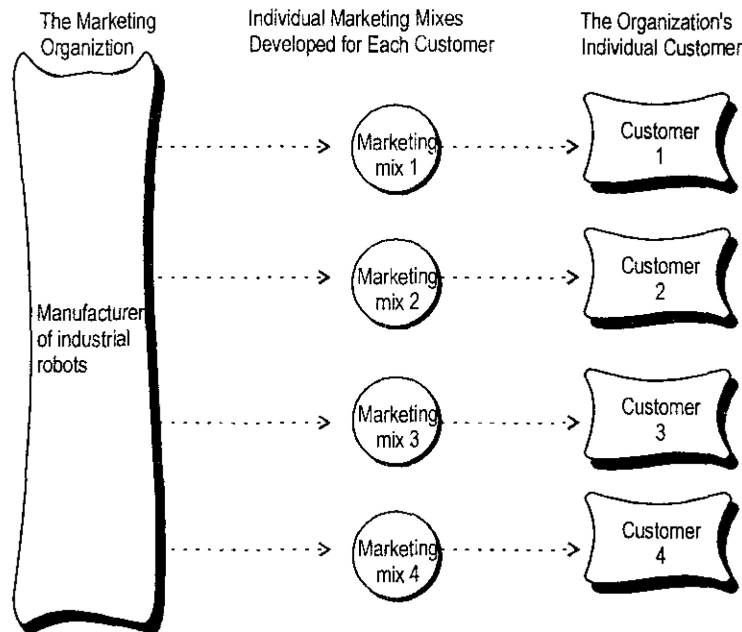


Figure 4.9: The Custom Marketing Approach

Going One-on-One Using Information Technology The new information technologies available today allow a data based marketer to track customers individually and then customize its marketing efforts. This form of customized marketing is sometimes called *one-on-one marketing,* but we prefer the term *data-based marketing.* Going one-on-one with customers is made possible by digital information technologies: customer databases and systems that support mass customization.

With today's information technology, the role of personalized service can be greatly expanded if a company maintains a customer database. Manhattan East Suite Hotels, for instance, maintains a detailed database on the guests at its nine luxurious New York City properties, which include the Surrey Hotel, the Beckman Tower Hotel, and the Shelburne-Murray Hill. Doormen greet arriving guest by name, and reservation agents know without asking whether a guest prefers a nonsmoking room. Manhattan East has been logging occupancy rates much higher than those of the average New York hotel. The hotel group's relationship marketing goal is to have a circle of friends, with the customer at the center.

Many marketers use information in customer databases to create computer-generated mailing lists and individualized promotional messages. In other words, computer technology has made it, possible for a marketer to learn more about customers' habits and preferences and then adopt a custom marketing strategy with individualized promotional messages or personalized product offerings. Data-based marketing helps the form company relationships with customers.

Going one-on-one with customers is made possible by digital infor-mation technology customer databases systems that support customization.

Chart summarizes the characteristics of the four basic market segmentation strategies.

Mass customization *A strategy that combines mass production with computers to produce customized products for small market segments.*

Mass Customization. In addition to making data-based marketing possible, new technologies are changing the face of traditional custom marketing in many ways, Today, for example, marketers offer tennis shoes, basketball shoes, walking shoes, running shoes, aerobics shoes, and many other shoes designed for specific activities. Marketers of bicycling shoes offer specialized models for off-road use, for specific road and track conditions, and for both racing and recreational riding, with each pair matched to one or more pedal-and-shoe locking systems. This wide variety of shoes is possible because mass customization can be used instead of traditional mass production.

A mass production process results in low-cost, standard goods and services. Mass customization is a strategy that mobilizes the combined power of mass production technologies and computers to make varied, customized products for small market segments.

Flexible manufacturing system *A group of machines integrated through a central computer and able to produce a variety of similar but not identical products.*

Marketers can offer mass customization to very small and specialized market segments because of technological advances in manufacturing that allow for the coordination of relatively autonomous process or task modules. **Flexible manufacturing systems** are replacing mass production with mass customization because more flexible, computerized production technologies permit companies to make products like bicycle shoes both in large volume and in great variety. These manufacturing systems also allow changes in design or style to be made rapidly. For example, Panasonic consumer electronic products are replaced with modified models approximately every 90 days.

Mass customization calls for flexibility and quick responsiveness to give customers exactly what they want. USAA uses a mass customization strategy to target its financial services to events in a customer's life, such as buying a house or car, getting married, or having a baby. First, a sales representative enters customer information into the customer database. Then special software programs analyze the customer's needs and instantly provide customized suggestions for personalized marketing action. Data-based marketing and mass customization help an organization to better meet customers' needs.

The ability to produce reasonably priced, made-to-order items is perhaps the greatest benefit of mass customization. Levi Strauss has known for some time that many women—those who fall right in the middle of the size ranges—are not satisfied with standard-sized blue jeans. Using mass customization and flexible manufacturing, Levi's developed a Personal Pair Program to solve this problem. At selected Original Levi's Stores, a trained sales associate will take a woman's measurements, enter the measurements into a computer, and send the information via modem to a Levi's factory in Tennessee. In approximately 3 weeks, the customer can either pick up her Personal Pair jeans or, for a small extra fee, have them sent directly to her. The ability to mass-customize products often allows marketers to charge a price higher than that of mass-produced items, but lower than that of hand-made items. Further, retailers reduce inventory and do not have to mark down unsold items.

Chart:Typical Characteristics of the Basic Market Segmentation Strategies

Strategy	*Market Segment*	*Market Characteristics*	*Company Objectives*	*Major Disadvantages*	*Examples*
Undifferentiated Marketing	Everyone	Little diversity	Production savings	Competitors may identify segments	Chicago Museum of Science and Industry
Concentrated Marketing	One select segment	Targeted segment has special needs	Gain competitive advantage by specialization; use one well-prepared marketing mix to meet segments with special segment needs.	Lack of diversity; market segment may be too narrow	Rolls Royce
Differentiated Marketing	Multiple segments	Wide diversity of customers	Exploit differences among market segments; maximize market share.	Extreme resources required	Starbucks Coffee
Custom Marketing	Complete segmentation	Each customer of unique	Satisfy each customer's unique needs.	High marketing costs	Hitachi industrial roots

Wrong Targeting Renders Strategy Ineffective: Even MNCs Seem to ERR

In the wake of the economic liberalistion, a host of MNCs entered the Indian market. In a number of these cases, their offers failed to click, mainly because of wrong segmentation and targeting.

Many of these MNCs considered the Indian middle class as a single market segment and assumed that it would

perfectly serve as the target market for their products they were introducing in India. While a part of the Indian middle class did constitute a market for the products, the MNCs failed to appreciate that there were many distinct market segments within what was described as the Indian middle class and that many of these segments had nothing to do with the products they were offering. For example, according to a survey by NCAER, the 350 million strong middle class is by no means a single market segment. First, there are wide variations among them in purchasing power. Second, they also differ vastly in the benefits they expect from the products. Third, most of them are not much bothered about the brand name. For example, as per the NCAER survey, 225 million out of them are governed by the function offered by the brand rather than by the brand name as such.

The MNCs seem to have failed to catch such facts, while choosing the target market. In fact, they seemed to have used the expression, 'Indian middle class' in a loose sense. Only a handful among the newly-entering MNCs segmented and targeted the market properly, the extended the right offers to the chosen segments. They succeeded. The majority had gone about target market selection in the wrong way and consequently had to shift their focus and wait for their day of success.

Ineffective segmentation and targeting led to wrong product offers, inappropriate marketing appeals, wrong pricing, and overemphasis on the brand name. The offers did not suit the middle class as such. They suited just the top end of the loosely termed middle class, a very small segment. Naturally, the firms were unable to gather worthwhile volumes. The volumes lay in the middle and lower ends. As the firms did not target those segments and as they failed to make product offers that were appropriate for them, the end result was poor. For example, this was the main reason for brands like Levis, Ray-Ban, and Reebok not taking off in the Indian market for quite some time.

Example of Levi's : In the case of Levi's, for example, product offer as well as pricing were inappropriate. This was so because segmentation and targeting had gone wrong. Levi's had priced its jeans upwards of Rs 995 extending to Rs 2,295. It had defined its target market as the college students in the age group of 15 to 25 years. Levi's had assumed that a sizeable segment of consumers of this description, who could afford the price tag, and who would willing to buy the jeans at their prices was available in India. Levi's failed to understand what constituted its target market and hence in assessing its size. The segment of teenagers in India, whose parents would be willingly spend so much money on a pair of jeans for their children for the sake of a 'foreign' label, was tiny. Levi's could have gone in for a different (and larger) market segment and tried out a product and price that was appropriate for the segment.

Example of Reebok : Reebok is another example. Reebok entered India, aiming at the segment of those with Rs 5,00,000 plus annual income that was generally referred to as the high-end segment of the Indian footwear market. Reebok had assumed that this segment would buy the Reebok range, which was priced between Rs 1,300 and Rs 6,500. Soon, it found that its targeting was flawed. Volumes were not forthcoming at this price. As in the case of Levi's, the segment that fitted Reebok's product/price offer was not sizeable in the Indian context. After a while, Reebok shifted to the next lower end, and introduced its new range, *Classic,* at a comparatively more affordable price of Rs 900 per pair and sales picked up.

Example of Pierre Cardin : Pierre Cardin is yet another example. Here, the error in targeting was due to a dilemma. The company ought to have aimed at only the super rich or super affluent, not any others. Instead, it misconstrued the so-called well-to-do among the Indian middle class as its target market. With the brand image strongly associated with exclusive apparel, the targeting became totally faulty. It got stuck in the middle; neither the super affluent nor the well-to-do among the middle class patronised its offer. While the latter dared not look at gowns that cost Rs 2,000 plus and shirts Rs 850 plus, the former found the prices too low for their status. The company was not clear as to: What segment it was addressing and what the perceptions of that segment were. The very idea—of offering a classy French label at affordable prices—was a contradiction in terms, a contradiction with the brand's perceived super luxury position.

Exhibit 4.6: Mismatch Between Segments Chosen and Firm's Resources Also Leads to Wrong Targetting—Example of Nestle

- Between late 1980s and mid 1990s, Nestle's segmentation and targeting in the Indian market lacked focus. The company embraced far too many market segments.
- In fact, it tried to cater practically to all geographic and socio-economic segments of the population. What was excluded was just the lowest bracket.
- It also tried to cater to urban as well as rural consumers, stretching its resources to the limit in the bargain.
- Nestle' was actually trying to replicate the HLL model of marketing fast moving consumer goods (FMCG). While the model suited HLL very well, it was not so with Nestle.
- Unlike HLL, Nestle did not have the capacity to provide a large basket of offers that was necessary for catering to all these market segments. It also did not have the channel intensity needed for executing such an approach.
- And, when Nestle tried to create such distribution capacity, it found the costs quite high and the sales not large enough to justify the investment in distribution. It also found the gestation involved unacceptable.
- It had to review its segmentation and targeting.
- Nestle now went in for a focused targeting, focusing on a smaller part of the total market—segments that were relevant and significant to the company and which matched its resources.
- It identified 14 crore consumers, or roughly 55 per cent of the urban population of the country, as its target. For the most part, segments that were already consuming substantial quantities of Nestle products constituted the new target group. The group actually consisted of those with a per capita consumption of Rs 77 worth Nestle products per annum. Earlier, the company was catering to the urban population as a whole, with Rs 42 per annum worth per capita consumption of Nestle products.
- In short, Nestle now narrowed down its target market in line with its resources and the sales and profits it was projecting. It also restricted its marketing offers and channel intensity to what was actually warranted by the new target market.

Example of Bata: Even some established players like Bata, who were familiar with the Indian market, have erred in segmentation/targeting. In the early 1990s, Bata decided to embrace the high-end segments of the Indian shoe market as a part of its target market. It launched quite a few brands for this segment with higher price tags. The move landed Bata in trouble. This segment was not meant for Bata. In the first place, this segment was not sizeable for a company like Bata. Second, the segment did not gel with Bata's distinctive comperence. The segment constituted a mere 5 to 10 per cent of the footwear market in India. It could not provide the volumes to which Bata was used to at the mass end and high volume was essential for Bata for having a healthy bottomline. Worse still, the adoption of the segment misdirected Bata's entire strategy. The top end of the market suddenly became the main focus of the company and it forgot its bread-and-butter shoes, shoes that had given the company its identity. And, small, regional competitors started nibbling at Bata's mainstay. Actually, Bata was squeezed at both ends. At the lower end, the smaller competitors attacked Bata's mass ranges in canvas shoes, school shoes and Hawaii chappals—slots, which the company had practically vacated on its own by ignoring them completely. At the high end, niche players, who were better prepared and more willing to face competition in the emerging category were challenging Bata. From a market share of around 15 per cent in the mid-1980s, Bata found its slice down to 10 per cent of the footwear market in mid-1990s. The year 1995 saw the company running a loss of Rs. 42 crore.

After learning the lesson the hard way, Bata did an about-turn from its adventure with the high-end segment and returned to the mass segment. Parent company Bata, Toronto, put in an additional investment of $ 10 million into Bata India's equity, increasing its stake to 51 per cent from 40 per cent. And the new strategy was to get back to the original customers at the low end and keep that part of the market as the core focus. The company, of course, did not totally abdicate the new segment it had got into in the early 1990s. Brands like Hush Puppies, for example continued to be sold by Bata, but in a selective way and through select stores only.

If segments chosen are incompatible with the firm's resources, the firm again lands in tro[illegible]ple of Nestle: When the segments chosen by the firm are incompatible with its resources, targetin[illegible]ng and consequently strategy is rendered ineffective. The case of Nestle is an example here. The [illegible]ded in Exhibit.

As Firms Vary in Objectives and Competencies, Different Segments may Suit Different Firms

An interesting fact in the matter of choice of market segments is that in a given industry/market, the players may select different segments and all of them may succeed in their own way. This is so because players differ in their competencies, resources, objectives and strategies, and different segments suit them. The shoes market can be cited as an example. Different players have selected different segments and fared well. While Bata has been by and large targeting the vast lower end segment of the market, Woodlands has been targeting the modern youth, Liberty the affluent consumer and Mescos the fashion oriented; and all of them have been succeeding.

Differentiation and Positioning

How to Differentiate

Sony is a good example of a company that constantly comes up with new benefits. As soon as Sony develops a new product, it assembles three teams that view the new product as if it were a competitor's. The first team thinks of minor improvements, the second team thinks of major improvements, and the third team thinks of ways to make the product obsolete.

A major chemical company held a brainstorming session and came up with a dozen ways to create extra value for its customers. These included helping reduce process costs by improving yield and reducing waste; helping reduce inventory by consignments, just-in-time delivery, and reduced cycle time; helping reduce administrative costs by simplified billing and electronic data interchange; improving safety for customer's employees; and reducing price to the customer by substituting components and reducing supplier costs.

Crego and Schiffrin have proposed that customer-centered organizations should study what customers value and then prepare an offering that exeeds their expectations. They see this as a three-step process:

1. *Defining the customer value model :* The company first lists all the product and service factors that might influence the target customers' perception of value.
2. *Building the customer value hierarchy :* The company now assigns each factor to one of four groups: basic, expected, desired, and unanticipated. Consider the set of factors at a fine restaurant:
   - *Basic :* The food is edible and delivered in timely fashion. (if this is all the restaurant does right, the customer would normally not be satisfied.)
   - *Expected :* There is good china and tableware, a linen tablecloth and napkin flowers, discreet service, and well-prepared food. (These factors make the offering acceptable, but not exceptional.)
   - *Desired :* The restaurant is pleasant and quiet, and the food is especially good and interesting.
   - *Unanticipated :* The restaurant serves a complimentary sorbet between the courses and places candy on the table after the last course is served.
3. *Deciding on the customer value package:* Now the company chooses that combinbation of tangible and intangible items, experiences, and outcomes designed to outperform competitors and win the customers' delight and loyalty There are only two basic routes to marketing strategy, the price route and the differentiation route. In their search for market leadership, companies take to either of the two routes; they try to achieve either a low cost position/cost leadership, or a differentiated position through which they can offer superior value to the consumer.

Differentiation Helps the Firm Fight on Non-Price Plank

The major attraction and the major benefit in resorting to differentiation is that it takes the firm away from a total price-based competition. In other words, it allows the firm to fight on the non-price plank, with all the benefits associated with it. So, differentiation is a crucial decision for a firm and forms an integral part of its marketing

strategy. Through differentiation, firms move to a position wherein they can claim a premium in the market.

Differentiation can be Achieved Through Multiple Sources and in Multiple Ways

Companies can achieve differentiation using the product, or distribution methods, or promotion steps. Actually, right from the firm's collaboration, or plant location, to its after-sales service, practically anything can be used to differentiate an offer and make it distinct. In fact, companies can differentiate through every activity that they perform, provided they excel in it.

Modi Xerox used its collaboration with Rank Xerox as its differentiation. Garden Silks has differentiated through its emphasis on design. L&T, the engineering firm, recruits engineers with excellent qualifications and claims superiority in executing projects. DuPont's leadership in chemical technology lends its products a highly differentiated position. Caterpillar Tractor, the leader in earthmoving equipment, made a mark through its distribution channel and service. Eureka Forbes, the leader in vacuum cleaners in India, had used personal selling as the sole means of reaching the customer and built up a distinction through this feature. IBM differentiated along technology and service, Coke and Pepsi differentiated through brand power and Rolls Royce through superior engineering.

Differentiation Tools

A company must try to differentiate its offering.

- **Differentiation** is the act of designing a set of meaningful differences to distinguish the company's offering form competitors' offerings.

The number of differentiation opportunities varies with the type of industry. The Boston Consulting Group has distinguished four types of industries based on the number of available competitive advantages and their size (Fig. 4.10)

Size of the Advantage \ Number of Approaches to Achieve Advantage	Few	Many
Large	Volume	Specialized
Small	Stalemated	Fragmented

Figure 4.10: The BCG Competitive Advantage Matrix.

1. *Volume industry:* One in which companies can gain only a few, but rather large, competitive advantages. In the construction-equipment industry, a company can strive for the low-cost position or the highly differentiated position and win big on either basis. Profitability is correlated with company size and market share.
2. *Stalemated industry:* One in which there are few potential competitive advantages and each is small. In the steel industry, it is hard to differentiate the product or decrease manufacturing cost. Companies can try to hire better salespeople, entertain more lavishly, and the like, but these are small advantages. Profitability is unrelated to company market share.
3. *Fragmented industry:* One in which companies face many opportunities for differentiation, but each opportunity for competitive advantage is small. A restaurant can differentiate in many ways but end up not gaining a large market share. Both small and large restaurants can be profitable or unprofitable.
4. *Specialized industry:* One in which companies face many differentiation opportunities, and each differentiation can have a high payoff. Among companies making specialized machinery for selected market segments, some small companies can be as profitable as some large companies.

Milind Lele observed that companies differ in their potential "maneuverability" along five dimensions: target market.

product, place (channels), promotion, and price. The company's freedom of maneuver is affected by the industry structure and the firm's position in the industry. For each potential maneuver, the company needs to estimate the return. Those maneuvers that promise the highest return define the company's strategic leverage. Companies in a stalemated industry have very little maneuverability and strategic leverage, and those in specialized industries enjoy great maneuverability and strategic leverage.

Here we will examine how a company can differentiate its market offering along five dimensions : product, services, personnel, channel, and image.

Product Differentiation

Physical products vary in their potential for differenitation. At one extreme we find products that allow little variation : *chicken, steel, aspirin. Yet even here, some differentiation is possible. Frank Perdue claims that his chickens are more* tender—and he gets a 10 percent price premium. P&G makes several brands of laundry detergent each with a separate brand identity. At the other extreme are products capable of high differentiation, such as automobiles, commercial buildings and furniture. here the seller faces an abundance of design parameters, including form, features, performance, quality, conformance quality, durability, reliability, repairability, style, and design.

Table : Differentiation Variables

Product	Services	Personnel	Channel	Image
Form Features Performance Conformance Durability Reliability Repairability Style Design	Ordering ease Delivery Installation Customer training Customer consulting Maintenance and repair Miscellaneous	Competence Courtesy Credibility Reliability Responsiveness Communication	Coverage Expertise Performance	Symbols Media Atmosphere Events

Form

Many products can be differentiated in *form*, the size, shape, or physical structure of a product. Consider the many possible forms taken by products such as aspirin. Although aspirin is essentially a commodity, it can be dIfferentiated by dosage size, shape, coating. action time, and so on.

Features

Most products can be offered with varying *features*, characteristics that supplement the product's basic function. Being the first to introduce values new features is one of the most effective ways to complete.

How can a company identify and select appropriate new features ? The company can ask recent buyers : How do you like the product ? Are there any features that could be added that would improve your satisfaction? How much would you pay for each ? How do you feel about the features other customers have suggested ?

The next task is to decide which features are worth adding. For each potential feature, the company should calculate customer value versus company cost.

Companies must also think in terms of feature bundles or packages. Japanese car companies often manufacture cars at three "trim levels." This lowers manufacturing and inventory costs. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.

Differentiation Based on Ingredients/Formula

Close-up with gel : HLL's Close-up was put on the market with a distinction. It was a toothpaste based on Gel. While the other toothpastes then available used calcium carbonate as carrier, Close-Up used glycerine. A paste

with glycerine as base could be coloured nicely; it could also be given better flavour. Close-up gel came in bright red colour; and blue and green variants were added later. Another special feature of Close-up was that it served as a mouth-wash as well. In other words, it combined the properties of toothpaste and a mouthwash. Such strong product differentiation helped HLL to secure for Close-Up a market share of over 15 percent during the early growth stage itself. Colgate, the leader in the industry, was compelled to copy this differentiation as its market share fell at the hands of the new brand.

TTK Prestige with Teflon : TTK group launched the Prestige range of frying pans as non-stick cookware. It claimed for the new range, the distinction that the coating used was Dupont's Teflon, the best material available for ensuring the non-stick property.

Promise with clove oil : In the latter half of the 1980s, Balsara's Promise toothpaste was creating waves in the Indian oral care market. Its differentiation was the special ingredient, clove oil, which was a traditional herbal remedy for tooth/gum complaints.

Vatika with herbal ingredients : Dabur Vatika claimed distinction as a hair-oil carrying a blend of several natural, herbal ingredients traditionally used by Indian women for hair care. The ingredients included coconut oil, 'brahmi', lime, 'mehandi', etc.

New Ariel with Carezyme : P & G introduced the New Ariel Microshine (an extension of its Ariel microsystem), a new technology detergent, incorporating Carezyme and OD Base. Carezyme is P & G's proprietary formula, which gives the detergent certain unique properties and helps it perform far beyond conventional cleaning. P & G had launched Ariel microsystem in 1990 in India and gained some market share in the premium detergents market. The company was then trying to strengthen its position by new product offers supported by new formulae/ingredients.

Differentiation Based on Functional Value

3M Scotch Magic Tape : 3M Scotch Magic Tape is an adhesive tape marketed by 3M of the US. 3M highlights the functional value of the tape and claims superiority over other competing products, as shown below :

- It is a transparent adhesive tape.
- Disappears when you apply it.
- Stays invisible and without yellowing.
- Ideal for permanent applications like mending and sealing envelopes.
- Can be written on.
- Is long lasting.

Videocon computer controlled fridge : The fridge had its differentiation on a variety of new function. 'Videocon's 450-litre, 6 door refrigerator. Computer controlled. A fully front control makes operation easier. Quick Freezing Corner and the Deodoriser can be activated at the touch of a finger. Quick Freezing Corner : A stream of cold air chills foodstuff quickly, preserving taste and freshness. Deodoriser: Eliminates odour. Partial Freezing. Preserve foodstuff at a temperature of –3C, without actually freezing them; making it easy to slice meat and fish. Fresh-Vegetable compartment. Keeps vegetables fresh for days without any protective covering or wrapping. The Videocon 6 door no-frost. It's big. It's new. It's right for you.'

Standard Furukawa Calci Charge : Standard Furukawa Calci Charge car battery claims a substantial differentiation on the basis of functional value. To quote the manufacturer, 'The revolutionary new Calci Charge Maintenance Free battery can make any other battery acquire vintage value. Topping up just once a year, unlike other so-called maintenance-free batteries. Longer charge retention (four months) when idle. We're talking after all, of the first battery in the country to run on *breakthrough calcium-plate technology*. The only battery with a 30-months warranty.'

Paints with insecticide : When Indecor Paints launched Vinycide, a new brand, it came with a remarkable differentiation. It was paint with an insecticide built in. Indecor Paints claimed, 'Vinycide is the single coat plastic emulsion paint for insect free interiors ..... the paint is an innovation with a unique formula from Artlin of France, a paint that had already turned interiors in Europe beautiful and insect free. And since it comes in white, it lets you create colours of your choice by adding stainers.' The company also made an attempt to make hotels and lodging houses the special market segment for the product by suggesting that their guests deserved to stay in insect free rooms!

Roti Chef : *Roti Chef* a newly launched kitchen gadget for making *chappathi*, used speed and ease of cooking as the differentiation plank : It is an instant *chappathi* maker, which does the spreading and roasting in a jiffy.

Differentiation Based on Additional Features

The 'mega' feature as a differentiator: Companies in the television, audio and refrigerator industries in India, for example, came with 'mega sized' products, and used the 'mega' feature as part of their differentiation effort.

In television sets, BPL, Videocon, Onida, Philips, Optonica and Bush have introduced large screen models. The screen sizes first went up from 21 inches to 29 inches, and then to 33 inches. Philips started the trend with its 29 inch model. In audio, BPL came out with its D 1000 digital fidelity system. The speaker of this new system was 34.65 inches tall. In refrigerators, Godrej initiated the mega trend, with the introduction of its 300-litre Sumo model. This was followed by a 390-litre, double door model, which was way ahead of all other refrigerator brands in terms of size. BPL followed with its two-door 230-litre model, three-door 230-litre and four doors 350-litre frost-free models. Then, it brought its 390-litre model, which had two compressors, one for the freezer and the other for the main section. BPL's four-door refrigerator model, BR-3504, came with four different temperature zones, a deodoriser, a humidty filter and a special high-energy efficient compressor. All these companies differentiated their products on the theme of 'bigness'.

Aristocrat suitcase with wheels : When the manufacturers of Aristocrat moulded luggage introduced suitcases with wheels, it was a case of offering a unique convenience to the user. Instead of lifting and carrying the packed suitcase, the user could now pull it along the ground on its wheels. The feature did amount to a distinctiveness.

Dunlop's Olympus : When Dunlop introduced its *Olympus* or tyre, it built in certain distinctions. The differentiation brought about by the company is explained below in its own words :

Most tyres don't recognise the fact that every car is different and needs its own special kind of tyre. So, when we designed the Olympus range, we studied each car separately. For the Maruti, we designed a tyre specially for its front wheel drive. We built an extra-wide tyre for the premier, because it goes through a lot of wear and tear on city roads. And for the Ambassador, we reinforced the tyre walls with extra rubber to take the extra weight. Because we see Maruti, Premier and Ambassador as three different cars—not the same car in three differet sizes.

It was a case of product differentiation creating real, buyer value. It readily rendered a competitive edge to Dunlop.

Packaging Contributing to Differentiation

The innovations taking place in packaging materials, package design and convenience were *Frooti* in aseptic *tetrapack, Brylcream* in a handy tube, *LeSancy* in a see-through-pack and *Harpic* toilet cleanser with an application-friendly nozzle are all instances of differentiation through packaging.

Performance Quality

Most products are established at one of four performance levels; low, average, high, or superior. *Performance quality* refers to the level at which the product's primary characteristics operate. The important question here is : Does offering higher product performance produce higher profitability ? The Strategic Planning Institute studied the impact of higher relative product quality and found a significantly positive correlation between relative product quality and return on investment (ROI). High-quality business units earned more because their premium quality

allowed them to charge a premium price; they benefited from more repeat purchasing, consumers loyalty, and positive word of mouth; and their costs of delivering more quality were not much higher than for business units producing low quality.

Quality's link to profitability does not mean that the firm should design the highest performance level possible. There are diminishing returns to ever-increasing performance. The manufacturer must design a performance level appropriate to the target market and competitor's performance levels.

A company must also manage performance quality through time. The strategies are available. The first, where the manufacturer continuously improves the product, often produces the highest return and market share. The second strategy is to maintain product quality at a given level. Many companies leave their quality unaltered after its initial formulation unless glaring faults or opportunities occur. The third strategy is to reduce product quality through time. Some companies cut quality to offset rising costs; others reduce quality deliberately in order to increase current profits, although this course of action often hurts long-run profitability.

Differentiation Based on Quality/Operational Efficiency/Technology/Service

Differentiation based on quality : Godrej has built a reputation in many of its businesses, based on quality. It gives quality products and highlights the quality standard in its marketing communications. For instance, it offers high quality steel cupboards as part of its Storewel range and focuses on high quality while promoting them. It highlights the quality of steel and other inputs that go into the making of the cupborads. By emphasising the quality dimensions, it justifies the relatively higher price of the cupboards. Here is a sample and message of Godrej highlighting this quality dimension :

Your are paying just a little extra for

all these extras ....

extra strength

extra security

extra options

extra life ....

Ford excelling through service : Ford tries to differentiate its offer on the plank of service. It has gone in for a new norm in customer service: 'fix it right-the first time-on time'. Ford is also supplying videotapes showing how repairs have to be done.

Microsoft too excels through service : Microsoft, the computer software major, makes its offer distinct through many efficient service programmes. For example, the company strives to sort out 99 per cent of the customer complaints through telephone from three [illegible] support centres. Microsoft is keeping 'designated service providers' for this purpose; they are hired co[illegible]neers. When a Microsoft engineer cannot answer a call directly, the switching system automatically transfers it to a designated service provider, who resolves the customer's problem. Microsoft compensates the service providers on a per call basis, with a guaranteed minimum number of calls per day. With this arrangement, Microsoft has been able to set its service standard in this matter at a very high level. The standard set is to answer 90 per cent of service calls within 60 seconds.

Conformance Quality

Buyers expect products to have a high *conformance quality*, which is the degree to which all the produced units are identical and meet the promised specifications. Suppose a Santro Zing is designed to accelerate to 60 km an hour within 10 seconds. If every Santro Zing coming off the assembly line does this, the model is said to have high conformance quality. The problem with low conformance quality is that the product will disappoint some buyers.

Durability

Durability, a measure of the product's expected operating life under natural or stressful conditions, is a valued

attribute for certain products. Buyers will generally pay more for vehicles and kitchen appliances that have a long-lasting reputation. However, this rule is subject to some qualifications. The extra price must not be excessive. Furthermore, the product must not be subject to rapid technological obsolescence, as is the case with personal computers and Videocameras.

Reliability

Buyers normally will pay a premium for more reliable products. *Reliability* is a measure of the probability that a product will not malfunction or fail within a specified time period. Maytag, which manufactures major home appliances, has an outstanding reputation for creating reliable appliances. When Matsushita acquired Motorola's Quarter division, which manufactured television receivers, Matsushita reduced the defect rate from 141 to 6 per 100 sets.

Differentiation Planks by Air Express Companies

We shall take air express companies as another example, Chart shows the differentiation planks used by the air express companies, FedEx, Elbee, DHL and Blue Dart.

Chart 4.5: Differentiation Planks by Air Express Companies

FedEx

- FedEx has its own aircrafts and its own air cargo service. Fed Ex uses this as its main differentiation plank.
- FedEx also uses the fact that it is the world's largest express/airfreight company, as an additional differentiation plank.
- It highlights its global fleet.
- 441 aircrafts, 30,000 pick up-cum-delivery vans, covering 173 countries.
- FedEx's customers can have access to FedEx's world-wide network through its tracking system, 'Cosmos'. FedEx uses this service as yet another differentiation plank.

Elbee

- Elbee too has its own aircrafts/air cargo service. And, Elbee too uses this as its main differentiation plank.

To quote Elbee,

- We have our *own Air Cargo Service.*
- We are the *first* courier company in India to have their own air cargo service.
- We use larger aircrafts on main routes connecting major centres and smaller aircrafts for feeder service to main routes.
- Nagpur will be the hub of Elbee's airline operations, in view of its central location.

DHL

- DHL is different in its differentiation. Unlike FedEx and Elbee, DHL has not gone for own aircraft. In the opinion of DHL, for the present, the market does not justify it; and there is anyway 50 per cent surplus capacity in domestic air services in India.
- So, DHL differentiates through its *DHL Jumbo Box* and *DHL Jumbo Junior.*

DHL Jumbo Box : It is airfreight made easy. If you want to send your product/sample weighing upto 25 kg door-to-door, you can send it through DHL. All you have to do is to put it in a DHL box and call DHL.

- DHL will collect the box from your door and deliver it to your customer at his door—anywhere in the world—at a flat rate by zones.
- Middle East Rs. 3,200; Asia Pacific Rs. 4,000; Europe/USA Rs. 6,400.
- Rest of the World Rs. 7,200.

To quote DHL :

- We will organise customer clearance and express deliver it.
- No hassles for you.
- N[illegible]erwork.
- [illegible] pro[illegible]dural hassles.

- In other words, service (special service) is its differentiation plank.

DHL Jumbo Junior : Similarly, through DHL Jumbo Junior too, DHL provides a special service and uses it as its differentiation plank.

Blue Dart

- Blue Dart too, talks about own aircraft, but its main differentiation plank is 'surface-to-air missile: The Blue Dart Apex

To quote Blue Dart :

Because,

- Road is too slow.
- Air is too expensive.
- We give a combination, a combination of speed and reliability.
- In fact, Blue Dart cites four factors :
- *Speed, economy, reach :* The road and air combintion will ensure this.
- *Reliability :* Monitoring on line tracking system Cosmat will ensure this.
- Blue Dart has FedEx as its global service partner in India. To an extent, Blue Dart uses this fact too as its differentiation plank

Repairability

Buyers prefer products that are easy to repair. *Repairability* is a measure of the ease of fixing a product when it malfunctions or fails. An automobile made with standard parts that are easily replaced has high repairability. Ideal repairability would exist if users could fix the product themselves with little cost or time. Some products include a diagonostic feature that allows servicepeople to correct a problem over the telephone or advise the user how to correct it. Before GE sends a repairperson to fix a home appliance, it tries to solve the problem over the phone. It succeeds in over 50 percent of the cases, saving the customer money. Many computer hardware and software companies offer technical support to their customers over the phone, or by fax or e-mail.

Style

Style describes the product's look and feel to the buyer, Buyers are normally willing to pay a premium for products that tare attractively styled. Car buyers pay a premium for Dileep Chhabaria's designer because of their extraordinary look. Aesthetics have played a key role in such brands as Absolut vodka, Bajaj Eliminator, Jewellery (unbranded).

Too many products are yawn-producing rather than eye-catching. Style has the advantage of creating distinctiveness that is difficult to copy. On the negative side, strong style does not always mean high performance. A car may look sensational but spend a lot of time in the repair shop.

We must include packaging as a styling weapon, especially in food products, cosmetics, toiletries, and small consumer appliances. The package is the buyer's first encounter with the product and is capable of turning the buyer on or off.

Design : The Integrating Force

As competition intensifies, design offers a potent way to differentiate and position a company's products and services. Harvard professor Robert Hayes summed it up best when he said, "Fifteen years ago, companies competed on price Today, it's quality. Tomorrow, it's design." In increasingly fast-paced markets, price and tehcnology are not enough. Design is the factor that will often give a company its competitive edge. *Design* is the totality of features that affect how a product looks and functions in terms of customer requirements. Design is particularly important in making and marketing durable equipment, apparel, retail services, and packaged goods. All the qualities we've discussed are design parameters. The designer has to figure out how much to invest in form, feature development, performance, conformance. durability, reliability, repairability, and style. To the company, a well-designed product is one that is easy to manufacture and distribute. To the customer, a well-designed product is one that is pleasant to look at and easy to open, install, use, repair, and dispose of. The designer has to take all these factors into account.

Here are two companies with products that embody the form-follows-function maxim.

Apple Computers : Who said that computers have to be beige and boxy ? Apple's newest computer, the iMac, is anything but. The iMac features a sleek, curvy monitor and hard drive, all in one unit, in a translucent coloured casing. There's no clunky tower or desktop hard drive to clutter up your office area. There's also no floppy drive, simply because Apple feels the floppy is on the verge of extinction; more and more software is being distributed via CD or the Internet. With its one-button Internet access, this machine is desinged specifically for cruising the Internet (that's what the "i" in "iMac" stands for). Only one month after the iMac hit the stores in the summer of 1998, it was the number-two best-selling computer. Over 15 per cent are converts from Wintel models. Because there's dearth of software available for Mac computers, this can only mean that people are lured to the iMac by its intelligent design.

Some companies confuse design with styling and think that design is a matter of enclosing an average product in a stylish casing. Or they think that reliability is something to catch during inspections rather than designing it into the manufacturing process. They may think of designers as artists who pay insufficient attention to cost or who produce designs that are too radical for the market to accept.

Certain countries are winning on design : Italian design in apparel and furniture; Scandinavian design for functionality, aesthetics, and environmental consciousness; German design for austerity and robustness. Braun, a German division of Gillette, has elevated design to a high art in its electric shavers, coffeemakers, hair dryers and food processors. The company's design department enjoys equal status with engineering and manufacturing. The Danish firm Bang & Olufsen has received many kudos for the design of its stereos, TV equipment, and telephones.

Differentiation Through Product Design

Product design has a lot to do with product success. Quite naturally, product design becomes a good avenue for product differentiation. A well-designed product makes real difference to the customer. It ensures product reliability and durability. In addition, it enhances user comfort.

Kinetic Honda : In the first half of the 1990s, the two-wheeler industry witnessed a recession. Countering the effect of recession and scoring over competition was a real challenge for any two-wheeler firm during that period. When the industry growth rate was negative, Kinetic Honda came up with excellent performance. Kinetic Honda's market research revealed that most existing brands of two-wheelers were not adequately user-friendly. Starting was the main problem. Kinetic Honda brought in the new-wave scooter, which had electronic ignition and could do away with the kick-start routine. The users, especially women, found this improvement a blessing. The new model contained a whole range of other features too, such as automatic gear shifting, choke, built-in indicators and a streamlined aerodynamic body design. Kinetic Honda made these features, especially the 'Kick start', as its differentiation plank. Not only did the company succeed in marketing its two-wheelers in the years of recession, it even embarked upon a programme of expansion.

Titan Watches : Titan Watches too used product design as a differentiation plank. The wristwatch had become almost a monotonous, standard product, just a utility. Titan introduced more than 500 models, incorporating latest world trends in watch design. Its *Classic* range combined the elegance of gold and leather, the *Royale* range was all gold and precious metals and the *Aurum* range was in 18 carat gold and studded with gems and coloured stones.

Service Differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

Ordering Ease

Ordering ease refers to how easy it is for the customer to place an order with the company. Baxter Healthcare has eased the ordering process by supplying hospitals with computer terminals through which they send orders directly

to Baxter. Many banks now provide home banking software to help customers get information and do transactions more efficiently. Consumers are now even able to order and receive groceries without going to the supermarket.

Delivery

Delivery refers to how well the product or service is delivered to the customer. It includes speed, accuracy, and care attending the delivery process. Levi Strauss, Benetton, and The Limited have adopted computerized "quick response systems" that link the information systems of their suppliers, manfuacturing plants, distribution centers, and retailing outlets. Buyers will often choose a supplier with a better reputation for ontime delivery.

Installation

Installation refers to the work done to make a product operational in its planned location. Buyers of heavy equipment expect good installation service. Differentiating at this point in the consumption chain is particularly important for companies with complex products. Ease of installation becomes a true selling point especially when the target market is technology novices who are notoriously intolerant of on screen messages such as "Disk Error 23."

Compaq Computer : Compaq, with its Presario line, was among the first to use installation as a source of differentiation. Instead of providing an instruction book filled with unintelligibnle terminology, Compaq offers customers a poster that clearly illustrates the 10 installation steps. The company uses colour-coded cords, cables, and outlets to further simplify installation and has rigged up computers with a cheerful video and audio presentation that leads new users through setup and registration.

Customer Training

Customer training refers to training the customer's employees to use the vendor's equipment properly and efficiently. General Electric not only sells and installs expensive X-ray equipment in hospitals but also gives extensive training to users of this equipment. McDonald's requires its new franchisees to attend Hamburger University in Oakbrook, Illinois, for two weeks to learn how to manage their franchise properly.

Customer Consulting

Customer consulting refers to data information systems, and advising services that the seller offers to buyers.

Maintenance and Repair

Maintenance and Repair describes the service program for helping customers keep purchased products in good working order. Consider Tandem's remote repair capabilities.

- **Tandem Computers :** Tandem makes computers with parallel central-processing units for applications in which downtime is a major problem. To keep customer's computers running, Tandem tries to repair their products before customers are even aware that such service is needed. Tandem staff members can spot a malfunctioning component through remote diagnostics and send the appropriate part and instructions to the customer by express mail. They then walk the customer through the repair process over the phone. This technique not only has eliminated costly downtime for customers but also has eliminated Tandem's need for a costly on-site service force.

Miscellaneous Services

Companies can find other ways to differentiate customer services. They can offer improved product warranty or maintenance contract. They can establish awards.

MacMillan and McGrath says companies have opportunities to differentiate every stage of the comsumption chain. They point out that companies can even differentiate at the point when their product is no longer in use :

Canon : Canon has developed a system that allows customers to return spent printer cartridges at Canon's expense. The cartridges are then rehabilitated and sold as such. The process makes it easy for customers to

return used cartridges; all they need to do is drop the prepaid package off at a United Parcel Service collection station. Customers also like the environmentally friendly aspect of the program and tend to identify Canon as an environmentally friendly company.

Personnel Differentiation

Companies can gain a strong competitive advantage through having better-trained people. Singapore Airlines enjoys an excellent reputation in large part because of its flight attendants. The McDonald's people are courteous, the IBM people are professional, and the Disney people are upbeat. Better-trained personnel exhibit six characteristics : *Competence* : They possess the required skill and knowledge; *courtesy* : They are friendly, respectful, and considerate; *credibility* : They are trustworthy; *reliability* : They perform the service consistently and accurately; *responsiveness* : They respond quickly to customers' requests and problems; and *communication*: They make an effort to understand the customer and communicate clearly.

In an age when competitors can knock off products or services in an instant, some savvy companies are marketing their employees' unique know-how :

Channel Differentiation

Companies can achieve competitive advantage through the way they design their distribution channels' coverage, expertise, and performance. Caterpillar's success in the construction-equipment industry is based partly on superior channel development. Its dealers are found in more locations than competitors' dealers, and they are typically better trained and perform more reliably. Dell in computers and Avon in cosmetics distinguish themselves by developing and managing direct-marketing channels of high quality.

Image Differentiation

Buyers respond differently to company and brand images. The primary way to account for Marlboro's extraordinary worldwide market share (around 30 per cent) is that Marlboro's "macho cowboy" image has struck a responsive chord with much of the cigarette-smoking public. Wine and liquor companies also work hard to develop distinctive images for their brands.

Identity and image need to be distinguished, *Identity* comprises the ways that a company aims to identify or position itself or its product. *Image* is the way the public perceives the company or its products. Image is affected by many factors beyond the company's control. The fact that image can have a life of its own is exemplified by Nike's problems in maintaining its appeal to the fickle youth market.

> **Nike and Airwalk :** Nike succeeded in convincing millions of young consumers that a shoe is not simply a shoe; it's an attitude. The company was so successful in its strategy that the Nike swoosh is one of the most recognizable symbols in the world. Yet the popularity of Nike—its transformation from hip to mainstream—turns off important core consumers, the 12- to 24-year-olds. Other brands with more alternative images, such as Airwalk, which started off as a technical skateboarder and snowboarder shoe, have gained share. Kids liked the extreme sports image associated with the shoe, which Airwalk promotes in its offbeat advertising.

An effective image does three things. First, it establishes the product's character and value proposition. Second, it conveys this character in a distinctive way so as not to confuse it with competitors'. Third, it delivers emotional power beyond a mental image. For the image to work, it must be conveyed through every available communication vehicle and brand contact, if "IBM means service," this message must be expressed in symbols, written and audiovisual media, atmosphere, events and employees behaviour.

Symbols

Images can be amplified by strong symbols. The company can choose a symbol such as the lion (Harris Bank), apple (Apple Computer), devil (Onida), Maharaja (Air India), Gattu (Asian Paints). A brand can be built around a

famous person, as with new perfumes—Passion (Elizabeth Taylor) and Uninhibited (Cher). Companies may choose a colour identifier such as blue (IBM), yellow (Kodak), or a specific piece of sound or music.

Media

The chosen image must be worked into ads and media that convey a story, a mood, a claim—something distinctive. It should appear in annual reports, brochures, catalogs, the company stationery, and business cards.

Atmosphere

The physical space occupied by the company is another powerful image generator. Hyatt Regency hotels developed a distinctive image through its atrium lobbies. A bank that wants to convert the image of a safe bank must communciate this through the building's architecture, interior design, layout, colours, materials and furnishings.

Events

A company can build an identity through the events it sponsors. Perrier, the bottled water comapny, came into prominence by laying out exercise tracks and sponsoring health sports events, AT& T and IBM sponsor symphony performances and art exhibits. Heinz gives money to hospitals, and Kraft makes donations to MADD (Mothers Agaisnt Drunk Drivers).

An excellent example of a product that has used multiple image-building techniques to etch its image on the public mind is the Swatch watch from Switzerland.

- **Swatch :** Nicholas G. Hayek, Swatch's founder, launched Swatch watches in 1983 by hanging a 500-foot-long sign from the tallest bank in Frankfurt. Within a few weeks, every German knew Swatch. Swatch is a lightweight, water-resistant, shockproof electronic analog watch with a colourful plastic band. It is issued in many different faces and bands, celebrating famous artists, sports and space events, anniversaries. Prices range from $40 to $100. The watch is designed to appeal to young, active and trendy people.

Over 200 million Swatch watches have been sold in more than 30 countries. They are sold in jewellry stores, fashion outlets and upscale department stores. Here are some examples of Swatch's promotional and merchandising skills :

- Swatch issues new watches throughout the year but launches limited editions of "snazzy" watch designs only twice a year. Only Swatch Club members can bid to buy them. Swatch may produce only 40,000 units and yet receive orders from 100,000 or more collectors. The company will sponsor a drawing to choose the 40,000 lucky collectors who can buy the watch.
- Christie's the auction house, holds periodic auctions of early Swatch watches. One collector paid $60,000 for one of the rarer Swatch watches. given that Swatches appeared only in the last 21 years, they have achieved the status of "classics" very quickly.
- Swatch operates some of its own retail stones. On the famous via Monte Napoleone in Milan, Swatch attracts more visitors than any other store on the street. Crowds will form outside the store, a voice on a loudspeaker will read four digits, and only persons whose pass-port numbers contain the four digits will be allowed into the store to buy watches.
- Swatch continueus to innovate and keep people buzzing about its state-of-the-art products, such as the Irony (a metal Swatch), a light-powdered Swatch Solar, and a melodious alarm clock called the Swatch Musicall. Swatch has created the world's first pager in a wristwatch, the Swatch the Beep, and has launched Access, a watch with a built in "access" control function that can currently be used as a ski pass at most of the world's ski resorts.

Swatch clearly has written the marketing book on how to build a cult following by applying superior stying, merchandising, and promotion.

Conditions for Differentiation to Succeed

For differentiation to be rewarding, the differentiation claim must be real and satisfying to the user, and be also

sustainable. The claim has to be backed up by product performance. The customer using the product has to be convinced that the differentiation claimed is true and that it is actually delivered. Taking the Prestige cookware example, the cookware should prove a non-stick vessel in the kitchen. And, the Teflon should work and work better than other similar products in the market. In the Caterpillar example, the spare parts should actually reach the customer in any part of the world within 24 hours of the request. Caterpillar should have lined up the infrastructure like dealer network, storage points, transport arrangements and inventories to honour its differentiation claim.

The Differentiation should be Perceptible

The differentiation claimed may be real or psychological, matter-of-fact or subtle. The main requirements is that the consumers must perceive the product as intended by the firm. In other words, the differentiation claimed has to be readily perceivable. Moreover, it is not enough if a few consumers perceive the difference. To be of real marketing significance, a differentiated product has to be seen as different and distinct by a sufficiently large segment of consumers.

Should be Rooted in Competitive Advantage

Product differentiation is no easy game. For differentiation to succeed, the firm must have built up the required competitive advantages. Channel and technology clout, unique production process, flexible production facilities, and advanced R&D set-up for product innovations are all avenues of competitive advantage. The success of differentiation depends on the firm's capacity to develop such avenues.

Brand image is the differentiation plank for a product like Coca-Cola. It fights on the power of its name, the sway it holds on the minds of millions of consumers round the globe. But to achieve this dominant image, the company has carried out a sustained marketing effort, supported by heavy investments, over a long period of time. Similarly, Hindustan Lever has spent over 100 years and huge investments to build a brand like Lifebuoy. It means that only if a firm is committed to brand development, it can build brands that can serve as a source of competitive advantage and fight on their differentiation strength.

When we take service as the differentiator, Maruti is a good example to cite. Maruti has built up an extensive service network in India, consisting of over 180 dealer service workshops and 1,200 authorise service stations spread out in 470 towns and cities. No other car company operating in India can claim a dealer-cum-service spread anywhere near this. Channel/service clout is a competitive advantage for Maruti and it uses it to differentiate and strengthen its product offer. It can boast of a Maruti service station in every nook and corner of the country, including sparingly populated areas, and promise that the Maruti vehicle will be attended to in all places.

The point to be remembered is that product differentiation as a strategy can work only if the product-claims are sustained. And, one can make sustainable product claims only with the support of the relevant competitive advantages.

Positioning : The Battle for the Mind

All products can be differentiated to some extent. But not all brand differences are meaningful or worthwhile. A difference is worth establishing to the extent that it satisfies the following criteria :

- *Important:* The difference delivers a highly valued benefit to a sufficient number of buyers.
- *Distinctive:* The difference is delivered in a distinctive way.
- *Superior:* The difference is superior to other ways of obtaining the benefit.
- *Preemptive:* The difference cannot be easily copied by competitors.
- *Affordable:* The buyer can afford to pay for the difference.
- *Profitable:* The company will find it profitable to introduce the difference.

Many companies have introduced differentiations that failed on one or more of these tests. The Westin Stamford

hotel in Singapore advertises that it is the world's tallest hotel. But a hotel's height is not important to many tourists Polaroid's Polarvision, although distinctive and preemptive, was inferior to another way of capturing motion – namely, videocameras. When the Turner Broadcasting System installed TV monitors to beam Cable News Network (CNN) to bored shoppers in store checkout lines, it didn't pass the "superior" test. Customers weren't looking for a new source of entertainment in supermarkets, and Turner took a $16 million tax write-down.

Yet Carpenter, Glazer, and Nakamoto posit that brands can sometimes successfully differentiate on irrelevant attributes. Procter & Gamble differentiates its Folger's instant coffee by its "flaked coffee crystals" created through a "unique patented process." In reality, the coffee particle's shape is irrelevant because the crystal immediately dissolves in the hot water. Alberto Culver's Alberto Natural Silk Shampoo is advertised with the slogan "We put silk in a bottle." However, a company spokesman conceded that silk doesn't really do anything for hair.

Each firm needs to develop a distinctive positioning for its market offering.

Positioning is a platform for the brand. It facilitates the brand to get through to the target consumer.

Positioning is the act of fixing the locus of the product offer in the minds of the target consumers. In positioning, the firm decides how and around what parameters, the product offer has to be placed before the target consumers. The significance of product positioning can be easily understood from David Ogilvy's words : 'The results of your campaign depends less on how we write your advertising than on how your product is positioned.'

Product Differentiation and Product Positioning are Interrelated

Product differentiation is closely linked to product positioning. Product differentiation is in a way the prelude to product positioning. They are interrelated strategies and are employed in close alignment with each other.

In product differentiation, the attempt is to endow the product with certain distinctive attributes, which in turn offer some special value to the consumer. In product positioning, the attempt is to lodge/place the differentiated product in a particular locus in the minds of the target consumers. In other words, whereas in product differentiation, the work mainly revolves around endowing the product with certain differential advantage, in product positioning, the attempt is to reach the product to a locus/place in the prospect's mind, through an appropriate positioning theme.

Some Definitions of Product Positioning

Protal in their book *Positioning—The battle for Your Mind* say, 'Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.' According to them, positioning is more concerned with the consumer's perception of the product offer, than the offer as such.

Like this **Sengupta,** in his book *Brand Positioning* says, 'The aim of product positioning is to create a perception for our brand in the prospect's mind so that it stands apart from competing brands ...... We must cover that space in the consumer's mind as if we had won a long-term lease. We must find a strong position in that mind and sit on it ....'

Michael Rothschild, in his book *Marketing Communications—From Fundamentals to Strategies* says, 'Positioning refers to the place a brand occupies in the mind in relation to a given product class. This place was originally a product-related concept ...... concerning market structure ...... The concept now refers to the place that the brand holds in the consumer's mind related to perceptions and preferences.'

- ***Positioning*** is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.

The end result of positioning is the successful creation of a market-focussed value proposition, a cogent reason why the target market should buy the product.

Positioning According to Ries and Trout

The word *positioning* was popularized by two advertising executives, Al Ries and Jack Trout. They see positioning as a creative exercise done with an existing product:

Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person ...... But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.

Ries and Trout argue that well-known products generally hold a distinctive position in consumers' minds. Hertz is thought of as the world's largest auto-rental agency, Coca-Cola as the world's largest soft-drink company, and Porsche as one of the world's best sports cars. These brands own these positions and it would be hard for a competitor to claim them. A competitor has three strategic alternatives.

The first is to strengthen its own current position in the consumer's mind. Avis acknowledged its second position in the rental cars business and claimed : "We're number two. We try harder." 7-Up capitalized on not being a cola drink by advertising itself as the Uncola. The second strategy is to grab an unoccupied position. United Jersey Bank, noting that giant banks were usually slower in arranging loans, positioned itself as "the fast-moving bank." The third strategy is to deposition or reposition the competition.

Ries and Trout argue that, in an overadvertised society, the mind often knows brand in the form of *product ladders,* such as Coke-Pepsi-RC Cola or Hertz-Avis-National. The top firm is remembered best. For example, when asked "who was the first person to fly alone across the Atlantic Ocean successfully?" we answer "Charles Lindbergh." When asked, "who was the second person to do it?" we draw a blank. This is why companies fight for the number-one position. The "largest firm" position can be held by only one brand. The second brand should invent and lead in a new category. Thus 7-up is the number-one Uncola, Porsche is the number-one small sports car, and Deal is the number-one deodorant soap. The marketer should identify an important attribute or benefit that a brand can convincigly own.

A fourth strategy is the exclusive-club strategy. For example, a company can promote the idea that it is one of the Big Three. The Big Three idea was invented by the third-largest U.S. auto firm, Chrysler. (The market leader never invents this concept.) The implication is that those in the club are the "best."

Ries and Trout essentially deal with communication strategies for positioning or repositioning a brand in the consumer's mind. Yet they acknowledge positioning requires that every tangible aspect of product, price, place, and promotion must support the chosen positioning strategy.

Main Concerns in Positioning

A product cannot be Everything to Everyone; Hence, the Importance of Positioning

The need for positioning arises out of the fact that a product cannot be 'everything to everyone' and has to be something to some segment. Normally, some unique feature of the product, some special needs of the market or some noticeable gap in competing offers is picked up and the product is positioned around that feature/or a combination of features for a particular target audience.

Identifying such features and using them imaginatively as the plank on which to project the product is the essence of positioning. A product can be positioned for an exclusive, well-to-do segment of the market; it can be positioned for men, for children; for the fun-loving youth, for the health-conscious people; it can be positioned on a claim of luxury, a claim of distinctiveness, convenience, economy, uniqueness, novelty, or usage. It can also be positioned against a competing brand.

Positioning Means Putting the Product in a Predetermined Orbit

Positioning is the specific task of taking the product to a chosen orbit in the minds of the target consumer. If the positioning decision is faulty, the product suffers heavy losses. It may take a long time and enormous effort to retrieve a wrongly positioned product. While repositioning a successfully positioned product at later stage in the light

of the changes in its lifecycle may be easy, it will not be all that easy to reposition a wrongly positioned product.

In fact, the variance that occurs between the position intended by the marketing man and the position assigned by the consumers is a problem inherent in positioning, This has to be tackled at the very outset and in case it could not be anticipated and handled in advance, it must be handled as a course correction as soon as possible after the launch. Marketing savvy companies quickly find out the consumer's perception of the position. If it is at variance from what is intended by them, they rectify the gap.

Positioning Connects Product Offering with Target Market

While target market selection clarifies for whom the product is intended, and marketing mix shows the way in which the 4Ps are to be aligned in the offer to the target market, positioning acts as the bridge linking the product offer with the target market.

Consumer's Mind a Geometric Perceptual Space; the Product/Brand Seeks a Locus in the Space Through Positioning

In positoning, the consumer's mind is viewed as a geometric perceptual space, with different product categories and brands occupying certain positions therein. These positions held by products/brands change as the available space is taken by new products/brands. How to secure a position in this perceptual space within the consumer' mind and how to retain it is the basic question in positioning. By making what kind of propositions, say, in a bathing soap, can a firm secure a position? Where lies the gap in that mind? What are the attributes which the consumer seeks and which will help fill that space? Does the firm's product possess those attributes? Or, is it possible to replace an existing brand's position in the consumer's mind by offering a better value proposition?

We can seek a position in the consumers mind through several routes/propositions. We may seek a position placing our brand against another ongoing brand, or we may place it against certain expectations the consumer nurtures. In other words, we will be placing our brand against some frame of reference as seen by the consumer. In our endeavour at meeting the desired position, we might have already endowed our product/brand with certain differentiation value. Now, we want this product to be perceived by the consumer in a particular way. This 'perception in a particular way' is what positioning is all about. Through positioning, we are launching the product to a particular trajectory in the consumer's mind. The consumer has a frame of references as far as the given product category is concerned; and he will evaluate any new offer against this refernce. The issue is : in this frame of reference, where do we want out brand to fir in.

While Positioning a Brand, the Firm has to Reckon Competitors'—Especially the Leader's—Positioning

As a part of the positioning task, the firm analyses the competitors' position, sizes up its own offer and identifies the best possible proposition for its product.

In particular, the firm has to reckon the leader's position. It is difficult to dislodge the leading brand's position from the consumer's mind; Coca-Cola is synonymous with Cola, Xerox with photocopying and Walkman is practically a generic name for personal stereo. So, any newcomer to these businesses has to study the positioning of these leading brands and then decide how it should position its offer.

One problem marketers usually face in positioning is that it is difficult to dislodge a position that is deeply ingrained in the consumer's mind. Al Ries and Jack Trout, who championed the positioning theme through their book *Positioning—The Battle for Your Mind,* discuss the subject at length. If somebody asks you which is the highest mountain peak in the world, the answer will be immediate. Which is the second highest mountain? One may not remember. Through a series of such questions, the authors drive home the point that 'the first mountain, the first company, the first product to occupy the postion in the mind is hard to dislodge.'

To illustrate further, throughout the world, among computer customers, IBM holds a dominant position. O[illegible]ands cannot enter the market without relating themselves in some way to IBM's position. In the chocola[illegible]ket of

India, Cadbury's have created a dominant position and any newly entering brand has to necessarily reckon with it. One cannot wish away the leader's position. Because, the consumer will ask himself, 'Is it tastier than Cadbury's?' The point is that wherever there is a dominant brand/competitor, the other brands have to reckon with its position.

Positioning is not Over at One Stroke; it has to be Monitored and Adapted

Positoning is not over at one stroke. One has to monitor the brand's performance and see whether the positioning is working well. The test takes place in the market and only the performance of the brand can prove whether it is positioned rightly or not. The firm may intend a particular positioning, but the market may perceive it differently. And sometimes, the very assumptions of the firm in positioning the brand might have gone wrong. Such drawbacks will come to the fore only by a constant evaluation. It is not easy to get the right positioning. Even if the positioning is right at the launch and early growth stage, it needs monitoring and correction through the growth stage. Brands—even successful ones—may need repositioning.

Product Positioning and Value Proposition

For Product positioning to succeed, it must be based on an identifiable, meaningful and compelling value proposition.

What is the value you propose to give the consumer through your product? What is it that the consumer gains by possessing your product ?

A value proposition is the assertion/statement of the benefits and satisfaction that the product is offering. In fact, the first rule in positoning is that it should state the value proposition and thereby appeal to the target consumers.

Value Proposition—Examples

We can understand the concept of value proposition better by examinig how companies make value propositions in positioning their products.

South West Airlines, USA

The claim : ... *South West Airlines offer the best prices with dependable service and reasonable amenities.*

The company is making a very distinctive claim and offering certain value to the consumer. Now, the company has to support/substantiate these claims so that the consumer is convinced of the soundness and credibility of its proposition. It is here that the differentiation attributed of the product offer come in. You are guaranteeing the proposed value through the special and unique attributes of your product/brand.

The claim has to be justified bydifferentiation attributes: Let us see how South West Airlines justifies the claim it makes : .....South West Airlines offer the best prices with dependable service and reasonable amenities *because we don't charge the customers anything for amenities' (No frills, lowest price).*

It is clear that value proposition made by a product becomes convincing when it is explained and justified by the differential attributes of that product. In fact, these two elements together—the claim suppoted by the product differentiation plank—illuminate the positioning theme of the brand.

And to whom ? The positioning exercise is still not over. The firm has to specify to whom the offer is addressed. To the two elements, when the target market factor—i.e. to whom this offer is addressed to—is also added, the product positioning statement becomes complete.

Let us see how South West Airlines clarifies this part.

It adds, *For the short distance travellers.*

Let us see how the total value posititioning looks like, with the three components, the target market, the claim and the supporting justification based on product differentiation, in place:

'For the short distance travellers, we (SWA) offer the best prices, with dependable service and reasonable amenities,

because we do not charge the customers anything for amenities (No frills, lowest price).'

Citibank

For the business traveller. . . .

The most convenient bank,

Because you can access your money from wherever you are . . . all our Branches are computer linked.

Avis

For business people who rent cars,

Avis is the company who will provide the best service

Because the employees own the company.

Home Depot

For do-it-yourselfers,

Home Depot offers the best prices

Because we are the largest building supply company.

Positioning is not an Afterthought

Positioning is not an afterthought in the sequence of activities involved in product management. It is something you have already reckoned with from the very product concept stage. You cannot suddenly invent a positioning theme when you are ready to enter the market with your product. In a good positioning strategy, the marketing man would have already decided what his 'cash on' point should be, where he should introduce his product and for whom, and on what claim and differentiation attributes should he go around and promote the brand.

Major Decisions Related to Positioning

How Many Differences to Promote?

Each company must decide how many differences (e.g.,benefits, features) to promote to its target customers. Many marketers advocate promoting only one central benefit. Rosser Reeves said a company should develop *a unique selling proposition (USP)* for each brand and stick to it. Crest toothpaste consistently promotes its anticavity protection and Mercedes Promotes its great engineering . Ries and Trout favour one consistent positioning message. Each brand should select an attribute and tout itself as "number one" on that attribute.

Number-one positionings include "best quality" "best service," "lowest price," 'best value," "safest," "fastest," "most customized," "most convenient," and "most advanced technology." If a company hammers away at one of these positionings and delivers on it, it will probably be best known and recalled for this strength.

Not every one agrees that single-benefit positioning is always best. *Double-benefit positioning* may be necessary if two or more firms claim to best on the same attribute. Steelcase, Inc., a leading office-furniture-systems company, claims two benefits: bost on time delivery and best installaton support. Volvo positions its automobiles as "safest" and "most durable."

There are even cases of successful triple-benefit positioning. Smith Kline Beecham promotes its Aquafresh toothpaste as offering three benefits: anticavity protection, better breath, and whiter teeth. The challenge is to convince consumers that the brand delivers all three. Smith Kline' solution was to create a toothpaste that squeezes out of the tube in three colours, thus visually confirming the three benefits. In doing this, Beecham "countersegmented"; that is, it attracted three segments instead of one.

As companies increase the number of claims for their brand, they risk disbelief and a loss of clear positioning. In general, a company must avoid four major positioning errors:

1. *Underpositioning* : Some companies discover that buyers have only a vague idea of the brand. The brand is seen as just another entry in a crowded marketplace. When Pepsi introduced its clear Crystal Pepsi in 1993, customers were distinctly unimpressed. They didn't see "clarity" as an important benefit in a soft drink.
2. *Overpositioning* : Buyers may have too narrow an image of the brand. Thus a consumer might think that diamond rings at Tiffany start at $5,000 when in fact Tiffany now offers affordable diamond rings starting at $1,000.
3. *Confused positioning* : Buyers might have a confused image of the brand resulting from the company's making too many claims or changing the brand's positioning too frequently. This was the case with Stephen Jobs's sleek and powerful NeXT desktop computer, which was positioned first for students, then for engineers, and then for businesspeople, all unsuccessfully.
4. *Doubtful positioning* : Buyers may find it hard to belive the brand claims in view of the product's features, price, or manufacturer. When GM's Cadillac division introduced the Cimarron, it positioned the car as a luxury competitor with BMW, Mercedes, and Audi. Although the car featured leather seats, a luggage rack, lots of chrome, and a Cadillac logo stamped on the chassis, customers saw the car as merely a dolled-up version of Chevy's Cavalier and Oldsmobile's Firenza. Although the car was positioned as "more for more," the customer saw it as "less for more".

Solving the positioning problem enable the company to solve the marketing-mix problem. Thus, seizing the "high-quality position" requires the firm to produce highquality products, charge a high price, distribute through high-class dealers, and advertise in high-quality magazines.

The companies different positioning strategies that are available to the

- *Attribute positioning :* A company positions itself on an attribute, such as size or number of years in existence.
- *Benefit positioning :* The product is positioned as the leader in a certain benefit.
- *Use or application positioning :* Positioning the product as best for some use or application.
- *User positioning :* Positioning the product as best for some user group.
- *Competitor positioning :* The product claims to be better in some way than a named competitor.
- *Product category positioning :* The product is positioned as the leader in a certain product category.
- *Quality or price positioning :* The product is positioned as offering the best value.

Which Differences to Promote?

Suppose a company has identified four alternative positioning platforms: technology, cost, quality, and service (Table). It has one major competitor. Both companies stand at 8 on technology (1 = low score, 10 = high score), which means they both have good technology. The competitor has a better standing on cost (8 compared to 6). Finally, both companies provide below-averge service.

It would seem that the company should go after cost or service to improve its market appeal. However, other considerations arise. The first is how target customers feel about improvements in each of these attributes. Column 4 indicates that improvements in cost and service would be of high improtance to customers. But can the company afford to make the improvements in cost and service, and how fast can it provide them? Column 5 shows that improving service would have high affordability and speed. But would the competitor be able to match the improved service ? Column 6 shows that the competitor's ability to improve service is low. Based on this information, column

7 shows the approprite actions to take with repect to each attribute. The one that makes the most sense is for the company to improve its service and promote this improvement. This was the conclusion Monsanto reached in one of its chemical markets. Monsanto hired additional technical sevice people. When they were trained and ready, Monsanto promoted itself as the "technical service leader."

Table: Method for Competitve-Advantage Selection

(1) Competitive Advantage	(2) Company Standing	(3) Competitor Standing	(4) Importance of Improving Standing (H-M-L)*	(5) Competitor's Affordability and Speed (H-M-L)	(6) ability to Improve Standing (H-M-L)	(7) Recommended Action
Technology	8	8	L	L	M	Hold
Cost	6	8	H	M	M	Monitor
Quality	8	6	L	L	H	Monitor
Service	4	3	H	H	L	Invest

*H = high; M = medium; L = low

Communicating the Company's Positioning

Once the company has developed a clear positioning strategy, it must communicate that positioning effectively. Suppose a company chooses the "best-in-quality" strategy. Quality is communicated by choosing those physical signs and cues that people normally use to judge quality. Here are some examples :

A lawn-mower manufacturer claims its lawn mower is "powerful" and uses a noisy motor because buyers think noisy lawn mowers are more powerful.

A truck manufacturer undercoats the chassis not because it needs undercoating but because undercoating suggest concern for quality

A car manufacturer makes cars with good-slamming doors because many buyers slam the doors in the showroom to test how well the car is built.

Ritz Carlton hotels signal high quality by training employees to answer calls within three rings, to answer with a genuine "smile" in their voices, and to be extremely knowledgeable about all hotel imformation.

Quality is also communicated through other marketing elements. A high price usually signals a premium-quality product to buyers. The product's quality image is also affected by packaging, distribution, advertising, and promotion. Here are some cases where a brand's quality image was hurt:

- A well-known frozen-food brand lost its prestige image by being on sale too often.
- A premium beer's image was hurt when it switched from bottles to cans.
- A highly regarded television receiver lost its quality image when mass-merchandise outlets began to carry it

A manufacturer's reputation also contributed to the perception of quality. Certain companies are sticklers for quality; consumers expect Nestle and IBM products to be well-made. Smart companies communicate their quality to buyers and guarantee customer satisfaction or "your money back."

Chart 4.6: Main Elements in the Positioning Task

- Relate and link your positioning to your differentiation theme. Differentiation and positioning are to be employed in alignment; differentiation is actually the prelude to positioning.
- Find out the positioning gaps in the product category and the attributes that can fill them in the minds of the consumers.
- Analyse your competitors' positions and identify the possible position for your product.
- In particular, evaluate the leader's position; the leading brand that occupies a special position in the consumer's mind (Cadbury's in chocolates); other brands have to necessarily relate themselves in some way to the leader's position; they cannot ignore the position of the leader, nor wish it away.
- Decide the locus you seek in the minds of the consumers and the attributes of your offer with which you will secure it.
- Relate and link your positioning to your target consumers (for whom is it intended?) and ensure that the positioning appeals to them. Segmentation/targeting and differentiation/positioning are to be handled in a composite manner.
- Communicate effectively to the target market the positioning you have chosen.
- Link your positioning to your value proposition; ensure, it actually emanates from your value proposition.
- Monitor the positioning as the product picks up. Check whether any variance occurs between your intended positioning and the actual position the consumer assigns to it in his mind. Tackle the variance; go for a new positioning, if requred.

Product Positioning and Brand Positioning

It is essential to understand the relationship between product positioning and brand positioning. Though in discussions, the two terms are synonymously and interchangeably used, technically they are different.

Product positioning denoted the specific product category/product class in which the given product is opting to compete. And brand positioning denotes the positioning of the brand viz-a-viz the competing brands in the chosen product category. Let us undestand this distinction better through the example of Maruti Omni.

Example of Maruti Omni

Way back in the 1980s, when Maruti Udyog decided to launch one more vehicle in addition to the Maruti 800 car, it came out with a vehicle, much more spacious than the Maruti 800 car. It had the looks of a van; it could comfortably seat six passengers; it had five doors, substantial luggage space and taller roof; and it ran on petrol.

Product (category) positioning of Omni: The initial question to be answered was:

As what should this vehicle be positioned?

A car?

A multi-purpose van?

In other words, which was the product category in which this new vehicle was to be positioned?

If positioned as a car, this vehicle would be competing with the then existing brands like . Ambassador and Fiat in addition to its own Maruti 800. If positioned as a van, it would be competing with the other brands like Matador and Tempo.

Omni positioned as a multi-purpose van: Maruti decided to position the new vehicle as a van and it was named Maruti Omni.

Brand positioning of Omni: Once the product category positioning was decided, the next question was how should the brand positioning of Maruti van be done viz-a-viz the competing brands in the van category. The new van had to seek its position on its distinctive advantages. The company had to analyse how the competing brands were perceived on the different attributes special to this product category.

In the van market the Maruti van had to compete with other brands like Matador and Tempo. All those attributes, which the consumer considers important and looks for in a van had to be analysed and the consumer's perception of the existing brands on those attributes had to be assessed. And then, Maruti van's desired locus/positioning viz-a-viz the competing brands had to be decided.

One analysis by the company taking two major attributes, passenger space and price, that mattered much in this category (based on consumer perception) showed that Maruti van could be positioned as the high space—low price brand in the market. This is brand positioning.

Omni positioned as the low priced, spacious, brand in vans: Maruti Omni was positioned as the low priced, spacious van. But in the market, as time passed, Maruti Omni could not acquire a dominant position viz-a-viz the competing brands. The major competing brands were more spacious, though higher priced. At this juncture, Maruti decided to take a fresh look at the positioning of Maruti Omni.

Repositioning of Omni as the most spacious, lowest priced, family car: While trying to sort out the problems faced by Omni in the van segment, the company found that the consumer had acquired a different perception about the functionality of the Maruti Omni. Many people had started using it as a good substitute for car. For middle class homes, it ideally served as a family car. More analysis by the company followed. The finding was that it was advantageous to position it as a car. The company found the positioning theme, 'the most spacious family car at the lowest price'. And in the new positon, Maruti Omni was in the product category of cars, competing with brands like Ambassador, Fiat and Maruti 800.

As part of the repositioning of Maruti Omni as a spacious family car, the company ran an ad campaign. In this campaign, Maruti stressed as the value proposition 'the most spacious car for the family'. The value proposition was supported and justified by-product attributes.Exhibit shows the details.

Exhibit 4.7: Maruti Omni Repositioning

- It's surprising that most cars don't have the fifth door. Sure, you might call it the boot-latch or the dicky, but in this car it is definitely a point of entry—especially for a whole gang of excited kids, or the Mrs' shopping bonanza!
- In other words, it opens wide into wide inner space. And when you combine so much space with the superb Maruti features of styling, performance, fuel-efficiency and driving pleasure, you'll admit it's a total car. No wonder it's called the Omni.

Omni space: versatile

- On a rough calculation, there is 7.5 cubic meter of space on those four wheels.
- Remove the rear seat and the Omni doubles up as a cargo carrier, a picnic hatchback, an out of town roadstar. And to you, it's still the family car, the office car, and the knock-about-town car.
- In fact, with so much space, its versatility depends on your imagination.
- The benefits of a car and the advantage of more space. Space that translates into more headroom, more legroom, more luggage-room and more people-room too.

Omni : designed for driven comfort

- It's a pleasure to drive. The instrument panel is sleek, with easy-to-read displays. The articulated steering column is positioned just right; seats are adjustable, with control levers and gear shaft at hand touch distance. And of course, plenty of breathing space.

The high-performance Suzuki engine

- Technically, it's described as a 3-cylinder 4-stroke, 800 cc engine. What it means is a fuel-efficient, high-performance engine
- Designed for over 150,000 kms of trouble-free operation, after which it can be re-bored.

The Maruti Plus points

- Features for safety and stability are standard to Omni. What is important is that such features are found in more expensive cars.
- A MacPherson strut independent suspension in front and a leaf spring type in the rear.
- 30-cm diameter drop-center wheels contribute to safe, stable cornering, and tight turning ability.
- Synchromesh forward gears and a dual braking circuit.
- Electrophortic paint deposition that ensures non-corrosion of the car's framework.
- A coolant system that eliminates the daily chore of filling water in the radiator.
- Beyound doubt a very good car. Better still, the most spacious on the road.

Note: *The ads carried the price ex-nearest showroom, bringing home the point that it is the most spacious family car at the lowest price*

Issues in Product (Category) Positioning and Brand Positioning

It is evident that for any product, before entering the market, it has to sequentially carry out the two exercises, product (category) positioning and brand positioning. In the first step, the product category where the new entrant should enter and compete, i.e. against what all products it has to compete, has to be decided. In this step, it is the broad function that the product is trying to serve that matters. This choice of product category will decide the nature of the competition the product is going to face. Once product category positioning is decided, the position for the new entrant against competing brands in the chosen product category has to be analysed and fixed. In short, the issues that are raised in product category positioning and brand positioning are different. The questions to be raised are evident from the Maruti example.

Issues in Product Positioning

- Where is the new offer going to compete? As what?
- Which product function/customer need is it trying to meet?
- What other product categories serve this need? In other words, what are the substitute products that serve the same need?
- Where is the real gap, where is such a new offer most welcomed and wanted by the market?
- What are the company's competencies to fight here ?

In fact, these are the issues the firm agitates in target market selection too. The linkage is only natural because in *product positioning, the firm is actually bridging the product offer with the right target market.*

Issues in Brand Positioning

In deciding the brand positioning, the issues are :

- Which are the competing brands in the chosen product category ?
- What are the unique claims/strengths of the various brands ?
- What position do they enjoy in consumer's evaluation and perception ?
- According to the consumer rating of the competing brands, is there a wide gap in expectations- performance? What kind of a product/new attributes/new functions will attract the consumer ?
- What is the most favoured position . . . and yet vacant ?
- Can the new brand claim the needed distinction and take the position and satisfy that need ?

Produt Repositioning

Products do undergo 'repositioning' as they go along their life cycle. In some cases, even products that are faring well are repositioned. This is done mainly to enlarge the reach of the product offer and to increase the sale of the product by appealing to a wider target market. The product is provided with some new features or it is associated with some new uses and is repositioned for existing as well as new target segments.

Milkmaid is a good example of repositioning. When the product was introduced in the sixties, it was positioned as a convenient form of milk for use in tea and coffee. When the sales reached a plateau in the 1980s, the company studied the situation in detail and decided to reposition it as a product for all uses involving milk. A well planned advertising campaining was launched, repositioning Milkmaid as an ideal ingredient for a variety of sweets and other prepara ions, in addition to daily use in tea/coffer.

Tanishq: Fi..ling the apt positioning for a product is certainly not easy; a proper balancing of several issues is

involved. Titan-Tanishq is an apt example. Titan, a firm that has created waves in the Indian watch market with its quartz watches and has been consistently receiving complements from all quarters for its marketing excellence. made some crucial mistakes when it set out to market its Tanishq brand jewellery.

Titan found that the jewellery sales lagged far behind its projections. It identified wrong positioning as the reason for the poor show. Titan admittted, 'Our positioning of Tanishq has not generated the kind of volumes we expected. The jewellery should have had a much wider appeal than it enjoyed with the present positioning.' Exhibit shows the details of Tanishq's positioning and how it was repositioned subsequently.

Exhibit 4.8: Positioning of Titan Tanishq—What went Wrong

- The brand was positioned to appeal to the top 1 per cent of the urban Indian population.
- Designs were western, showrooms very glamorous, and advertising too sophisticated.
- The product offer was perceived as too elitist.
- Naturally, this positioning failed to generate the expected sales volume.
- Titan went to the market with 18 caråt jewellery. The norm for jewellery in India is 22 carat; 18 carat stuff could not be effectively positioned as jewellery?
- And the fact that the brand was positioned for the rich, elitist segment aggravated the mismatch. Why should this segment after all buy 18 carat jewellery?
- Obviously, there was confusion about the value proposition and the product attributes, as well as the target market and marketing communications. The advertising and the marketing channel took the positioning to an unintended target.
- Titan had to totally rework its strategy for the jewellery business. Titan admitted, 'In India, the entry card for wider appeal in jewellery is 22 carat gold, not 18 carat.'
- Titan changed the major product attributes. It introduced a now collection in 22 carat jewellery. The design was also made more Indian.
- Titan also changed its advertising and channel strategy to make Tanishq less elitist. The aim was to make it appeal to a wider clientele, including the upper middle class.
- With the repositioning, the jewellery business now contributes 20 per cent of Titan's corporate turnover.

Repositioning of Complan

The story of Complan illustrates more comprehensively the issues in product positioning. Glaxo was going through a trial and error situation with respect to Complan. It took quite a few years for Glaxo to arrive at a successful positioning for Complan. Exhibit shows how Glaxo handled the various problems thrown up by Complan's positioning.

Exhibit 4.9: Positioning Exercise—Complan

Stage I

Complan was first launched by Glaxo, UK, during World War II.

It was part of the ration for the soldiers.

Since then, the brand has travelled a long way.

Stage II

In this stage, Glaxo launched Complan for the mass market.

It had to find an appropriate positioning.

Glaxo positioned it as supplementary nutrition, for adults in convalescence.

Doctors recommended it.

The brand got the image of 'sick man's source of nutrition'.

This positioning did not bring much success.

Stage III

Glaxo reviewed the positioning and studied the health drinks market.

Though Complan was superior in many respects to other brands, it suffered the image of a sick man's drink.

Glaxo found the *health drink market growing, but Complan was not growing.*

It also found 'the growing child' as the big market segment for health drinks. Complan took a *new positioning.*

A Complete Planned Food for Children.

It was positioned against milk,

As a health builder.

The differentiation theme was that it was superior to milk, nature's best nutrition for children.

It carried 23 nutrients which milk did not carry. It carried milk protein as well.

This positioning too did not bring the desired success.

Two problems came up :

1. The taste was not agreeable to children.
2. 'Superior to milk proposition' did not sell because, the Indian mother still held milk as an essential natural diet for the child.

Glaxo improved the taste of Complan; introduced the chocolate flavour and other variants to please children.

Still Complan did not take off.

Stage IV

The new positioning was *against Horlicks,* while the old one was against milk. Horlicks was doing well as the preferred health drink.

Here a new problem emerged:

Price of Complan was double that of Horlicks and buyers shied away.

It came to be sparingly used anyway.

The search for right positioning continued.

Stage V

Galxo gave up the comparative postitioning.

It tried to match the product claim and the customer need. *Target user* and *usage occasion* became major considerations in the new positioning.

New user segments and new uses for the product were identified.

The new positioning.

Fulfilling the nourishment needs of different segments of people who faced different kinds of problems on the 'diet front'.

The only health drink that is complete and suits varied occasions and users.

Only Complan with 23 nutrients, is complete for the body.

The ad campaigns clearly showed the new positioning.

Complan was for :

- the child, 'the problem eater'
- the young executive, too busy to eat
- the grandpa, too ill to eat
- and the young housewife, of course in good health but needed extra nourishment for all the strain she takes and to guard against hidden diet deficiencies.
- In other words, in the family everybody had some use for Complan.

The new positioning was as a distinct product in its own right.

Flavours like cardamom and straw berry were added; new packaging also came.

Complan finally found a good orbit.

Chapter 5

Buyer Behavior and Consumer Decision Making Process

A Model of Consumer Behavior

The starting point for understanding buyer behaviour is the stimulus-response model shown in Figure 5.1. Marketing and environmental stimuli enter the buyer's consciousness. The buyer's characteristics and decision process lead to certain purchasing decisions. The marketer's task is to understand what happens in the buyer's consciousness between the arriva

l of outside stimuli and the buyer's purchase decision.

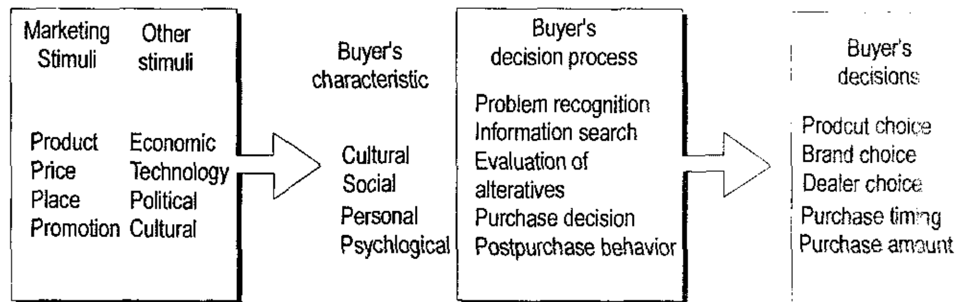


Figure 5.1: Stimulus Response Model

The Major Factors Influencing Buying Behaviour

Consumer's buying behaviour is influenced by cultural, social, personal, and psychological factors. Cultural factors exert the broadest and deepest influence.

Cultural Factors

Culture, subculture, and social class are particularly important in buying behaviour.

Culture

Culture is the most fundamental determinant of a person's wants and behaviour. The growing child acquires a set of values, perceptions, preferences, and behaviours through his or her family and other key institutions. A child growing up in the United States is exposed to the following values: achievement and success, activity, efficiency and practicality, progress, material comfort, individualism, freedom, external comfort, humanitarianism. and youthfulness.

Subculture

Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. Many subcultures make up important market segments, and marketers often design products and marketing programs tailored to their needs.

Social Class

Virtually all human societies exhibit social stratification. Stratification sometimes takes the form of a caste system where the members of different castes are reared for certain roles and cannot change their caste membership. More frequently, stratification takes the form of social classes.

- ***Social classes*** are relatively homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interests, and behaviour.

Social classes do not reflect income alone, but also other indicators such as occupation, education, and area of residence. Social classes differ in dress, speech patterns, recreational preferences, and many other characteristics. Table 5.1. describes the seven U.S. social classes identified by social scientists.

Social classes have several characteristics. First, those within each social class tend to behave more alike than persons from two different social classes. Second, persons are perceived as occupying inferior or superior positions according to social class. Third, social class is indicated by a cluster of variables–rather than by any single variable. Fourth, individuals can move from one social class to another—up or down—during their lifetime. The extent of this mobility varies according to the rigidity of social stratification in a given society.

Social classes show distinct product and brand preferences in many areas, including clothing, home furnishings, leisure activities, and automobiles. Some marketers focus their efforts on one social class.

Table 5.1: Characteristics of Major U.S. Social Classes

1. *Upper Uppers (less than 1 percent)*	The social elite who live on inherited wealth. They give large sums to charity, run the debutante balls, maintain more han one home, send their children to the finest schools. They often buy and dress conservatively. Although small as a group, they serve as a reference group to the extent that their consumption decisions are imitated by the other social classes.
2. Lower Uppers (about 2 percent)	Persons who have earned high income or wealth through exceptional ability in the professions or business. They usually come form the middle class. They tend to be active in social and civic affairs and seek to buy the symbols of status for themselves and their children. They include the nouveau riche, whose pattern of conspicuous consumption is designed to impress those below them. The ambition of lower uppers is to be accepted in the upper-upper stratum.
3. Upper Middles (12 percent)	Possess neither family status nor unusual wealth. They are primarily concerned with "career." They have attained position as professionals, independent businesspersons, and corporate managers. They believe in education and want their children to develop professional or administrative skills. Members of this class like to deal in ideas and are highly civic minded. They are home-oriented and are the quality market for good homes, clothes, furniture, and appliances.
4. Middle Class (32 percent)	Average-pay white-and blue-collar workers who live on "the right side of town." Often, they buy products that are popular to keep up with trends. Twenty-five percent own imported cars, and most are concerned with fashion. The middle class believes in spending more money on "worthwhile experiences" for their children and aiming them toward a college education.
5. Working Class (38 percent)	Average-pay blue-collar workers and those who lead a working-class lifestyle, whatever their income, school background, or job. The working class depends heavily on relatives for economic and emotional support, for tips on job opportunities, for advice, and for assistance. A working-class vacation means staying in town, and "going away" means to a lake or resort no more than two hours away. The working class tends to maintain sharp sex-role divisions and stereotyping.
6. Upper Lowers (9 percent)	Upper lowers are working, although their living standard is just above poverty. They perform unskilled work and are very poorly paid. Often, upper lowers are educationally deficient.
7. Lower Lowers (7 percent)	Lower lowers are on welfare, visibly poverty stricken, and usually out of work. Some are not interested in finding a permanent job, and most are dependent on public aid or charity for income.

Social Factors

In addition to cultural factors, a consumer's behaviour is influenced by such social factors as reference group, family, and social roles and statuses.

Reference Groups

- A person's ***reference groups*** consist of all the group that have a direct (face-to-face) or indirect influence on the person's attitudes or behaviour. Groups having a direct influence on a person are called ***membership groups.***

Some membership groups are primary groups, such as family, friends, neighbors, and co-workers, with whom the person interact continuously and informally.

People also belong to secondary groups, such religious, professional, and tradeunion groups, which tend to be more formal and require less continuous interaction.

People are significantly influenced by their reference groups in at least three ways. Reference groups expose an individual to new behaviours and lifestyles. They influence attitudes and self-concept. And they create pressures for conformity that may affect actual product and brand choices.

People are also influenced by groups to which they do not belong *Aspirational groups* are those the person hopes to join; *dissociative groups* are those whose values or behaviour an individual rejects.

Marketers try to identify target customers' reference groups. However, the level of reference group influence varies among products and brands. Reference groups appear to influence both product and brand choice strongly only in the case of automobiles and colour televisions. mainly brand choice in such items as furniture and clothing; and mainly product choice in such items as beer and cigarettes.

Manufacturers of products and brand where group influence is strong must determine how to reach and influence the opinion leaders in these reference groups. An *opinion leader* is the person in informal product-related communications who offers advice or information about a specific product or product category, such as which of several brand is best or how a particular product or product category, such as which of several brands is best or how a particular product may be used. Opinion leaders are found in all strata of society, and person can be an opinion leader in certain product areas and an opinion follower in other areas. Marketers try to reach opinion leaders by identifying demographic and psychographic characteristics associated with opinion leadership, identifying the media read by opinion leaders, and directing messages at the opinion leaders. The hottest trends in teenage music, language, and fashion start in America's inner cities, then quickly spread to more mainstream youth in the suburbs. Clothing companies that hope to appeal to the fickle and fashion-conscious youth market are making a concerted effort to monitor urban opinion leaders' style and behaviour:

Family

The family is the most important consumer-buying organization in society, and it has been researched extensively. Family members constitute the most influential primary reference group. We can distinguish between two families in the buyer's life. The *family of orientation* consists of one's parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics and sense of personal ambition, self-worth, and love. Even if the buyer no longer interacts very much with his or her parents, their influence on the buyer's behaviour can be significant. In countries where parents live with their grown children, their influence can be substantial. A more direct influence on everyday buying behaviour is one's *family of procreation*— namely, one's spouse and children.

Marketers are interested in the roles and relative influence of the husband, wife, and children in the purchase of a large variety of products and services. These roles vary widely in different countries and social classes. Vietnamese Americans, for example, are more likely to adhere to the traditionall model in which the man makes the decisions for any large purchase. Similarly, successful ads for Korean Americans usually will feature a man in his thirties or forties unless the ad is for a specifically female product, such as jewellery.

In the United States, husband-wife involvement has traditionally varied widely by product category. The wife has traditionally acted as the family's main purchasing agent, especially for food, sundries, and staple-clothing items. In the case of expensive products and services like vacations or housing, husbands and wives have engaged in more *joint decision making.* Marketers need to determine which member normally has the greater influence in choosing various products. Often it is a matter of who has more power or expertise.

Women are rapidly gaining power in the household—purchasing power, to be exact. Business guru Tom Peters cites women as the number one business marketing opportunity, and says :

> *The market research is clear; Women make or greatly influence most purchasing decisions. Homes. Medical care. Cars. Vacations. And hammers and nails in the huge DIY (do-it-yourself) industry. One (rare) female DIY-chain exec remarked to me about her male collegues' amazement that 60% of*

their customers were women. . . . . Women are where the real bucks are. Now close to 8 million women own enterprises in America, up from about 400,000 in 1970. They employ about 18.5 million of us . . . 40% more than old Forbes 500 industrials. About 22% of working wives outearn their hubbies, and women constitute about half the population of those with $ 500,000 or more in net worth.

Given women's great strides in the workplace, especially in nontraditional jobs, traditional household purchasing patterns are gradually changing. Shifts in social values regarding the division of domestic labor have also weakened such standard conceptions as "women buy all the household goods." Recent research has shown that although traditional buying patterns still hold, baby boomer husbands and wives are more willing to shop jointly for products traditionally thought to be under the separate control of one sposeor the other. Hence, convenience-goods marketers are making mistake if they think of women as the main or only purchasers or their products. Similarly, marketers of products traditionally purchased by men may need to start thinking of women as possible purchasers.

This is already happining in the car business :

- **Cadillac.** Women now make up 34 percent of the luxury car market, and automakers are paying attention. Male car designers at Cadillac are going about their work with paper clips on their fingers to simulate what it feels like to operate buttons, konbs, and other interior features with longer fingernails. The Cadillac Catera features an air-conditioned glove box to preserve such items as lipstick and film. Under the hood, yellow marking highlight where fluid fills go.

Roles and Statuses

A person participates in many groups—family, clubs, organizations. The person's position in each group can be defined in terms of role and status. A role consists of the activities that a person is expected to perform. Each role carries a *status.* A Supreme Court justice has more status than a sales manager, and a sales manager has more status than an office clerk. People choose products that communicate their role and status in society. Thus company presidents often drive Mercedes, wear expensive suits, and drink Chivas Ragal scotch. Marketers are aware of the *status symbol* potential of products and brands.

Personal Factors

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle, occupation, economic circumstances, lifestyle, and personality and self-concept.

Age and Stage in the Life Cycle

People buy different goods and service over a lifetime. They eat baby food in the early years, most foods in the growing and mature years, and special diets in the later years. Taste in clothes, furniture, and recreation is also age related.

Consumption is shaped by the family life cycle. Nine stages of the family life cycle are listed in Table 5.2. along with the financial situation and typical product interests of each group. Marketers often choose life-cycle groups as their target market. Yet target households are not always family based: There are also single households, gay households, and cohabitor households.

Some recent work has identified psychological life-cycle stages. Adults experience certain "passages "or "transformations" as they go through life. Marketers pay close attention to changing life circumstances—divorce, widowhood, remarriage—and their effect on consumption behavior.

Table 5.2: Stage in Family Life Cycle Buying or Behavioral Pattern

Stage in Family Life Cycle	Buying or Behavioral Pattern
1. Bachelor stage; young, single, not living at home.	Few financial burdens. Fashion leaders. Recreation oriented. Buy : basic home equipment, furniture, cars, equipment for the mating game; vacations.
2. Newly married couples: young, no children.	Highest purchase rate and highest average purchase of durables : cars, appliances, furniture, vacations.
3. Full nest I: youngest child under six	Home purchasing at peak. Liquid assest low. Interested in new products, advertised products. Buy: washers, dryers, TV, baby food, chest rubs and cough medicines, vitamins, dolls, wagons, sleds, skates.
4. Full nest II: youngest child six or over.	Financial position better. Less influenced by advertising. Buy larger-size packages, multiple-unit deals. Buy : many foods, cleaning materials, bicycles, music lessons, pianos.
5. Full nest III: older married couples with dependent children	Financial position still better. Some children get jobs. Hard to influence with advertising. High average purchase of durables: new, more tasteful furniture, auto travel, unnecessary appliances, boats, dental services, magazines.
6. Empty nest I: older married couples, no children living with them, head of house-hold in labour force.	Home ownership at peak. Most satisfied with financial position and money saved. Interested in travel, recreation, self-education. Make gifts and contributions. Not interested in new products. Buy : vacations, luxuries, home improvements.
7. Empty nest II: older married No children living at home, head of household retired	Drastic cut in income. Keep home. Buy: medical appliances medical-care products.
8. Solitary survivor, in labour force.	Income still good but likely to sell home.
9. Solitary survivor, retired.	Same medical and product needs as other retired group; drastic cut in income. Special need for attention, affection, and security.

Occupation and Economic Circumstances

Occupation also influences a person's consumption pattern. A blue-collar worker will buy work clothes, work shoes, and lunchboxes. A company president will buy expensive suits, air travel, country club membership, and a large sailboat. Marketers try to identify the occupational groups that have above-average interest in their product and services. A company can even specialize its products for certain occupational groups: Computer software companies design different products for brand managers, engineers, lawyers, and physicians.

Product choice is greatly affected by economic circumstances: spendable income (level, stability, and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitude toward spending versus saving. Marketers of income-sensitive goods pay constant attention to trends in personal income savings, and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products so they continue to offer value to target customers.

Lifestyle

People from the same subculture, social class, and occupation may lead quite different lifestyles.

- A **lifestyle** is the person's pattern of living in the world as expressed in activities, interests, and opinions. Lifestyle portrays the "whole person" interacting with his or her environment.

Marketers search for relationships between their products and lifestyle groups. For example, a computer manufacturer might find that most computer buyers are achievement-oriented. The marketer may then aim the brand more clearly at the achiever lifestyle.

Psychographics is the science of measuring and categorizing consumer lifestyles. One of the most popular classifications based on psychographic measurements is the VALS 2 framework. SRI International's Values and Lifestyles (VALS) framework has been the only commercially available psychographic segmentation system to gain widespread acceptance. The VALS2 system is continually updated to serve the business world better. VALS

2 classifies all U.S. adults into 8 group based on psychological attributes. The segmentation system is based on responses to a questionnaire featuring 5 demographics and 42 attitudinal questions as well as questions about use of on-line services and Web sites.

The VALS 2 questionnaire asks respondents to agree or disagree with statements such as "I like my life to be pretty much the same from week to week," "I often crave excitement," and "I would rather make something than buy it."

The major tendencies of the four groups with greater resources are:

- *Actualizers :* Successful, sophisticated, active, "take-charge" people. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products.
- *Fulfilleds :* Mature, satisfied, comfortable, reflective. Favor durability, functionality, and value in products.
- *Achievers* : Successful, career-and work-oriented. Favor established, prestige products that demonstrate success to their peers.
- *Experiencers :* Young vital, enthusiastic, impulsive and rebellious. Spend a comparatively high proportion of their income on clothing, fast food, music, movies, and video.

The major tendencies of the four groups with fewer resources are :

- *Believers :* Conservative, conventional, and traditional. Favor familiar products and established brands.
- *Strivers :* Uncertain, insecure, approval-seeking, resource constrained. Favor stylish products that emulate the purchases of those with greater material wealth.
- *Makers :* Practical, self-sufficient, traditional, family-oriented. Favor only products with a practical or functional purpose such as tools, utility vehicles, fishing equipment.
- *Strugglers :* Elderly, resigned, passive, concerned, resource constrained. Cautious consumers who are loyal to favourite brands.

Although psychographics continues to be a valid and valued methodology for many marketers, it may become less valid in the information economy. Social scientists are realizing that old tools for predicting consumer behavior don't always work when it comes to use of the Internet or on-line services and purchases of technology products.

Lifestyle segmentation schemes are by no means universal. McCann-Erickson London, for example, identified the following British lifestyle: Avant-Gardians (interested in Change); Pontificators (traditionalists, very British); Chameleons (follow the crowd); and Sleepwalkers (contented underachievers). In 1992 the advertising agency D' Arcy, Masius, Benton & Bowles published The Russian Consumer: A New Perspective and a Marketing Approach, which revealed five categories of Russian consumers: "Kuptsi" (merchants), " Cossacks," "Students", "Business Executives," and "Russian Souls." Cossacks are characterized as ambitious, independent, and status seeking, whereas Russian Souls are passive, fearful of choices, and hopeful. Cossacks would drive a BMW, smoke Dunhill cigarettes, and drink Remy Martin: Russian Souls would drive a Lada, smoke Marlboros, and drink Smirnoff.

Table 5.3: Selected Marketing Opportunities of Consumer Lifestyles

Lifestyle Category	Marketing Opportunities in Appealing to the Lifestyle
Family values	Family-oriented goods and services Educational devices and toys Traditional family events "Wholesome" entertainment
Voluntary simplicity	Goods and services with quality, durability, and simplicity Environmentally safe products Energy-efficient products Discount-oriented retailing
Getting by	Well-known brands and good buys ("value") Video rentals and other inexpensive entertainment Do-it-yourself projects such as "knock-down" furniture Inexpensive child care
"Me" generation	Individuality in purchases Luxury goods and services Nutritional themes Exercise-and education-related goods and services.
Blurring of gender roles	Unisex goods, services, and stores Couples-oriented advertising Child-care services Less male and female stereotyping
Poverty of time	Internet and phone sales Service firms with accurate customer appointments Labor-saving devices One-stop shopping
Component lifestyle	Situational purchases Less social class stereotyping Multiple advertising themes Market niching

Lifestyles of Computer Specialists.

How Tech Customers Stack UP

	CAREER	FAMILY	ENTERTAINMENT
OPTIMISTS	**FAST FORWARDS** These consumers are the spenders, and they're early adopters of new technology for home, office, and personal use.	**NEW AGE NURTURERS** Also big spenders, but focused on technology for home uses, such as a family PC.	**MOUSE POTATOES** They like the on-line biggest for entertainment and are willing to spend for the latest in technotainment.
OPTIMISTS	**TECHNO-STRIVERS** Use technology from cell phoned and pagers to on-line services primarily to gain a career edge.	**DIGITAL HOPEFULS** Families with a limited budget but still interested in new technology. Good candidates for under-$1,000 PC.	**GADGET-GRABBERS** They also favor on-line entertainment but have less cash to spend on it.
PESSIMISTS	**HAND-SHAKERS** Older consumers—typically managers—who don't touch their computers at work. They leave that to younger assistants.	**TRADITIONALISTS** Willing to use technology but slow to upgrade. Not convinced that upgrades and other add-ons are worth paying for.	**MEDIA JUNKIES** Seek entertainment and can't find much of it on-line. Prefer TV and other older media.
	SIDELINED CITIZENS (not interested in technology)		

Personality and Self-Concept

Each person has a distinct personality that influences behavior.

> By personality, we mean distinguishing psychological characteristics that lead to relatively consistent and enduring responses to environment.

Personality is usually described in terms of such traits as self-confidence, dominance, autonomy, defensiveness, and adaptability. Personality can be a useful variable in analyzing consumer behavior, provided that personality types can be classified accurately and that strong correlations exist between certain personality types and product or brand choices. For example, a computer company might discover that many prospects show high, self confidence, dominance and autonomy. This suggest designing computer advertisements to appeal to these traits.

Related to personality is *self-concept* (or self-image). Marketers try to develop brand images that match the target market's self-image. It is possible that a person's *actual self-concept* (how she views herself) differs from her *ideal self-concept* (how she would like to view herself) differs from her *other-self-concept* (how she thinks others see her).

Which self will she try to satisfy in making a purchase? Because it is difficult to answer this question, self-concept theory has had a mixed record of success in predicting consumer responses to brand images.

Psychological Factors

A person's buying choices are influenced by four major psychlogical factors—motivation, perception, learning, and beliefs and attitudes.

Motivation

A person has many needs at any given time. Some needs are *biogenic;* they arise from physiological states of tension such as hunger, thirst, discomfort. Other needs are *psychogenic,* they arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A *motive* is a need that is sufficiently pressing to drive the person to act.

Motives	Marketing Actions That Motivate
Hunger reduction	Television and radio ads for fast-food restaurants
Safety	Smoke detector demonstrations in stores
Sociability	Perfume ads showing social success due to products
Achievement	Use of consumer endorsements in ads specifying how much knowledge can be gained from an encyclopedia
Economy	Newspaper coupons advertising sales
Social responsibility	Package labels that emphasize how easy it is to recycle products

Each person has distinct motives for purchases, and these change by situation and over time. Consumers often combine economic (price, durability) and emotional (social acceptance, self-esteem) motives when making purchases.

Psychologists have developed theories of human motivation. Three of the best known—the theories of Sigmund Freud, Abraham Maslow, and Frederik Herzberg carry quite different implications for consumer analysis and marketing strategy.

Freud's Theory. Sigmund Freud assumed that the psychological forces shaping people's behavior are largely unconscious, and that a person cannot fully understand his or her own motivations. A technique called *laddering* can be used to trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.

When a person examines specific brands, he or she will react not only to their stated capabilities but also to other, less conscious cues. Shape, size, weight, material, colour, and brand name can all trigger certain associations and emotions.

Motivation researchers often collect "in-depth interviews" with a few dozen consumers to uncover deeper motives triggered by a product. They use various "projective techniques" such as *word association, sentence completion, picture interpretation,* and *role playing.*

More recent research holds that each product is capable of arousing a unique set of motives in consumers. For example, whisky can attract someone who seeks social relaxation, status, or fun. Therefore, different whisky brands have specialized in one of these three different appeals. Jan Callebaut calls this approach "motivational positioning."

Maslow's Theory. Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend considerable time and energy on personal safety and another on pursuing the high opinion of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. In their order of importance, they are physiological needs, safety needs, social needs, esteem needs, and self-actualization needs (Figure5.2). People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, that need will cease being a current motivator, and the person will try to satisfy the next-most-important need. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in how he is viewed by others (need 3 or 4), not even in whether he is breathing clean air (need 2) But when he has enough food and water, the next-most-important need will become salient.

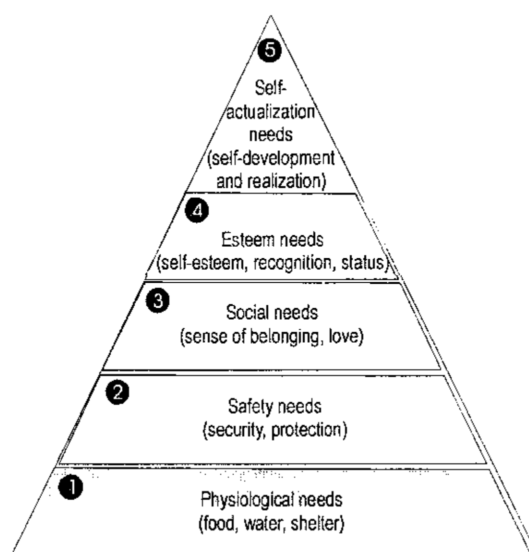


Figure 5.2: Maslow's Hierarchy of Needs

Maslow's theory helps marketers understand how various products fit into the plans, goals, and lives of consumers.

Herzberg's Theory. Frederick Herzberg developed a *two-factor theory* that distinguishes dissatisfiers (factors that cause dissatisfaction) and satisfiers (factors that cause satisfaction). The absence of dissatisfiers is not enough; satisfiers must be actively present to motivate a purchase. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase, because it is not a source of intrinsic satisfaction with the computer. Ease of use would be a satisfier.

Herzberg's theory has two implications. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it. Second, the manufacturer should identify the major satisfiers or motivators of purchase in the market and then supply them. These satisfiers will make the major difference as to which brand the customer buys.

Perception

A motivated person is ready to act. How the motivated person actually acts is influenced by his or her perception of the situation.

- ***Perception*** is the process by which an individual selects, organizes and interprets information inputs to create a meaningful picture of the world.

Perception depends not only on the physical stimuli but also on the stimuli's relation to the surrounding field and on conditions within the individual.

The key word in the definition of perception is individual. One person might perceive a fast-talking salesperson as aggressive and insincere; another, as intelligent and helpful. People can emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.

Selective Attention. People are exposed to a tremendous amount of daily stimuli: The average person may be exposed to over 1,500 ads a day. Because a person cannot possibly attend to all of these most stimuli will be screened out—a process called selective attention. Selective attention means that marketers have to work hard to attract consumers' notice. The real challenge is to explain which stimuli people will notice. Here are some findings :

- *People are more likely to notice stimuli that relate to a current need.* A person who is motivated to buy a computer will notice computer ads; he or she will probably not notice stereo-equipment ads.
- *People are more likely to notice stimuli that they anticipate.* You are more likely to notice computers than radios in a computer store because you do not expect the store to carry radios.
- *People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli.* You are more likely to notice an ad offering Rs. 100/- off the list price of a shirt than one offering Rs. 5/- off.

Selective Distortion. Even noticed stimuli do not always come across in the way the senders intended. Selective distortion is the tendency to twist information into personal meanings and interpret information in a way that will fit our preconceptions. Unfortunately, there is not much that marketers can do about selective distortion.

Selective Retention. People will forget much that they learn but will tend to retain information that supports their attitudes and beliefs. Because of *selective retention,* we are likely to remember good points mentioned about a product we like and forget good points mentioned about competing products. Selective retention explains why marketers use drama and repetition in sending messages to their target market.

Learning

When people act, they learn.

- ***Learning*** involves changes in an individual's behavior arising from experience.

Most human behavior is learned. Learning theorists believe that learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement.

A drive is a strong internal stimulus impelling action. Cues are minor stimuli that determine when, where, and how a person responds.

Suppose you buy an IBM computer. If your experience is rewarding, your response to computers and IBM will be positively reinforced. Later on, when you want to buy a printer, you may assume that because IBM makes good computers, IBM also makes good printers. In other words you generalize your response to similar stimuli. A countertendency to generalization is discrimination. Discrimination means that the person has learned to recognize differences in sets of similar stimuli and can adjust responses accordingly.

Learning theory teaches marketers that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by appealing to the same drives that competitors use and providing similar cue configurations because buyers are more likely to transfer loyalty to similar brands (generalization). Or the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination).

Beliefs and Attitudes

Through doing and learning, people acquire beliefs and attitudes. These in turn influence buying behavior

- A *belief* is descriptive thought that a person holds about something.

Beliefs may be based on knowledge, opinion, or faith. They may or may not carry an emotional charge. Of course, manufacturers are very interested in the beliefs people carry in their heads about their products and services. These beliefs make up product and brand images, and people act on their images. If some beliefs are wrong and inhibit purchase, the manufacturer will want to launch a campaign to correct these beliefs.

Particularly important to global marketers is the fact that buyers often hold distinct belief about brands or products based on their country of origin. Several country-of-origin studies have found the following:

- The impact of country of origin varies with the type of product. Consumers would want to know where a car was made but not where the lubricating oil came from.
- Certain countries enjoy a reputation for certain goods: Japan for automobiles and consumer electronics; the United States for high-tech innovations, soft drinks, toys, cigarettes, and jeans; and France for wine, perfume, and luxury goods.
- Sometimes the country-of-origin perception can extend beyond certain products and encompass an entire country's products. In a recent study, Chinese consumers in Hong Kong perceived American products as prestigious, Japanese products as innovative, and Chinese products as cheap.
- The more favorable a country's image, the more prominently the "Made in. . . . label should be displayed in promoting the brand.
- Attitudes toward country of origin can change over time. Japan had a poor quality image before World War II.

A company has several options when its products are competitively priced but their place of origin turns off consumers. The company can consider co-production with a foreign company that has a better name: South Korea could make a fine leather jacket that it sends to Italy for finishing. Or the company can adopt a strategy to achieve world-class quality in the local industry, as is the case with Belgian chocolates, Polish ham, and Colombian coffee.

Finally, the company can hire a well-known celebrity to endorse the product. Nike has had a great deal of success using basketball star Michael Jordan to promote its footwear in Europe.

Just as important as beliefs are attitudes.

- An ***attitude*** is a person's enduring favorable or unfavorable evaluation emotional feelings, and action tendencies toward some object or idea.

People have attitudes toward almost everything: religion, politics, clothes, music, food. Attitudes put them into a frame of mind of liking or disliking an object, moving toward or away from it. Attitudes lead people to behave in a fairly consistent way toward similar object. People do not have to interpret and react to every object in a fresh way. Because attitudes economize on energy and thought, they are very difficult to change. A person's attitudes settle into a consistent pattern : To change a single attitude may require major adjustments in other attitudes

Thus a company would be well advised to fit its product into existing attitudes rather than to try to change people's attitudes. Of course, there are exceptions where the cost of trying to change attitudes might pay off.

Factors Affecting the Final Consumer's Decision Process

Demographic, social, and psychological factors affect the way final consumers make choices and can help a firm understand how people use the decision process. For example, an affluent consumer would move through the process more quickly than a middle income one due to less financial risk. An insecure consumer would spend more time making a decision than a secure one.

By knowing how these factors influence decisions, a firm can fine-tune its marketing strategies to cater to the target market and its purchase behavior, and answer these questions: Why do two or more people use the decision process in the same way? Why do two or more people use it differently?

Types of Decision Processes

Each time a person buys good or service, donates to a charity, and so on, he or she uses the decision process. This may be done subconsciously, with the person not aware of using it. Some situations let a person move through the process quickly and de-emphasize or skip steps; others require a thorough use of each step. A consumer may use extended, limited, or routine decision making—based on the search, level of experience, frequency of purchase, amount of perceived risk, and time pressure. (See Figure 5.3)

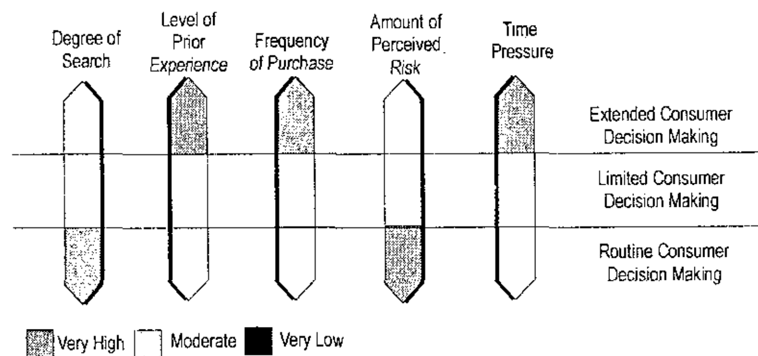


Figure 5.3: The Three Types of Final Consumer Decision Processes

Extended consumer decision making occurs when a person fully uses the decision process. Much effort is spent on information search and evaluation of alternatives for expensive, complex items with which a person has little or no experience. Purchases are made infrequently. Perceived risk is high, and the purchase is important. A person has time available to make a choice. Purchase delays often occur. Demographic, social, and psychological factors have their greatest impact. Extended decision making is often involved in picking a college, a house, a first car, or a location for a wedding.

Limited consumer decision making occurs when a person uses every step in the purchase process but does not spend a great deal of time on some of them. The person has previously bought a given good or service, but makes fresh decisions when it comes under current purchase consideration–due to the relative infrequency of purchase, the introduction of new models, or an interest in variety. Preceived risk is moderate and a person is willing to spend some time shopping. The thoroughness with which the process is used depends on the amount of prior experience, the importance of the purchase, and the time pressure facing the consumer. Emphasis is on evaluating a list of known choice, although an information search may be done. Factors affecting the decision process have some impact. A second car, clothing, gift, home furnishings, and an annual vacation typically need limited decision making.

Routine consumer decision making occurs when a person buys out of habit and skips steps in the process. He or she spends little time shopping and often rebuys the same brands (or those bought before). In this category are items with which a person has much experience. They are bought regularly, have little or no perceived risk, and are rather low in p[illegible]e. O[illegible] person realizes a good or service is depleted, a repurchase is made. Time pressure is high.

Information search, evaluation, and post-purchase behavior are normally omitted, as long as a person is satisfied. Impulse purchases, where consumers have not thought of particular items until seeing displays for them, are common. Factors affecting the process have little impact because problem awareness usually leads to a purchase. Examples of items routinely purchased are the daily paper, a haircut by a regular stylist, and weekly grocery items.

There are several differences between consumers in industrialized nations and those in less-developed and developing ones. In general, consumers in less-developed and developing countries.

Are exposed to fewer commercial and noncommercial cues.

Have access to less information.

Have fewer goods and services from which to choose.

Are more apt to buy a second choice if the first one is not available.

Have fewer places of purchase and may have to wait on long lines.

Are more apt to find that stores are out of stock.

Have less purchase experience for many kinds of good and services.

Are less educated and have lower incomes.

Are more apt to rebuy items with which they are only moderately satisfied (due to a lack of choices).

Table 5.4: High-Involvement View of Active Consumers Versus Low-Involvement View of Passive Consumers

Traditional High-Involvement View of Active Consumers	Newer Low-Involvement View of Passive Consumers
1. Consumers are information processors.	1. Consumers learn information at random.
2. Consumers are information seekers.	2. Consumers are information gatherers
3. Consumers are an active audience for ads and the effect of ads on them is *weak*.	3. Consumers are a passive audience for ads and the effect of ads on them is *strong*
4. Consumers evaluate brands before buying.	4. Consumers buy first. If they do evaluate brands, it is done after the purchase.
5. Consumers seek to maximize satisfaction. They compare brands to see which provide the most *benefits* and buy based on detailed comparisons.	5. Consumers seek an acceptable level of satisfaction. They choose the brand least apt to have *problems* and buy based on few factors. Familiarity is key.
6. Lifestyle characteristics are related to consumer behavior because the product is closely tied to a consumer's identity and belief system.	6. Lifestyle characteristics are not related to consumer behavior because the product is not closely tied to a consumer's identity and belief system.
7. Reference groups influence behavior because of the product's importance to group norms.	7. Reference groups have little effect on behavior because the product is unlikely to be related to group norms.

Because many consumers—in both industrialized nations and less-developed nations—want to reduce shopping time, the use of complex decision making, and risk, most purchases are made by routine or limited decision making. Consumers often employ low-involvement purchasing and/or brand loyalty.

Low-involvement purchasing occurs with unimportant products.

With ***low-involvement purchasing***, a consumer minimizes the time and effort expended in both making decisions about and shopping for those goods and services he or she views as unimportant. Included are "those situations where the consumer simply does not care and is not concerned about brands or choices and makes the decision in the most cognitively miserly manner possible. Most likely, low involvement is situation-based, and the degree of importance and involvement may vary with the individual and with the situation." In these situations, consumers feel little perceived risk, are passive about getting information, act fast, and may assess products after (rather than before) buying.

Firms can adapt to low-involvement purchasing by using repetitive ads to create awareness and familiarity, stressing the practical nature of goods and services, having informed salespeople, setting low prices, using attractive in-store displays, selling in all types of outlets, and offering coupons and free samples. Table 5.4. compares the traditional high-involvement view of consumer behavior with the newer low-involvement view.

Brand loyalty involves consistent repurchases and preferences for specific brands.

After a consumer tries one or more brands of a good or service, ***brand loyalty***—the consistent repurchase of and preference toward a particular brand—may take place. With it, a person can reduce time, thought, and risk whenever buying a given good or service. Brand loyalty can occur for simple items such as gasoline (due to low-involvement purchasing) and for complex items such as autos (to minimize the perceived risk of switching brands).

According to America's Research Group, at least 40 percent of U.S. adults say they are "very loyal" or "loyal" to brands in these categories: autos, bath soap, coffee, gasoline, hair products, insurance, major appliances, mayonnaise, soft drinks, and TVs. On the other hand, 30 percent or less are "very loyal" or "loyal" to jewellery, phone equipment, and sports equipment.

The Buying Decision Process

Marketers have to go beyond the various influences on buyers and develop an understanding of how consumers actually make their buying decisions. Specifically, marketers must identify who makes the buying decision, the types of buying decisions, and the steps in the buying process.

Buying Roles

It is easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment, and women choose their personal products. But even here marketers must be careful in making their targeting decisions, because buying roles change. ICI, the giant British chemical company, discovered to its surprise that women made 60 percent of the decisions on the brand of household paint; ICI therefore decided to advertise its DeLux brand to women.

We can distinguish five roles people might play in a buying decision :

- *Initiator:* A person who first suggests the idea of buying the product or service
- *Influencer:* A person whose view or advice influences the decision
- *Decider:* A person who decides on any component of a buying decision: whether to buy, what to buy, how to buy, or where to buy
- *Buyer:* The person who makes the actual purchase
- *User:* A person who consumes or uses the product or service

Buying Behavior

Consumer decision making varies with the type of buying decision. The decisions to buy toothpaste, a tennis racket, a personal computer, and a new car are all very different. Complex and expensive purchases are likely to involve more buyer deliberation and more participants. Assael distinguished four types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands (Table 5.5.)

Complex Buying Behavior

Complex buying behavior involves a three-step process. First, the buyer develops beliefs about the product. Second, he or she develops attitudes about the product. Third, he or she makes a thoughtful choice. Consumers engage in

complex buying behavior when they are highly involved in a purchase and aware of significant differences among brands. This is usually the case when the product is expensive, bought infrequently, risky, and highly self-expressive. Typically the consumer does not know much about the product category. For example, a person buying a personal computer may not know what attributes to look for. Many product features carry no meaning unless the buyer has done some research.

The marketer of a high-involvement product must understand consumer's information-gathering and evaluation behavior. The marketer needs to develop strategies that assist the buyer in learning about the product's attributes and their relative importance, and that call attention to the high standing of the company's brand on the more important attributes. The marketer needs to differentiate store sales personnel and the buyer's acquaintances to influence the final brand choice.

Dissonance-Reducing Buyer Behavior

Sometimes the consumer is highly involved in a purchase but sees little difference in brands. The high involvement is based on the fact that the purchase is expensive, in frequent, and risky. In this case, the buyer will shop around to learn what is available but will buy fairly quickly, perhaps responding primarily to a good price or to purchase convenience. For example, carpet buying is a high-involvement decision because carpeting is expensive and self-expressive, yet the buyer may consider most carpet brands in a given price range to be the same.

After the purchase, the consumer might experience dissonance that stems from noticing certain disquieting features or hearing favorable things about other brands. The consumer will be alert to information that supports his or her decision. In this example, the consumer first acted, then acquired new beliefs, then ended up with a set of attitudes. Marketing communications should supply beliefs and evaluations that help the consumer feel good about his or her brand choice.

Habitual Buying Behavior

Many products are bought under conditions of low involvement and the absence of significant brand differences. Consider salt. Consumers have little involvement in this product category. They go to the store and reach for the brand. If they keep reaching for the same brand, it is out of habit, not strong brand loyalty. There is good evidence that consumers have low involvement with most low-cost, frequently purchased products.

Table 5.5: Four Types of Buying Behavior

	High Involvement	Low Involvement
Significant Differences between Brands	Complex buying behavior	Variety-seeking buying behavior
Few Differences between Brands	Dissonance-reducing buying behavior	Habitual buying behavior

With these products, consumer behavior does not pass through the normal sequence of belief, attitude, and behavior. Consumers do not search extensively for information, evaluate characteristics, and make a decision on which brand to buy. Instead, they are passive recipients of information in television or print ads. Ad repetition creates *brand familiarity* rather than *brand conviction.* After purchase, they may not even evaluate the choice because they are not highly involved with the product. For low-involvement products, the buying process begins with brand beliefs formed by passive learning and is followed by purchase behavior, which may be followed by evaluation

Marketers of such products find it effective to use price sales promotion to stimulate product trial. Television advertising is more effective than print because it is a low-involvement medium that is suitable for passive learning.

Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to some involving issues as when Crest toothpaste is linked to avoiding cavities. Second, they can link the product to some involving personal situation—for instance, by advertising a coffee brand early in the

morning when the consumer wants to shake off sleepiness. Third, they might design advertising to trigger strong emotions related to personal values or ego defense Fourth, they might add an important feature (for example, fortifying a plain drink with vitamins). These strategies at best raise consumer involvement from a low to a moderate level; they do not propel the consumer into highly involved buying behavior.

Variety-Seeking Buying Behavior

Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about cookies. The consumer has some beliefs about cookies, chooses a brand of cookies without much evaluation, and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behavior by dominating the shelf space, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that presents reason for trying something new.

The Stages of the Buying Decision Process

Smart companies research the buying decision process involved in their product category. They ask consumers when they first became acquainted with the product category and brands, what their brand beliefs are, how involved they are with the product, how they make their brand choices, and how satisfied they are after purchase.

How can marketers learn about the stages in the buying process for their product. They can think about how they themselves would act *(introspective method)*. They can interview a small number of recent purchasers, asking them to recall the events leading to their purchase *(retrospective method)*. They can locate consumers who plan to buy the product and ask them to think out loud about going through the buying process *(prospective method)*. Or they can ask consumers to describe the ideal way to buy the product *(prescriptive method)*. Each method yields a picture of the steps in the consumer buying process.

Figure 5.4 shows a "stage model" of the typical buying process. The consumer passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. Clearly the buying process starts long before the actual purchase and has consequences long afterward.

The model in Figure 5.4 implies that consumers pass sequentially through all five stages in buying a product. But this is not the case: Consumers may skip or reverse some stages. A woman buying her regular brand of toothpaste goes directly from the need for toothpaste to the purchase decision, skipping information search and evaluation. However, we will use the model in Figure 5.4 because it captures the full range of considerations that arise when a consumer faces a highly involving new purchase.

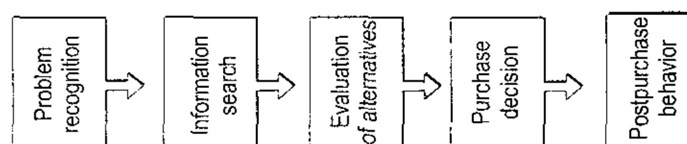


Figure 5.4: Five-Stage Model of the Consumer buying Process

Problem Recognition

The buying process starts when the buyer recognizes a problem or need. The need can be triggered by internal or external stimuli. In the former case, one of the persons's normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive. In the latter case, a need is aroused by an external stimulus. A person passes a bakery and sees freshly baked bread that stimulates her hunger; she admires a neighbour's new car; or she watches a television ad for a Malaysian vacation.

Marketers need to identify the circumstances that trigger a particular need. By gathering information from a number of consumers, marketers can identify the most frequent stimuli that spark an interest in a product category. They can then develop marketing strategies that trigger consumer interest.

Information Search

An aroused consumer will be inclined to search for more information. We can distinguish between two levels of arousal. The milder search state is called *heightened attention.* At this level a person simply becomes more receptive to information about a product.

At the next level, the person may enter *active information search:* looking for reading material, phoning friends, and visiting stores to learn about the product. Of key interest to the marketer are the major information sources to which the consumer will turn and the relative influence each will have on the subsequent purchase decision. Consumer information sources fall into four groups :

- *Personal sources:* Family, friends, neighbors, acquaintances
- *Commercial sources:* Advertising, salespersons, dealers, packaging, displays
- *Public sources:* Mass media, consumer-rating organizations
- *Experiential sources:* Handling, examining, using the product

The relative amount and influence of these information sources vary with the product category and the buyer's characteristics. Generally speaking, the consumer receives the most information about a product from commercial sources—that is, marketer-dominated sources. But the most effective information comes from personal sources. Each information source performs a different function in influencing the buying decision. Commercial information normally performs an informing function, and personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluative information.

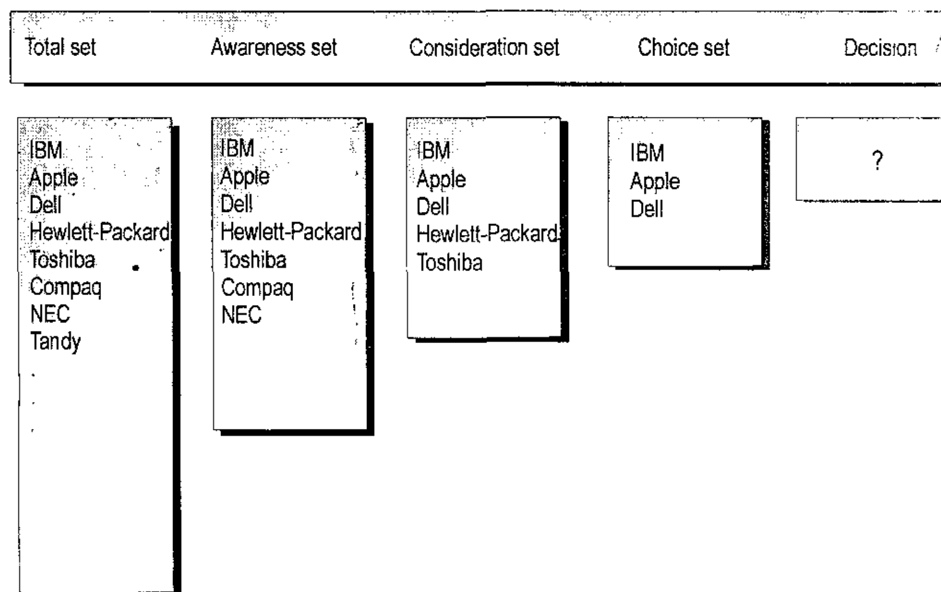


Figure 5.5: Successive Sets Involved in Consumer Decision Making

Through gathering information, the consumer learns about competing brands and their features. The first box in Figure 5.5 shows the total set of brands available to the consumer. The individual consumer will come to know only a subset of these brands *(awareness set).* Some brands will meet initial buying criteria *(consideration set).* As the person gathers more information, only a few will remain as strong contenders *(choice set).* The brands in the choice

set might all be acceptable. The person makes a final choice form this set.

Figure 5.5 makes it clear that a company must strategize to get its brand into the prospect's awareness set, consideration set, and choice set. The company must also identify the other brands in the consumer's choice set so that it can plan competitive appeals. In addition, the company should identify the consumer's information sources and evaluate their relative importance. Consumers should be asked how they first heard about the brand, what information came in later, and the relative importance of the different information sources. The answers will helps the company prepare effective communications for the target market.

Evaluation of Alternatives

How does the consumer process competitive brand information and make a final value judgment? There is no single evaluation process used by all consumers or by one consumer in all buying situations. There are several decision evaluation processes, the most current models of which see the process as cognitively oriented. That is, they see the consumer as forming judgments largely on a conscious and rational basis.

Some basic concepts will help us understand consumer evaluation processes: First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities of delivering the benefits sought to satisfy this need. The attributes of interest to buyers vary by product:

- Cameras: Picture sharpness, camera speeds, camera size, price
- Hotels: Location, cleanliness, atmosphere, price
- Mouthwash: Colour, effectiveness, germ-killing capacity, price, taste/flavor
- Tires: Safety, tread life, ride quality, price

Consumers vary as to which product attributes they see as most relevant and the importance they attach to each attribute. They will pay the most attention to attributes that deliver the sought benefits. The market for a product can often be segmented according to attributes that are salient to different consumer groups.

The consumer develops a set of *brand beliefs* about where each brand stands on each attribute. The set of beliefs about a brand make up the *brand image*. The consumer's brand image will vary with his or her experiences as filtered by the effects of selective perception, selective distortion, and selective retention.

The consumer arrives at attitudes (judgments, preferences) toward the various brands through an attribute evaluation procedure. Suppose that Linda Brown has narrowed her choice set to four computers (A, B, C, D). Assume that she is interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table shows her belief about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Linda would choose it. But her choice set consists of brands that vary in their appeal. If Linda wants the best memory capacity, she should buy A; if she wants the best graphics capability, she should buy B; and so on.

Table 5.6: A Consumer's Brand Beliefs about Computers

Computer	*Attribute*			
	Memory Capacity	*Graphics Capability*	*Size and eight*	*Price*
A	10	8	6	4
B	8	9	8	3
C	6	8	10	5
D	4	3	7	8

Note : Each attribute is rated from 0 to 10, where 10 represents the highest level on that attributed. Price, however, is indexed in a reverse manner, with a 10 representing the lowest price, because a consumer prefers a low price to high price.

Most buyers consider several attributes in their purchase decision. If we knew the weight that Linda Brown attaches to the four attributes, we could more reliably predict her computer choice. Suppose Linda assigned 40 percent of the importance to the computer's memory capacity, 30 percent to its graphics capability, 20 percent to its size and weight, and 10 percent to its price. To find Linda's perceived value for each computer, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the following perceived values:

Computer A = 0.4(10) + 0.3(8) + 0.2(6) + 0.1(4) = 8.0

Computer B = 0.4(8) + 0.3(9) + 0.2(8) + 0.1(3) = 7.8

Computer C = 0.4(6) + 0.3(8) + 0.2(10) + 0.1(5) = 7.3

Computer D = 0.4(4) + 0.3(3) + 0.2(7) + 0.1(8) = 4.7

We would predict that Linda will favor computer A, Which (at 8.0) has the highest perceived value.

Suppose most computer buyers form their preferences the same way. Knowing this, a computer manufacturer can do a number of things to influence buyer decisions. The marketer of computer C, for example, could apply the following strategies to stimulate greater interest in brand C:

- *Redesign the computer:* This technique is called *real repositioning.*
- *Alter beliefs about the brand:* Attempting to alter beliefs about the brand is called *psychological repositioning.*
- *Alter beliefs about competitors 'brands:* This strategy, called *competitive depositioning,* makes sense when buyers mistakenly believe a competitor's brand has more quality than it actually has.
- *Alter the importance weights:* The marketer could try to persuade buyers to attach more importance to the attributes in which the brand excels.
- *Call attention to neglected attributes:* The marketer could draw buyers' attention to neglected attributes, such as styling or processing speed.
- *Shift the buyer's ideals:* The marketer could try to persuade buyers to change their ideal levels for one or more attributes.

Purchase Decision

In the evaluation stage, the consumer forms prefernces among the brands in the choice set. The consumer may also form an intention to buy the most preferred brand. However, two factors can intervene the purchase intention and the purchase decision (Figure 5.6).

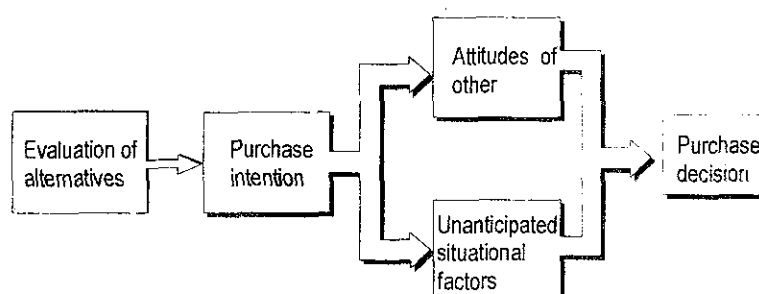


Figure 5.6: Steps Between Evaluation of Alternatives and a purchase Decision

The first factor is the *attitudes of others.* The extent to which another person's attitude reduces one's preferred alternative depends on two things: (1) the intensity of the other person's negative attitude toward the consumer's preferred alternative and (2) the consumer's motivation to comply with the other person's wishes. The more intense the other person's negatives and the close the other person is to the consumer, the more the consumer will adjust his

or her purchase intention. The converse is also true: A buyer's preference for a brand will increase if someone he or she respects favours the same brand strongly. The influences of other becomes complex when several people close to the buyer hold contradictory opinions and the buyer would like to please them all.

The second factor is *unanticipated situational* factors that may erupt to change the purchase intention. Jack Hamilton might lose his job, some other purchase might become more urgent, or a store salesperson may turn him off. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by *perceived risk*. The amount of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the amount of consumer self-confidence. Consumers develop routines for reducing risk, such as decision avoidance, information gathering from friends, and preference for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce the perceived risk.

In executing a purchase intention, the consumer may make up to five purchase subdecisions: *a brand decision* (brand A), *vendor decision* (dealer 2), *quantity decision* (one computer), *timing decision* (weekend), and *payment-method decision* (credit card). Purchases of everyday products involve fewer decisions and less deliberation. For example, in buying sugar, a consumer gives little thought to the vendor or payment method.

Postpurchase Behavior

After purchasing the product, the consumer will experience some level of satisfaction or dissatisfaction. The marketer's job does not end when the product is bought. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses.

Postpurchase Satisfaction

What determines whether the buyer will be highly satisfied, somewhat satisfied, or dissatisfied with a purchase? The buyer's satisfaction is a function of the closeness between the buyer's expectations and the product's perceived performance. If performance falls short of expectations, the customer is disappointed; if it meets expectations, the customer is satisfied; if it excess expectations, the customer is delighted. These feelings make a difference in whether the customer buys the product again and talks favourably or unfavorably about the product to others.

Consumers form their expectation on the basis of messages received from sellers, friends, and other information sources. The larger the gap between expectation and performance, the greater the consumers dissatisfaction. Here the consumer's coping style comes into play. Some consumer magnify the gap when the product is not perfect, and they are highly dissatisfied. Other consumers minimize the gap and are less dissatisfied.

The importance of postpurchase satisfaction suggests that product claims must truthfully represent the product's likely performance. Some sellers might even understate performance levels so that consumers experience higher-than-expected satisfaction with the product.

Postpurchase Actions

The consumer's satisfaction or dissatisfaction with product will influence subsequent behavior. If the consumer is satisfied, he or she will exhibit a higher probability of purchasing the product again. For example, data on automobile brand choice show a high correlation between being highly satisfied with the last brand bought and intention to rebuy the brand. One survey showed that 75 percent of Toyota buyers were highly satisfied and about 75 percent intended to buy a Toyota again; 35 percent of Chevrolet buyers were highly satisfied and about 35 percent intended to buy a Chevrolet again. The satisfied customer will also tend to say good things about the brand to others. Marketers say: "Our best advertisement is a satisfied customer."

Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaning to the company, going to a lawyer, or complaining to other groups (such

as business, private, or government agencies). Private actions include making a decision to stop buying the product *(exit option)* or warning friends *(voice option)*. In all these cases, the seller has done a poor job of satisfying the customer.

Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new computer owners congratulating them on having selected a fine computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can send owners a magazine containing articles describing new computer applications. In addition,. they can provide good channels for speedy redress of customer grievances.

Postpurchase Use and Disposal

Marketers should also monitor how buyers use and dispose of the product. If consumers store the product in a closet, the product is probably not very satisfying, and word-of-month will not be strong. if they sell or trade the product, new-product sales will be depressed. Consumers may also find new uses for the product:

> **Avon** For years Avon's customers have been spreading the word that Skin-So-Soft bath oil and moisturizer is a terrific insect repellent. Whereas some consumers simply bathed in water scented with the fragrant oil. others carried it in their backpacks to mosquito-infested campsites or kept a bottle on the deck of their beach houses. Now, after receiving approval by the Environmental Protection Agency, Avon is touting Skin-So-Soft Moisturizing Suncare Plus as a triple-action product, providing insect repellent and waterproof SPF 15 sunscreen as well as moisturizers.

If consumers throw the product away, the marketer needs to know how they dispose of it, especially if it can hurt the environment (as in the case with beverage containers and disposable diapers). Increased public awareness of recycling and ecological concerns as well as consumer complaints about having to throw away beautiful bottles led French perfume maker Rochas to think about introducing new refillable fragrance line.

Marketing Applications of the Final Consumer's Decision Process

Over the years, the final consumer's decision process has been studied and applied in many settings, as these illustrations indicate :

- When acquiring travel information for a leisure trip, 59 percent of all U.S. travelers consult friends and relatives. 47 percent, a travel agent; 42 percent, the Internet; and 16 percent, travel magazines. Those thinking about a cruise are much more likely to use a travel agent (81 percent), while those traveling internationally are more apt to use the Internet (55 percent) and read travel magazines (37 percent).
- From 1996 to 2000, U.S. consumers doubled the number of stores they visited on their weekly shopping trip: "In 2000, consumers shopped 2.9 outlets in a week, in 1998 2.4, and in 1996 1.4. However, they are not making more shopping is also driven by the level of shopping confidence and experience exhibited by female shoppers who willingly, eagerly, shop everywhere from bricks-and-mortar retailers to clicks-and-mortar retailers to catalogs, from kiosks, at sporting events, even from street vendors.
- Nearly a third of Chinese consumers are "enthusiastic shoppers," who enjoy shopping and like to price bargain. They prepare complete shopping lists before shopping, consult with friends and neighbors prior to making major purchases, and are often innovators and opinion leaders. About 15 percent of Chinese consumers are "passive shoppers," who consider shopping to be a necessary burden. They are casual shoppers, do not prepare detailed lists before shopping, and do not like price bargaining. They are conservative in their purchase of new products.

Supplement on Consumer Behavior
The Indian Consumer

In the preceding section, we made a detailed analysis of buyer behaviour theories. Though the broad generalisations

emanating from these theories apply to the Indian consumer also, to construct the specific buying profile of the Indian consumer, we have to study him in relation to his environment. We have to understand his culture and tradition, his educational and economic status, and his level of exposure and lifestyle. In the third chapters we examined the marketing environment of the country and the sea change taking place therein consequent to the economic reforms and liberalisation. It is against this background that we have to understand the Indian consumer.

A Broad Profile of the Indian Consumer

When we attempt to draw a profile of the Indian consumer, we tread on difficult territory. No comprehensive study of the Indian consumer has been undertaken so far. We have to rely on the fragmented studies that have been conducted by different agencies. With due recognition of this limitation, we shall attempt a broad profile of the Indian consumer, including his buying motives and habits.

India being very vast geographically, consumer here are naturally scattered over a vast territory. As the country is also marked by great diversity in climate, religion, language, literacy level, customs and tradition, lifestyles and economic status, here consumers present a complex and bizarre group. The heterogeneity holds many implications for a marketer, especially to those going in for national marketing. We shall go through certain basic data as a first step in our attempt at drawing a broad sketch of the Indian consumer.

Demographics

Size of population: According to the Census 2001, as of May 2001, the population of India stood at 1,027 million, of which 742 million lived in rural areas and 285 million in urban areas.

Literacy and education: According to the Census 2001, the nation's average literacy rate is 65.4 per cent. Exhibit shows the growth in literacy rate since 1951. It can be seen that literacy rate has been continuously going up and it has increased substantially in the last decade.

In the coming years, there will be a faster progress in checking illiteracy as the proportion of youngsters enrolled in schools is going up and more and more neo-literates are also emerging from among the adults, as a result of the National Literacy Programme. Over 21 per cent of all adults in the country, now read some publication or the other. In urban areas, the percentage is over 56. The government has targetted to achieve 80 per cent literacy on a nationwide basis in the next 10 years.

Exhibit : Growth in Literacy Rate

Year	*Literacy Rate%*	*Year*	*Literacy Rate%*
1951	18.3	1981	43.7
1961	28.3	1991	52.2
1971	34.4	2001	65.4

A vast educated manpower: It is a paradox; on the one hand, India has the highest concentration of illiterates in the world; and on the other, *it has the second highest concentration of literates and the third largest pool of educated* and technically trained manpower in the world. India has a strong pool of engineers, scientists and technically educated persons. In modern fields like information technology, India has been displaying its strength very clearly in recent years.

Diversity, the Hallmark

Indian consumers are not a homogeneous lot. They are marked by great diversity. It is this diversity that strikes us first when we look at Indian consumers—diversity in religion, language, culture, tradition, social customs, dress and food habits.

Religious diversity: The one billion plus people of India belong to seven different religious groups—Hindus, Muslims, Christians, Sikhs, Budhists, Jains and Zoroastrians. In addition, there are other persuasions and there are sects, sub-sects, castes and sub-castes. Each religion has its own hierarchic structure, concretised through centuries

of practices. Each caste has its own customs established over generations. In birth and death, in marriage and family life, the individual is entangled in the chores of his religion or caste. What is welcome for one religion is taboo for the other; and something totally banned in one religion is an accepted practice in another.

Linguistic diversity: The same diversity is seen in the matter of language. Sixteen languages have been specified in the Constitution of India as national languages. In addition, there are hundreds of dialects. In several places, many amalgams of languages have been formed as a result of shifting populations. To a marketing man who has to approach the entire national market of India, this linguistic diversity is a big challenge.

Diversity in dress and food habits: As far as dress is concerned, India holds out the picture of widely varying styles. Almost every state, or religious community, has its own traditional styles of dress. The same is the case with ornaments and jewellery. As regards food rice is the staple food in the South and wheat in the North. Of course, in several of the Southern states, people now consume wheat products as co-food items. Likewise, certain southern dishes have become popular in the North. Still, the basic difference in food habits remains. There are certain communities, which are strict vegetarians. For meat eaters, there are several restriction; for the Hindu, beef is taboo, for the Muslim, pork is taboo, for the Christian, both are delicious. Some use coconut oil as the cooking medium, some use groundnut oil, and some others, mustard or gingely oil.

Geographic Spread

We mentioned earlier that as of May 2001, the population of India stood at 1,027 million, with 742 million people living in rural areas and 285 million in urban areas. In terms of percentage, 73 per cent of the population is in rural areas and 27 per cent in urban areas.

There has been an increase of 2.1 per cent in the proportion of urban population during the decade 1991–2001.

Within the urban segment, there is a great concentration of consumers in the metros. The six cities, Kolkata, Mumbai, Delhi, Chennai, Bangalore and Hyderabad, are large by global standards. The second tire of cities, Ahmedabad, Kanpur, Pune, Nagpur, Lucknow and Jaipur, also has high consumer concentration. Large cities are concentrated in the South and West Zones. Only eight of the top '23 million-plus' cities are located in the North and East Zones. There are about 3,750 towns in India. Sixty-four per cent the urban population lives in 309 such towns. The rest are scattered across the remaining 3,400 odd towns. The rural consumers are spread over the five lakhs villages.

The Consumer Basket

We shall now devote some attention to the consumption pattern of the Indian consumer.

Studies by the Centre for Monitoring Indian Economy (CMIE) reveal that structural shifts have been taking place in the consumption pattern of Indian consumers in recent years and the shifts have gained greater momentum since the launch of economic reforms.

Favourable Shift in Consumption in Post-Liberalisation Years

According to CMIE, the consumption pattern of Indian households has undergone a significant change in the post-liberalisation years.

Given our low per capita consumption base, food and beverages continue to account for the larger part of the households' final consumption expenditure. But, what is significant is that its share has come down sharply in the late 1990s. The share of food in total private final consumption expenditure has declined from 50.37 per cent in 1993-94 to 45.68 per cent in 1998-99.

The change in consumption pattern, of course, has been a continuous process for the last three decades and the share of food in total final consumption expenditure has been declining steadily. It accounted for 54 per cent of the total expenditure in the seventies, about 51 per cent in the eighties and by 1998-99, it had come down to less than 46 per cent. Conventionally, the share of food in the households consumption basket always declines with the rise in income/standard of living.

The share of transport and communication in aggregate private final consumption has increased sharply from 11.26 per cent in 1993-94 to 14.51 per cent in 1998-99. It means that the Indian households have preferred to spend a major part of their new earnings on transport and communications, rather than on consumer softs and durables, as is generally expected. Another significant change of the nineties has been the increasing consciousness about medical care and health service. Its share of consumption has increased from 3.38 to 4.25 per cent in 1998-99. The share of consumption towards furniture and household appliances increased from 3.05 per cent in 1993-94 to 3.25 per cent in 1998-99.

In recent times, Indian families are also spending more and more on their childrens' education. In the five years between 1993-94 and 1998-99, the private final consumption expenditure on education has increased by over 50 per cent from Rs 10,092 crore to Rs 15,196 crore against a 31 per cent increased in total private consumption expenditure during the same period.

Exhibit shows the details of personal final consumption expenditure in 1998-99.

Changes in Lifestyle and Buying Habits

Currently, one is also witnessing significant changes in lifestyles and buying habits of Indian consumers. Convenience foods and ready-to-eat foods are now popular; modern gadgets like vacuum cleaners and cooking ranges have gained entry into house holds. W'th the nuclear family. ti ere is also a shift in the woman's attitude to cooking and the meals she serves. Teenagers ai e also becoming influencers of change in their family's meal patterns.

Exhibit: Personal Final Consumption Expenditure: 1998-99

Item	*Expenditure (constant prices) (Rs crore)*	*Share of different items in total (%)*	*Item*	*Expenditure (constant prices) (Rs crore)*	*Share of different items in total (%)*
Food	347319	45.68	Tobacco and its products	22397	2.94
Cereals and bread	77967		Hotels and restaurants	10029	1.32
Pulses	12959		Clothing and footwear	42012	5.53
Sugar and gur	25011		Gross rent, fuel and power	83346	10.96
Oils and oilseeds	29521		Furniture, appliances and repair services	25211	3.32
Fruit and vegetables	78494		Medical care and health services	32293	4.25
Potatoes and other tubers	7613		transport & communications	110362	14.51
Milk and milk products	64906		Recreation, education and cultural services	27921	3.67
Meat, egg and fish	27537		Misc. goods and services	53365	7.02
Coffee, tea and cocoa	5764				
Spices	12521				
Other food	5026				
Beverages, pan and intoxicants	6099	0.80			

The average Indian is now spending his money more liberally than ever before. Yesterday's luxuries are fast becoming today's necessities. Data from the NCAER National Survey of household expenditure on consumer durables and consumer softs pointedly suggests that conventional notions of what is a luxury good and what is an essential commodity are fast changing. The change has been stimulated to an extent by exposure to media, especially TV. The media gives him exposure to the lifestyles of the well-to-do, as well as the modern products that are used by them.

Classification of Indian Consumer based on Economic Status

We can have a clear understanding of the Indian consumers by classifying them suitably and analysing them category-wise. Classification of the Indian consumer based on economic status will obviously be the most useful one. A fourfold classification of the Indian consumer based on economic status, as shown below, emerges as a natural and ready categorisation.

- The affluent group
- The middle class
- The relatively poorer section
- The BPL section

The Affluent Group

Numerically, this group is small. It does not form a large enough demand base in itself for most products. Yet, it has a good deal of marketing significance. This is because firstly, it is a useful segment for luxury products. Secondly, in respect of other products too, super premium brands depend on it. That is why it is sometimes described as the 'image segment'.

Morgan Stanley in one of its study reports says that the pattern of income distribution India is such that the top 20 per cent of the population—about 180 million people—which roughly translates to the upper crest of the middle class, account for close to half of GDP. The report adds: 'At the pinnacle of the income heap, about 40 million people which roughly translates to the affluent class, plus the top end of the middle class, enjoy consumption aspirations and access to levels of healthcare and education comparable to those enjoyed in the OECD nations.'

NCAER has estimated the affluent population in India with an income of over Rs 10 lakh per annum to be in the range of one million households. It means that a target audience of 5.6 million individuals is available for products priced at the top-most end of the scale. That is certainly not a small segment.

This segment is looking out for 'something new' to buy; it is constantly upgrading to the styles set by the affluent in the West. Such individuals happily buy refrigerators worth Rs 1 lakh. They buy suiting material at Rs 72,000-a-metre. That is why Vimal and S Kumar's bring out suiting woven with strands of 22 carat gold, priced at this level. They buy Titan's Tanishq brand of jewellery watches priced at Rs 90,000 and machine-made jewellery watches priced at Rs 1 lakh per piece. They wear Ray Ban sunglasses, which cost Rs 2 lakh. They buy shoes priced Rs 7,000 a pair from Metro Shoes chain. They evince the willingness to spend, and do so conspicuously. Many foreign brands have managed to make inroads into the Indian market by concentrating on the segment.

The Middle Class

It is the middle class that constitutes the largest segment of consumer for manufactured goods in the country. It constitutes the real consuming populace. Accordingly, it has great marketing significance. Marketers must have a good grasp of the evolution of this class, its expansion in recent years and the growing buying potential of the class. We shall take up this class for detailed analysis.

The Relatively Poorer Section

The third category, viz., the relatively poorer sections, also account for a good-sized demand base for certain products. Though their purchasing power is very low, size is very large. NCEAR has found that over 75 percent of the purchase in categories like cooking oil, tea, detergent cake, bath soap, tooth powder, transistor radios and certain kinds of footwear, came from people with income levels below Rs 25,000 per annum. In recent years, this group is receiving the benefits of several social, educational and economic programmes. Over time, a good part of this group may advance economically and join the middle class. Already, at the aspirational level, a good part of this group is a part of the middle class.

The BPL Section

The 'below the poverty line' section is the fourth category. It is also large in size. It does not form part of the demand base for most branded consumer products. The category is, however, projected to shrink substantially in the coming years, meaning that a part of this section will advance and emerge as consumer for some branded consumer products.

The Middle Class Explosion

In the past few years, a virtual explosion has been taking place in the Indian middle class. In fact, the emergence and growth of this class has been the most significant development in the country's marketing scenario.

The middle class has emerged as the result of several socio-economic developments that took place [illegible] years. Thc industrial units that came up created a sizable chunk of well-to-do industrial workers, engineers and managers.

In the services sector, a sizable population of teachers, doctors and other supporting staff emerged. The continuous expansion of the government machinery at the Centre and the states swelled up the strength of government servants of different categories. The trader class also expanded considerably; and so did service providers of different types. While these developments were taking place largely in the urban areas, rural India was also undergoing a welcome change. While the landed gentry became a vanishing tribe, a large, well-to-do agricultural group emerged, which reaped the benefits of the green revolution, the land reforms and tax benefits. All these categories together created the Indian middle class. During the 1990s, with the economic reforms and the resultant developments on various fronts, the middle class received a new boost.

The size of the middle class is now placed at around 300 million. India's middle class thus exceeds the total population of the US. Also, the market potential represented by the class is almost on par with the total market potential of major European countries like the UK, France, or Germany. Any analysis of the Indian consumer has to necessarily pay maximum attention to this class.

We shall trace a few relevant facts relating to the structure and buying profile of this class.

The Consumption Community

The middle class is now emerging as the 'consumption community' of the country. As the members of the class are better educated and better exposed to global lifestyles, their aspirations have been constantly growing. Their spending is steadily on the increase. They often spend more than what they earn at any given point in time in order to cope with their new social image. Their expenditure on non-food items is continuously on the increase. Toiletries and cosmetics, including premium brands, have become common items of consumption for them. Instant coffee and soft drinks find a place on their daily menu. Costly fabrics, ready-mades, furniture, fans, stereo-music system, TV, refrigerators, electric mixers and grinders, pressure cookers and gas stove have become essential items for the class. Modern household appliances like washing machines, dishwashers and vacuum cleaners, are gaining a rapid entry into the homes of the upper segment of this class.

In addition to economic factors, socio-cultural and lifestyle factors have also contributed to the rapid shift in the middle class. The growth of urbanisation is the first among these factors. The breaking down of the joint family system and the rise of the nuclear family is the next. More and more women taking to employment is the third factor. Domestic help becoming scarce and costly is another. These and other similar factors acting in concert have brought about a new lifestyle among the middle class; it now requires several timesaving conveniences. The economic improvement and the lifestyle change from the employed wife, for example, has made it possible for the family to buy a variety of household appliances. In fact, the boom in household appliances that we see today has been caused jointly by the change in lifestyle and the increased affordability of the middle class. It can be seen that these appliances are mostly sold on planks such as 'save time', 'make your job easy', and 'enjoy a new recipe'. These planks go well with the lifestyle profile of the neo-middle class woman, whether she is a working woman or a non-working woman. She needs the time saving devices; she is also willing to take the suggestions of the advertisers to fry, grill or bake and bring the new, exotic recipe to the dining table.

Not Confined to the Big Cities

The middle class is not confined to the metros and other big cities. An analysis of penetration of select FMCGs and durables show that there is now respectable product penetration even in small towns. Actually, even in rural areas, penetration is reasonably good; sales in feeder towns reflect in part, the demand from the rural hinterland. An NCAER study reveals that rural households in the upper income categories are growing at a much faster pace than urban households in the corresponding categories. While the latter have been growing at 10-16 per cent per annum, the former have been growing at 20-30 per cent per annum.

Constructive Discontentment

The most interesting aspect about the middle class seems to be their constructive discontentment. Their needs seem

to be on the increase constantly and what we come across is almost a no-satiation situation. And it is this 'constructive discontentment' of this class that makes it the consumption community of the country and the main demand base for most product categories.

The Phenomenon of 'The Second'

The phenomenon of 'the second' is worth highlighting here. The top end of the middle class consumers are now aspiring for a second car, a second TV and a second refrigerator. This 'second' phenomenon is an indication of the Indian consumer's growing needs and his willingness to spend the required amount of money for meeting his new needs. *Onida Candy*, positioned as a bedroom TV, or the *Bajaj Sunny* selling as 'a bike for your wife', and Akai's free offer of a 14-inch TV along with every 29-inch model bought, are all programmed to satisfy this expanding need for 'the second' on the part of this segment.

Exhibit Indian Consumer Market—NCAER Study

- The 'consuming class' households with an annual income of Rs 45,000-2,15,000 at 1994–95 prices, which is normally considered as the middle class, now totals 53.4 million. About 27.5 million of these middle-income households are in urban areas and 25.9 million in rural areas.
- Granting an average 5.56 people per household, the size of the middle class consumers can be pegged at about 297 million.
- As a proportion of the population, the consuming class has doubled from 14 per cent of total households in 1989-90 to 30 per cent in 1998-99.
- This proportion will rise to 40 per cent by 2006-07, when there will be 80 million middle class households with 445 million people.
- The percentage of very poor households is shrinking. It has dropped by almost half in the past decade—from 25 per cent in 1989-90 to 13.2 per cent 1998-99. And, the figure is expected to fall further to 7.7 per cent, by 2006-07.
- 'The Destitute' (income range: Rs 16,000 per annum) and 'The Aspirants' (income range: Rs 16,000-22,000 per annum) will shrink significantly.
- In other words, the poorest class will roll back from more than 51 per cent of the total population to about 14 per cent by 2006-07.
- At the other end of the income spectrum, the very rich will account for 2.6 per cent of all households in 2006-07, up from 1.6 per cent in 1998-99 and 0.3 per cent in 1989-90.
- In terms of numbers, the affluent will jump from a mere 4 million in 1994-95 to 35 million by 2006-07.
- 'The consuming class' will grow the fastest.
- Economic liberalisation has had a positive impact on Indian households, pushing up their incomes and expenditures

Mirc Electronics Ltd, makers of Onida TV, traces the origins of the dual-ownership trend in CTVs: 'The TV programmes are designed to appeal to different members of the family. That's fuelling the need for more than one TV. Onida was the first company to recognise the trend, and we positioned the 14-inch TV as a second TV in the mid 1990s.' Mirc's studies show that around 9 per cent of the TV market in the country is made up of second-set buyers.

Studies by NCAER reveal the same trend. To quote from the *Indian Market Demographics Report* (1998), published by NCAER, ' One can already observe the trend of multiple ownership of automobiles, credit cards and TVs ... It shows that from a savings-oriented society we've evolved into a spending-oriented one.... '

Voting for credit purchase: Though India has not yet become a totally credit-oriented society like the West. consumer credit is gaining ground. The middle class is in the vanguard in this regard. Compulsions on the social and economic fronts are driving him towards consumer credit. Basically, he lives on a fixed income and manages within a rigid budget. But he stays in a fairly decent house, hired or owned. He has some furniture. His wife selects reasonably good furnishings and uses modern cooking gadgets. He has his personal transport. His children study in good schools. How does this happen? He obviously manages such a lifestyle through credit facilities made available

to him by different agencies. Today, practically anything—from sewing machines to personal computers—is available to him on instalment payments. The very availability of credit facility acts as a temptation to buy. And his present value system approves purchases on credit. His desire to possess more and more material comforts is realised through credit. It is estimated that 50 to 60 per cent of most durables are bought with credit facility. The middle class is pledging future income for current consumption.

In fact, the middle class is the target of all consumer credit facilities extended by manufactures, marketing firms, banks, and other financing agencies in the country. Even the credit cards system in the country depends heavily in middle class numbers. In credit cards, India is expected to soon become the second largest in the world, next only to the US.

Exhibit: The New Middle Class

- The most striking feature of contemporary India is the rise of a confident new middle class. It is full of energy and drive, and it is making things happen.
- The middle class is at the centre of the socio-economic upheaval now taking place in India.
- India is passing from an inward-looking, predominantly rural society to an increasingly integrated and important player in the world economy; opportunities are opening up to the middle class as never before. Whether in the up to the middle class as never before. Whether in the workplace or in their personal lives, the young have more chance to shape their future than their parents ever had.
- Indian entrepreneurs from the middle class are seizing key slots in the global information and media industries.
- They demonstrate that there is a way up from the bottom to the top—a message that has been the driving force behind the dynamism of the US and which could have the same impact here.
- The middle class is by far the fastest growing segment of Indian society.
- The new middle class is street smart and focused on increasing their income. It is non-ideological, pragmatic and result oriented. It is here to stay.

NCAER Study on the Indian Consumer Market

As mentioned earlier, the economic reforms and liberalisation of the 1990s has given a boost to the growth of the middle class.

A recent study by the NCAER on the 'Indian Consumer Market' provides some useful insights on the Indian class consumer. Exhibit shows some of the findings of the study.

Gurcharan Das, the noted marketing expert in his book *India Unbound* elaborates on the new middle class buoyancy, from a marketing man's perspective. Exhibit presents some of the observations made by Das.

In the Grip of Big Change

On the whole, the Indian consumer is in the grip of big change. Our understanding of the Indian consumer is getting outdated fast. This is because the country and its environment have become more complex in recent times. They are also currently going through a major change phase. In the chapters three dealing with India under economic reforms, we have seen the various dimensions of this complexity and change. Quite naturally, the various segments of society are affected by these changes. Already, Indian society, especially the middle class, was in the threshold of a chan ; the new trend towards globalisation, is taking India further on the path of change. The well-off segments are bec ning more cosmopolitan in work-culture, food habits, entertainment and lifestyle in general. A fusion of the East and the West is taking place. In fact one can say that some kind of an internationalisation of the Indian upper middle class society is on.

The Main Segments within the Middle Class

We can ge more meaningful profile of the middle class consumer if we analyse the class segment-wise. The nportant ments are

- The m le class male

- The middle class woman
- The middle class teenager

The Middle Class Male

Basically a security seeking class: The Indian middle class has all along been a security seeking class. The average member wants job, economic security and social security. He wants emotional security as well. He will not normally do something that is likely to upset his emotional ties. The security consciousness makes him a cautious buyer. His desire is to preserve, not to break off; to consolidate, not to blindly explore; he may try, buy he may not risk heavily.

Exhibit: Changing Profile of Indian Middle Class Male: Enterprise Nexus/ ORG-MARG Study

- This relentless pursuit of material happiness has virtually transformed him into a 'money-making machine'
- The mantra is acquisition—of white goods, status symbols, anything that announces that they have 'arrived' And the onus of satisfying the family's demands falls on the man.
- There is not much peace at the workplace either, given the demanding employers and the competitive environment.
- The collapse of the traditional social structure and the emergence of nuclear families has thrust him into a relatively new role the head of his own family unit; it has also made him insecure and lonesome.
- There is also the emergence of a more aware, independent and assertive wife; she demands an equal say in major decisions. While he welcomes her increased role, he is acutely conscious of the resultant loss of power.
- Despite everything, the Indian man's first priority continues to be his immediate family.
- He seeks recognition in society not only through his personal and professional achievements, but also through showcasing his family.
- Younger men from the same group are different in the way they handle the social changes in front of them. They feel a greater need to keep up with changing times, they are more forward-looking and also optimistic.

A blend of the traditional and the non-traditional: The older concept of simple living and contentment no longer has large subscribers from this group. The class has been moving towards more material comforts. It has already been led into a new lifestyle—a fusion between the traditional and the modern, between the East and the West. In contrast to the 'spend-for-others, not for yourself' philosophy of the older generation of this class, the modern generation happily lavishes things on itself. Earlier, family need-based purchases were the norm, but today one's own desire-based purchase is catching up. These trends are more visible among the younger members of the group.

Middle class men prefer ready-mades today : The change in the dress habit of the average middle class male is one good example of the new trend. He is fast shifting from neighbourhood tailor-stitched garments to ready-mades, with emphasis on branded and designer ones. The market for ready-made garments is growing at the rate of 25 per cent. More than 50 well-known menswear brands (Indian and MNCs) are now competing in the market. Arvind Mills, a major player, has recently set up two plants near Bangalore, each with an annual capacity of one million shirts.

Travel on the increase: Mobility is also high now; travel by road, rail or air, is on the increase. In fact, holidaying is now becoming very popular. Earlier, holidaying meant visiting ones' parents and relatives, and the traditional home or places of worship. Now, it is sightseeing; people travel to unknown parts of the country for enjoyment and relaxation from work.

Prestige conscious : The middle class consumer acquires many of his possessions, because he is a 'status conscious' or 'prestige-conscious' man. He is very particular to maintain a standard of living befitting his sense of

prestige. His finances may be tight and he may even struggle to make ends meet, still, he plans for more possessions. They are his status symbols. Marketers can motivate him by appealing to his sense of prestige.

Strong Family ties : The middle class man is still basically a home-loving man with strong family ties. He assigns a lot of importance to the well being of his family. The 'family tie' binds him so strongly that anything that appeals to this 'human bond' will get a positive response from him. This characteristic remains intact with the middle class, despite the considerable deflating of tradition. The needs of his family, particularly children, get priority in his budget. And, without much resistance, he adjusts to the changing fashions of his college-going children, though these changes are expensive for him. He often spends a good portion of his income on the education of his children. A son's education/career and daughter's marriage are life-long dreams and anything that appeals to them will capture his attention and serious consideration.

He is not the sole decision maker in purchases : Another important dimension is that the middle class male is not the sole decision-maker in purchases for the family. He is influenced in his buying decisions by his family, especially his wife. Whether it is car or TV, toothpaste, or hair oil, magazines or music, the wife plays a role in the purchasing decisions.

Enterprise Nexus study : Enterprise Nexus commissioned the market research agency, ORG-MARG to conduct a study on the changing face of the Indian male. Exhibit on page 177 presents some of the findings of the study.

The Middle Class Woman

Now, let us turn to the middle class woman. The woman is a crucial part of the middle class home. In recent times, the profile and role of the middle class woman has been undergoing significant changes. Today, she is educated, and in many cases employed. The percentage of working women has actually been growing at a steady pace; it is now 7 per cent in the North; 12 per cent in the East, 16 per cent in the West and 20 per cent in the South. Their newfound purchasing power has fuelled the demand for product categories like cosmetics, toiletries, packaged foods, and beverages. Cosmetics, for instance, grew substantially during the 1990s. Even product categories like expensive durables, two-wheelers, and holiday packages are of great appeal to them.

Today, particularly in the urban parts, the middle class woman is an active partner in the family. She is no longer confined to the four walls of the kitchen. She has acquired a place in society by virtue of her education and employment. She is a major factor in all purchase decisions of the family; in fact, in respect of a majority of purchases, she is practically the sole decision-maker and in the rest a powerful influencer. She is actually the family's purchasing agent for most products; she is the cashier and budgeter; she is also the image-builder. For several products, she is the 'gate-keeper'; a new cooking medium or a fast-food item cannot find an entry into the house without her clearance and consent. Purchases meant for children too are mostly decided by her. In buying home interior accessories and household appliances, she is often the sole decision maker.

Cautious, but not averse to change : The middle class woman is generally a cautious buyer. But she is not averse to change. Her education and social background makes her a discriminating buyer. Whether cosmetics or appliances, food items or dress materials, she is willing to try new things. But she does not adopt any product instantly. She may do a sample purchase; she may check with somebody who has known the product for quite sometime; she may listen more to advertisements about the product; she will adopt them only if she is fully satisfied.

Quality-conscious as well as cost-conscious : The middle class woman is a qualityconscious as well as a cost-

conscious buyer. She often cross-checks the price details with other stores; she bargains she compares one brand with another on price as well as quality. She has a tight family budget to follow and within this budget, she develops her own preferences—whether it is baby food, cooking medium, tea or coffee, cosmetics or ready-made garments. She usually tries to get the maximum 'mileage' out of every rupee that she spends. Sales promotional incentives like freebies, bonuses, prize coupons, and rebates definitely attract her. Features like re-usable containers also influence her purchase decision. She also relies heavily on word-of-mouth communication. She finds out what product/brand her neighbour or friend is using. She will try to get direct information from an existing 'user' about the qualities and performance of the product. When the investment is substantial, the 'information seeking' is on a larger scale.

Exhibit: The New Age Indian Woman—McCann Erickson Study

The Indian woman's traditional life roles encompassed :

- The dutiful daughter
- The homely bahu
- The adjusting wife
- The sacrificing mother
- The dominating mother-in-law
- The unworldly window

The yearnings of the new age Indian woman are :

- Need for personal achievement and achievement as parent
- Need for recognition
- Yearning for romance
- Need for personal leisure
- Need for emotional support
- Need to reconcile personal ambition with traditional roles

Leisure seeking : The middle class woman also seeks leisure. Time-saving household appliances hold out great charm for her. She readily opts for gadgets like electric grinders and mixers, washing machines, dish washers, pressure cookers, microwave ovens and vacuum cleaners, as they reduce her workload and save her time to great extent. It is not as though she can afford all modern devices available. But they evoke a keen interest in her because of their potential for saving time and avoiding drudgery.

Today, more and more households in India, especially in the urban and semi-urban areas, are giving up the laborious practice of preparing several traditional food items; they are instead turning to the shop round the corner. The shift applies to a variety of items—bread, biscuits, butter, papads, pickles and potato chips. In addition, these household have started using a wide range of processed foods, which were till recently not a part of their purchases. It is the middle class urban woman who has made this change possible by opening the gates of her house.

Aware of new development : The middle class woman possesses a good awareness of the changes taking place in her environment. Her growing education level and the growth in media has contributed to this development. TV and magazines, especially women's magazines, carry a lot of information targeted at her. They carry information on

social, personal and family issues, and messages on a variety of products and services. Since manufacturers need her patronage, they communicate with her through every possible media.

Good sense of grooming : Sense of beauty is a strong motive force behind several of her purchases. That is why many marketing communications appeal to this motive. Soap or shampoo, face cream or moisturiser, perfumes or hair oil, in selecting her brand, she is greatly influenced by the messages that appeal to her sense of grooming. She is generally fashion loving, but seldom fashion-crazy. A current of 'tradition' still runs through her personality. The combination of the new and the old is an important aspect of her lifestyle.

The younger generation in this group is fast becoming more 'international' in its views, ideas and lifestyle. Women in their twenties/thirties are more tuned in to international style. To quote Ogilvy & Mather Advertising, 'Global influences are affecting them more intensely. Whether it's apparel, accessories, cosmetics or shoes, they opt for what is most modern. Dressing has become bolder, more western and varied. The tremendous media exposure has taken her close to the fashion trends internationally. The time lag for trends to percolate to India from the major fashion centres like Paris and London has decreased tremendously.'

New self-concept, new yearnings : A survey by Pulse, the consumer insight cell of McCann Erickson, provides some interesting ansights on the new age urban Indian woman. Pulse calls it a cultural mapping of the urban Indian woman. The study used focus groups across Delhi, Mumbai, Kolkata and Chennai. The focus groups covered women from the socio-economic classification groups (SECs) A&B and woman professionals from SECA 1 in the age group 25 to 35. The study shows that there is a profound change in the way the Indian woman sees herself today—there is an enhancement of self-esteem and confidence. It is true that she still continues to play and accept her traditionally determined life roles. But, she is exercising a greater control over her own life, which incidentally results in a changed power equation within the family. Exhibit on page 179 shows the findings.

The Middle Class Teenager

The teenagers form another distinct and sizable segment within the middle class. Currently, there are more than 150 million 13 to 19-year olds in India. An IRS study shows that 28 to 32 per cent of the every day-mainstream-products are consumed by this group.

They are certainly more modern and adventurous than their elders. In them, we see the blend of the Western and Indian lifestyles. They care less for 'religion and tradition'. They value material comforts and physical wellbeing more; they seek novelties and they are after a 'New Look'; 'variety' interests them; and most of them are quick in adopting 'fashions'. They are more receptive to change than their elders. Their tastes and preferences can be influenced relatively more easily. It is, of course, not easy to dupe them, but it is easy to motivate them. Many manufacturers are now compelled to make distinct offers to suit the teenager target. The 'teenge market' is of special importance to certain product categories like garments, cosmetics, personal care products, fast foods and soft drinks.

The Immense Potential of the Middle Class Market

The profile of the Indian middle class consumers reveals one vital point—they account for a lion's share of the demand base in the country in respect of most branded consumer products. Their needs are on the increase, as is their disposable income. Marketers of most products and services will be targeting this class. They have to naturally study the class in depth and properly assess the buying motives and buying behavior or each segment in the class.

Only then, will they be able to develop marketing strategies that will click. And by concentrating on this class, or for that matter a few select segments of the class depending on the product, they can tap the largest chunk of the demand in the country.

Geographical and Economic Mobility of the Indian Consumer

Any analysis of the Indian consumer at the present juncture should take into account one more aspect—the mobility phenomenon. Present-day India is characterised by a brisk mobility of a sizable segment of the total consumer population. In fact, two types of mobility characterise today's consumer—(*i*) geographical mobility and (*ii*) economic mobility.

The geographical mobility of consumers is taking place in a variety of ways : mobility of people from rural areas into the nearby urban areas; mobility of people from all parts of the country to the metros; mobility of people from state to state; cross-country mobility. Equally intense is the economic mobility. A large number of people are rapidly moving upward in income levels. We have referred to this in the section on the growth of Indian middle class. In fact, the two forms of mobility are interrelated in many cases.

Marketing and consumer behavior studies tell us that the consumer profile of a given group of people will not be static when people are mobile. With mobility, the consumer profile keeps changing and so do the markets. And markets that were relatively more homogeneous earlier tend to get segmented sharply.

Chapter 6

Product Concept and Decisions

Product is a key element in the *market offering*. Marketing-mix planning begins with formulating an offering to meet target customer's needs or wants. The customer will judge the offering by three basic elements : product features and quality, services mix and quality, and price appropriateness (Figure 6.1.) All three elements must be meshed into a competitively attractive offering.

The Product And the Product Mix

- A ***product*** is anything that can be offered to a market to satisfy a want or need.

Products that are marketed include *physical goods, services, experiences, events, persons, places, properties, organizations, informations* and *ideas*.

Product Levels

In planning its market offering, the marketer needs to think through five levels of the product (Figure 6.2.). Each level adds more customer value, and the five constitute a *customer value hierarchy*. The most fundamental level is the *core benefit* : the fundamental service or benefit that the customer is really buying. A hotel guest is buying "rest and sleep." The purchaser of a drill is buying "holes". Marketers must see themselves as benefit providers.

At the second level, the marketer has to turn the core benefit into a *basic product*. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.

Figure 6.1: Components of the Market Offering

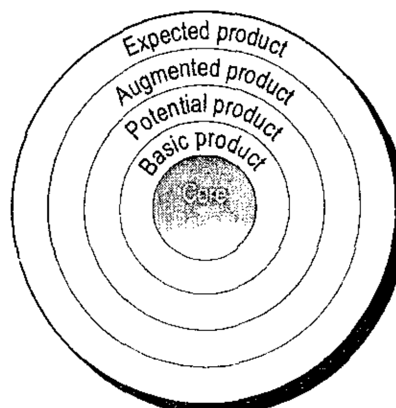


Figure 6.2: Five Product Levels

At the third level, the marketer prepares an *expected product*, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quiet. Because most hotels can meet this minimum expectation, the traveler normally will settle for whichever hotel is most convenient or least expensive.

At the fourth level, the marketer prepares an *augmented product* that exceeds customer expectations. A hotel can include a remote-control television set, fresh flowers, rapid check-in, express checkout and fine dining and room service. Elmer Wheeler once observed, "Don't sell the steak—sell the sizzle."

Today's competition essentially takes place at the product-augmentation level. (In less developed countries, competition takes place mostly at the expected product level.) Product augmentation leads the marketer to

look at the user's total *consumption system* : the way the user performs the tasks of getting, using, fixing and disposing of the product. According to Levitt :

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

Some things should be noted about product-augmentation strategy. First, each augmentation adds cost. The marketer has to ask whether customers will pay enough to cover the extra cost. Second, augmented benefits soon become expected benefits. Today's hotel guests expect a remote-control television set and other amenities. This means that competitors will have to search for still other features and benefits. Third, as companies raise the price of their augmented product, some competitors can offer a "stripped-down" version at a much lower price. Thus alongside the growth of fine hotels like Four Seasons and Ritz Carlton we see the emergence of lower-cost hotels and motels (Motel Six, Comfort Inn) catering to clients who simply want the basic product.

At the fifth levels stands the *potential product*, which encompasses all the possible agmentations and transformations the product might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offer. All-suite hotels where the guest occupies a set of rooms represent an innovative transformation of the traditional hotel product.

Successful companies add benefits to their offering that not only *satisfy* customers but also surprise and *delight* them. Delighting is a matter of exceeding expectations. Thus the hotel guest finds candy on the pillow or a bowl of fruit or a video recorder with optional videotapes. Ritz-Carlton hotels, for example, remember individual guests' preferences and prepare rooms with these preferences in mind.

Product Offer Can Range from the Generic to the Potential

At the beginning of this chapter, we made a simple definition of product as a 'need satisfying entity'. Now, after analysing the various components that actually build up the product, we have a better idea of what a product means. A product has a personality consisting of several components—the basic material, its associated features, the brand name, the package and the labelling, the price range, the positioning, speciality of the sale outlets, the quality of promotion and the corporate image and prestige. A product that is finally offered in the market is a combination of all these elements.

In fact, the crucial task in product management lies in working out the best possible alignment among the myriad factors mentioned above. The marketing man is constantly at it, always engaged in enriching his product offer. In his attempt to satisfy the customer and score over competition, he brings out refinement upon refinement on his basic product offer, and takes the product to higher levels of evolution. Theodore Levitt explains this idea beautifully in his HBR article : 'Marketing Success Through Differentiation of Anything'. According to Levitt, a product offer can be conceived at four levels : the generic product, the expected product, the augmented product and the potential product. To make this evolution easier to understand, we go by a six-level approach, as shown in Chart 6.1

Chart 6.1: Product Offer can Range from the Generic to the Potential

- The generic product
- The branded product
- The differentiated product
- The customised product
- The augmented product
- The potential product

The Generic Product

The generic product is the unbranded and undifferentiated commodity like rice, bread, flour, or cloth. Here, the product does not have an identity through a name and is not linked to any one maker or owner.

The Branded Product

The branded product gets an identity through a 'name', *Lalkila* basmati rice, *Modern* bread, and *Annapurna* atta are branded products.

The Differentiated Product

The differentiated product enjoys further distinction from other similar products/brands in the market. The marketer endows his brand with some special attributes/qualities and claims uniqueness for his offer. The differentiation claimed may be 'tangible', with a distinction on ingredient, quality, utility or service. It may also be intangible or 'psychological', highlighted by subtle sales appeals.

Maggi noodles, and *Dettol* soap are examples of differentiated products with tangible differentiation. *Maggi* claims a tangible distinction over other brands of noodles. It is ready in two minutes and involves very little cooking. It is available with different 'taste makers' for the vegetarian and the non-vegetarian users. The differentiation is tangible and rests on the planks of convenience and variety. Among bath soaps, *Dettol* is differentiated on the basis of its ability to provide total protection from germs.

The scope for differentiation is immense; and to win over cutomers, firms seek higher levels of differentiation through customising and augmenting of the product.

The Customised Product

A product that is adapted to the requirements of the individual customer is a customised product. Today, many products coming from the IT and telecom industries have large degree of customisation built into them. For example, the telephone 'knows' which language a given user would like to use while calling a long-distance operator. It will also allow him to create a distinctive ring so that his best friend knows that he is calling. And, it can also recognise his most frequently called numbers, not just by number, but by name as well.

The Augmented Product

The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product. The firm goes beyond all expectations of the consumers. It finds out through market research how the value of its product can be enhanced. Using the insights so gathered, the firm augments the product by adding extra features and functions to it.

Examples of augmented products : Titan, added protective packing to its alarm clocks and claimed, 'Here is a travel clock with a protective shutter. Available in 3 dial options and 4 elegant colours.' Aristocrat introduced suitcases with wheels. The wheel was an extra facility, an augmentation to the luggage. Instead of lifting and carrying the suitcase, the users could now pull it on its wheels. Hindustan Motors augmented its Ambassador car and offered the Ambassador 1800 ISZ, incorporating into the car, the 1817 cc,,74 HP, Isuzu engine, 5 synchromeshed gears with an overdrive, power-assisted brakes, progressive suspension, diaphragm clutch, a new dashboard and bucket seats. The augmentations translated into faster pick-up, greater speed, sure stopping and greater comfort.

Companies resorting to the product development route in their marketing strategy are basically in the game of continuous augmentation of products.

The Potential Product

The potential product is 'tomorrow's product', carrying all the improvement and finesse that is possible under the given technological, economic and competitive conditions. For example, today, a *robot* available for domestic help can be considered a potential product. In actual practice, development of potential products is the forte of big companies, since heavy resources are required for this task.

PRODUCT HIERARCHY

Each product is related to certain other products. The product hierarchy stretches from basic needs to particular

items that satisfy those needs. We can identify seven levels of the product hierarchy (here for life insurance).

1. *Need family* : The core need that underlies the existence of a product family. **Example :** security
2. *Product family* : All the product classes that can satisfy a core need with reasonable effectiveness **Example :** savings and income.
3. *Product class* : A group of products within the product family recognized as having a certain functional coherence. **Example :** financial instruments.
4. *Product line* : A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same channels, or fall within given price ranges. **Example :** life insurance.
5. *Product type :* A group of items within a product line that share one of several possible forms of the product. **Example :** term life.
6. *Brand* : The name, associated with one or more items in the product line, that is used to identify the source or character of the item(s). **Example :** Prudential.
7. *Item* (also called *stockkeeping unit or product variant*) : A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute. **Example :** Prudential renewable term life insurance.

Two other terms are frequently used with respect to the product hierarchy. a *product system* is a group of diverse but related items that function in a compatible manner. The Nikon Company sells a basic 35 mm camera along with an extensive set of lenses, filters and other options that constitute a product system. A *product mix* (or product assortment) is the set of all products and items that a particular seller offers for sale to buyers.

Classifying Consumer Products

Many factors influence a buyer's decision-making process. One of the stronger is the product itself, because the product includes so many physical, psychological and purchase-behavior dimensions. For this reason, marketing managers have developed some widely accepted product classifications that describe both product and, more importantly, buyers' perception of them. We will discuss consumer products here and then consider organizational products in the next section.

Furniture, appliances, groceries, hardware—a seemingly infinite number of categories of consumer products can be identified. The great number and diverse nature of products offered for sale make consumer product classification a complex task. Products may be classified on the basis of many criteria. We will discuss two widely accepted systems: classification by tangibility and durability and classification by consumers' buying behavior. (Figure 6.3).

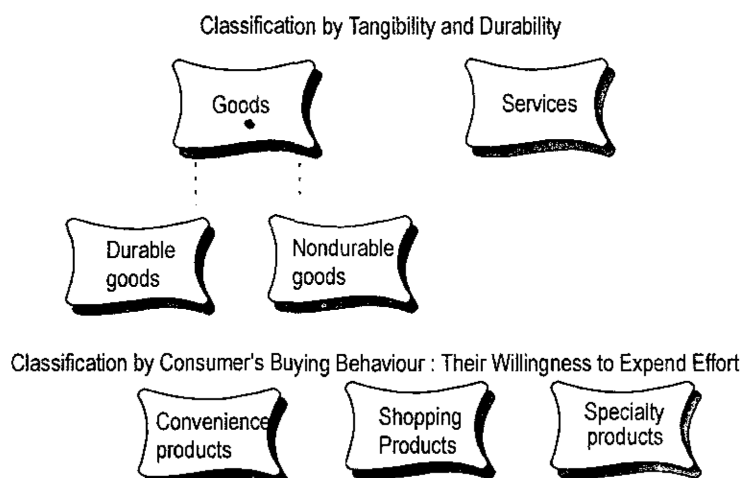


Figure 6.3: Widely Accepted Classifications for Consumer Products

Tangibility and Durability

Service : *A task or activity performed for a buyer or an intangible that cannot be handled or examined before purchase.*

Durable good : *A physical, tangible item that can be used over an extended period.*

Products may be classified according to tangibility and durability—whether they are goods or services and, if goods, whether they are durable or nondurable. Goods have a tangible, physical form, whereas **services** are tasks, activities, or other intangibles. **Durable goods** function over an extended period. Consumers use durable goods, such as automobiles and refrigerators, many times.

Nondurable good : *A physical, tangible item that is quickly consumed, worn out, of outdated.*

Nondurable goods—which are quickly consumed, worn out, or outdated—are consumed in a single use or a few uses. Chewing gum, paper napkins, and soft drink are examples of nondurable goods.

The distinction between goods and services is meaningful, but remember that services, like the physical, tangible items we call goods, should be referred to as *products*. This is especially important now because the service industry accounts for more than half of personal consumption expenditures. If government is included as a service, the proportion of personal consumption accounted for by services is even greater.

For now, however, if you think about a restaurant's product, you will realize that it is difficult to separate goods from service entirely. This reality has led some marketing experts to array products along a continuum from pure good to pure service. A cooking range is obviously a tangible good; an employment agency clearly provides a service. But a restaurant provides both a good (the food it prepares) and a service (the cooking and serving of the food, as well as convenience, atmosphere, and other aspects of its total product offering). Thus, you will find a restaurant in the middle of the goods—services scale in (Figure 6.4).

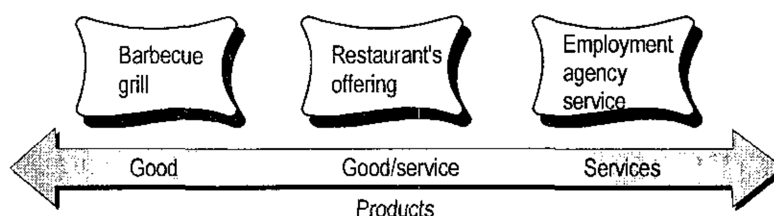


Figure 6.4: Goods-Services Continuum

Consumer Behavior

One of the first product classification systems to be developed is the most widely recognized and the most useful for answering questions regarding marketing mix decisions. This is the consumer product classification scheme developed by Melvin T. Copeland in 1924. Copeland suggested three general classification of consumer products : convenience, shopping and specialty.

Three important points should be made about Copeland's scheme. First, the plan applies to consumer products, not organizational products. Second, and most significant, the classes are primarily based not on the products themselves but on consumers' reasons for buying, their need for information, and their shopping and purchase behaviors. The reason Copeland's plan has remained popular for so long is that it is consumer-oriented. Third, the classifications are somewhat generalized; they are based on a "typical" consumer's reasons for buying. The categories are less useful when applied to specific shoppers, especially very poor or very rich ones.

Convenience product : *A relatively inexpensive, regularly purchased consumer product bought without much thought and with a minimum of shopping effort.*

Convenience Products : The first of Copeland's categories is **convenience products.** Cello disposable ball-point pens are convenience goods; so are shoelaces. In most cases, so is gasoline. What do these items have in

common ? They are relatively inexpensive; they are purchased regularly and repeatedly; and they are bought almost reflexively, without a great deal of thought. In fact, they are bought with a minimum of consumer shopping effort. Buyers of a particular gasoline brand may be loyal, but their loyalty is not very deep. If they are running low on gas, most drivers will settle for a brand similar to their regular brand rather than drive a few extra miles to get their preferred brand. In short, consumers want to buy products such as these at the most convenient locations. How far out of your way would you go to buy, say, a quart of a particular brand of milk ? The answer to such a question provides a guide to determining whether any given product is a convenience product.

Because shoppers rarely expend much shopping effort to obtain covenience products, distribution is a key element in the marketing mix. The object is to make the product available in almost every possible location. For example, thoustands of retailers in every large city sell soft drinks and toffees. These convenience goods are also common vending machine items. Conveneince items that are purchased largely on impulse, such as candy bars, are sold in drugstores, discount stores, convenience outlets and college bookstores. In individual stores, impulse items that are purchased on the spur of the moment are usually placed at the most convenient spots, such as near the checkout counter.

In the convenience goods classification, one brand is fairly easily substituted for another of its type, and retailers seldom, if ever, make extensive personal selling efforts. Therefore, extensive advertising by the manufacturer or service provider may be appropriate. The heavy advertising expenditures of Coca-Cola and Pepsi-Cola attest to the importance of extensive advertising.

Shopping product : *A product for which consumers feel the need to make comparisons, seek out more information, examine merchandise, or otherwise reassure themselves about quality, style or value before making a purchase.*

Shopping Products. Shopping products, the second of Copeland's classifications, include products for which consumers feel the need to make product comparisons, seek out additional information, examine merchanidise, or otherwise reassure themselves about quality, style or value before making a purchase. In other words, prospective buyers of these products expect to benefit by shopping around. Decisions about shopping products are not made on the spur of the moment, in part because shopping goods are generally priced higher than convenience goods, and consumers are more involved with the purchases.

There are two types of shopping products. If consumers evaluate product alternatives as similar in quality and features but different in price, these products are *homogeneous shopping products*. For homogeneous shopping products, such as washing machines and undershirts, obtaining the lowest price is the primary reason for making comparisons. *Heterogeneous shopping products* have identifiable product differences. These products tend to be subject to the whims of fashion and are more likely to be noticed by the shopper's family and friends. Thus, the risks, both monetary and social, associated with heterogeneous shopping products are fairly high. Clothing, shoes, furniture, and everyday tableware are examples of heterogeneous shopping products.

Buyers of heterogeneous shopping products are willing to search for the styles, brand names, or quality they want. Furthermore, they may wish to purchase the products in a particular store. You may have heard a friend say, "I got this suit at the Raymonds Shop." But people seldom say, "I got this chewing gum at the Anoop General Store." Thus, the distribution problem differs from that asscoiated with convenience goods. Because people are willing to shop around, the idea is not to place the product everywhere but to place the product in the proper spots. The best distribution strategy becomes one of selective distribution. Within a store, shopping products probably will not be placed up front. Furniture can be placed in a distant area of a department store because customers are willing to seek it out.

Marketing mix elements shift somewhat in relative importance when we move from convenience products to shopping products. Product characteristics, including quality, become more important. Price will be a consideration for consumers, but with heterogeneous products it need not be as uniform among competing brands as in the case of easily substituted conveneince products. Retail marketers, however, may stress the price of heterogeneous products because they are competing with other retailers of the same brand or similar brands.

Specialty product : A consumer product that is not bought frequently, is likely to be expensive, and is generally purchased with great care.

Specialty Products. In some cases, consumers know exactly what they want. They have selected the brand in advance and will not accept substitutes. For example, they may insist on having Dr. Khurana to operate on them because they see his service as unique. At the moment of purchase, they no longer need to make shopping comparisons among alternatives. They have thought about their purchase. They regard the brand as having a particular attraction other than price. Products that are the object of this type of consumer preference fall into Copeland's third category, **specialty products.**

Many specialty products are seldom-purchased items, such as stereo equipment, wedding receptions, and expensive cars. Potential buyers may gather a great amount of information before making the purchase decision. They may go so far as to buy and read books or magazines dealing with the product class. At the time of purchase, they may spend considerable time and effort to get to the appropriate store, but they no longer need to make shopping comparisons; their minds are made up.

Brand insistence can be strong. A shopper may have decided, after considerable thought, that only Wedgwood china and Waterford crystal will do for the dining room. Sales personnel or additional advertising will not sway such a shopper. This brand preference is important to retailers.

The marketer of a specialty product may develop a marketing mix that includes exclusive distribution of the brand. Dealers stocking S-type Jaguars are few and far between, in part because a potential buyer of such an expensive car will travel a considerable distance to purchase one. Advertising the brand's uniqueness and pricing at a level suitable to, and supportive of, the brand's image are appropriate tactics for the marketer.

As mentioned earlier, Copeland's scheme is a generalized portrayal of consumer goods for the majority of consumers. Unsought purchases, such as the purchase of ambulance services in an emergency, may not fit neatly into this scheme. Furthermore, a particular individual may view some products very differently from most other consumers. Nevertheless, marketers who identify which description best fits their products may use these generalizations to choose appropriate retail outlets and plan other elements of the marketing mix.

Industrial-goods Classification

Industrial goods can be classified in terms of how they enter the production process and their relative costliness. We can distinguish three groups of industrial goods : materials and parts, capital items, and supplies and business services.

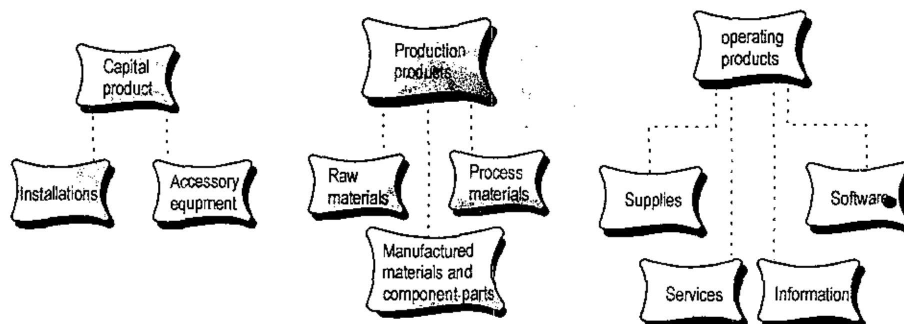


Figure 6.5: Classification of Organization Products

- **Materials and parts** are goods that enter the manufacturer's product completely. They fall into two classes : raw materials and manufactured materials and parts.

Raw materials fall into two major classes : *farm products* (*e.g.*, wheat, cotton, live-stock, fruits, and vegetables) and *natural products* (*e.g.*, fish, lumber, crude petroleum, iron ore). Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services. Their perishable and seasonal nature gives rise to special marketing

practices. Their commodity character results in relatively little advertising and promotional activity, with some exceptions. At times, commodity groups will launch comapigns to promote their product—potatoes, prunes, milk. Some producers brand their product—Sunkist oranges, Chiquita bananas.

Natural products are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because the users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials limits the amount of demand-creation activity. Price and delivery reliability are the major factors influencing the selection of suppliers.

Manufactured materials and parts fall into two categories : component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). *Component materials* are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually means that price and supplier reliability are key purchase factors. *Component parts* enter the finished product with no further change in form, as when small motors are put into vacuum clearners, and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users, with orders often placed a year or more in advance. Price and service are major marketing considerations, and branding and advertising tend to be less important.

- **Capital items** are long-lasting goods that facilitate developing or managing the finished product. They include two groups : installations and equipment.

Installations consist of buildings (factories, offices) and equipment (generators, drill presses, mainframe computers, elevators). Installations are major purchases. They are usually bought directly from the producer, with the typical sale preceded by a long negotiation period. The producer's sales force includes technical personnel. Producers have to be willing to design to specification and to supply postsale services. Advertising is much less important than personal selling.

Equipment comprises portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks). These types of equipment do not become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufactuers sell direct, more often they use intermediaries, because the market is geographically dispersed, the buyers are numerous, and the orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, although the latter can be used effectively.

- **Supplies and business services** are short-lasting goods and services that facilitate developing or managing the finished product.

Supplies are of two kinds : *operating supplies* (lubricants, coal, writing paper, pencils) and *maintenance and repair items* (paint, nails, brooms). Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geographic dispersion of customers. Price and service are important considerations, because suppliers are standardized and brand preference is not high.

Business services include *maintenance and repair services* (window cleaning, typewriter repair) and *business advisory services* (legel, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or are available from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

Product Mix

- A **product mix** (also called **product assortment**) is the set of all products and items that a particular seller offers for sale.

Kodak's product mix consists of two strong product lines : information products and image products. NEC's

(Japan) product mix consists of communication products and computer products. Michelin has three product lines : tires, maps and restaurant-rating services.

A company's product mix has a certain width, length, depth and consistency. These concepts are illustrated in Table 6.1, for selected Procter & Gamble consumer products.

Table 6.1 : Product-Mix Width and Product-Line Length for Procter & Gamble Products (including Dates of Introduction)

Product-Mix Width

	DetergentsT	*oothpaste*	*BarSoap*	*Disposable Diapers*	*Paper Tissue*
	Ivory Snow 1930	Gleem 1952	Ivory 1879	Pampers 1961	Charmin 1928
	Dreft 1933	Crest 1955	Kirk's 1885	Luvs 1976	Puffs 1960
	Tide 1946		Lava 1893		Banner 1982
PRODUCT-	Cheer 1950		Camay 1926		Summit 1100's
1992					
LINE	Oxydol 1954		Zest 1952		
LENGTH	Dash 1954		Safeguard 1963		
	Bold 1965		Coast 1974		
	Gain 1966		Oil of Olay 1993		
	Era 1972				

- The *width* of a product mix refers to how many different product lines the company carries. Table 6.1, shows a product-mix width of five lines. (In fact, P&G produces many additional lines.)
- The *length* of a product mix refers to the total number of items in the mix. In Table 6.1, it is 25. We can also talk about the average length of a line. This is obtained by dividing the total length (here 25) by the number of lines (here 5), or an average product length of 5.
- The *depth* of a product mix refers to how many variants are offered of each product in the line. If Crest comes in three sizes and two formulations (regular and mint), Crest has a depth of six. The average depth of P&G's product mix can be calculated by averaging the number of variants within the brand groups.
- The *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. P&G's product lines are consistent insofar as they are consumer goods that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for the buyers.

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

Product-line Decisions

A product mix consists of various product lines. In General Electric's Consumer Appliance Division, there are product-line managers for refrigerators, stoves, and washing machines. At Northwestern University, there are separate academic deans for the medical school, law school, business school, engineering school, music school, speech school, journalism school, and liberal arts school.

In offering a product line, companies normally develop a *basic platform and modules* that can be added to meet different customer requirements. Car manufacturers build their cars around a basic platform. Home builders show a model home around which additional features can be added. This modularized approach enables the company to offer variety while lowering its production costs.

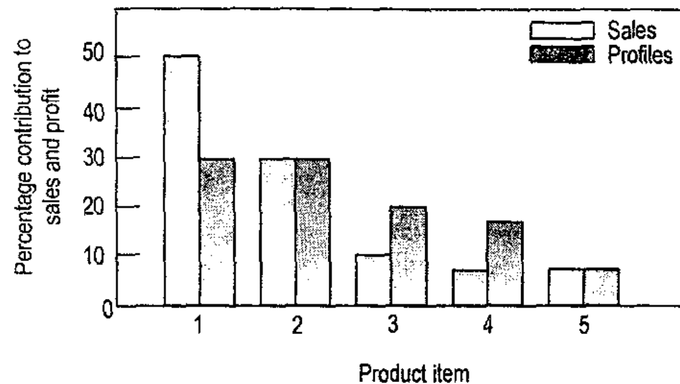


Figure 6.6: Product-Item Contributions to a Product Line's Total Sales and Profits

Product-line Analysis

Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. They also need to understand each product line's market profile.

Sales and Profits

Figure 6.6, shows a sales and profit report for a five-item product line. The first item accounts for 50 percent of total sales and 30 percent of total profits. The first two items account for 80 percent of total sales and 60 percent of total profits. If these two items were suddenly hurt by a competitor, the line's sales and profitability could collapse. A high concentration of sales in a few items means line vulnerability. These items must be carefully monitored and protected. At the other end, the last item delivers only 5 percent of the product line's sales and profit. The product-line manager may consider dropping this item unless it has strong growth potential.

Market Profile

The product-line manager must review how the line is positioned against competitor's lines. Consider paper company X with a paper board product line. Two paper board attributes are weight and finish quality. Paper weight is usually offered at standard levels of 90, 120, 150 and 180 weight. Finish quality is offered at low, medium, and high levels. Figure 6.7 shows the location of the various product-line items of company X and four competitors, A, B, C and D. Competitor A sells two product items in the extra-high weight class ranging from medium to low finish quality. Competitor B sells four items that vary in weight and finish quality. Competitor C sells three items in which the greater the weight, the greater the finish quality. Competitor D sells three items, all lightweight but varying in finish quality. Company X offers three items that vary in weight and finish quality.

The product map is useful for designing product-line marketing strategy. It shows which competitor's items are competing against company X's items. For example, company X's low-weight, medium-quality paper competes against competitor D's and B's papers. But its high-weight, medium-quality paper has no direct competitor. The map also reveals possible locations for new items. No manufacturer offers a high-weight, low-quality paper. If company X estimates a strong unmet demand and can produce and price this paper at low cost, it could consider adding this item to its line.

Another benefit of product mapping is that it identifies market segments. Fig 6.7, shows the types of paper, by weight and quality, preferred by the general printing industry, the point-of-purchase display industry, and the office-supply industry. The map shows that company X is well positioned to serve needs of the general printing industry but is less effective in serving the other two industries.

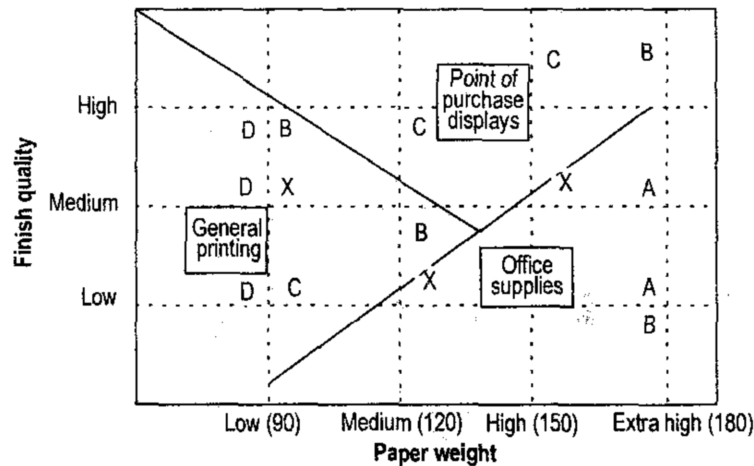


Figure 6.7: Product Map for a Paper-Product Line

After performing a product-line analysis, the product-line manager has to consider decisions on product-line length, line modernization, line featuring and line pruning.

Product-line Length

Product-line managers are concerned with length. A product line is too short if profits can be increased by *adding items; the line is too long it profits can be increased by dropping items.*

Company objectives influence product-line length. Companies seeking high market share and market growth will carry longer lines. Companies that emphasize high profitability will carry shorter lines consisting of carefully chosen items.

Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product-line manager to develop new items. The sales force and distributors also pressure the company for a more complete product line to satisfy their customers. But as items are added, several costs rise : design and engineering costs, inventory-carrying costs, manufacturing-changeover costs, order-processing costs, transportation costs, and new-item promotional costs. Eventually someone calls a halt : Top management may stop development because of insufficient funds or manufacturing capacity. The controller may call for a study of the line's money-losing items. A pattern of product-line growth followed by massive pruning may repeat itself many times.

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

Line Stretching

Every company's product line covers a certain part of the total possible range. For example, BMW automobiles are located in the upper price range of the automobile market. *Line stretching* occurs when a company lengthens its product line beyond its current range. The company can stretch its line downmarket, upmarket, or both ways.

Downmarket Stretch. A company positioned in the middle market may want to intorduce a lower price line for any of three reasons :

1. The company may notice strong growth opportunities in the downmarket as it can attract a growing number of shoppers who want value-priced goods.
2. The company may wish to tie up lower-end competitors who might otherwise try to move upmarket. If the company has been attacked by a low-end competitor, if often decides to counterattack by entering the low end of the market.
3. The company may find that the middle market is stagnating or declining.

A company faces a number of naming choices in deciding to move downmarket. Sony, for example, faced three choice :

1. Use the name Sony on all of its offerings. (Sony did this.)
2. Introduce the lower price offerings using a sub-brand name, such as Sony Value Line. Other companies have done this, such as Gillette with Gillette Good News and United Airlines with United Express. The risks are that the Sony name loses some of its quality image and that some Sony buyers might switch to the lower price offerings.
3. Introduce the lower price offerings under a different name, without mentioning Sony. But Sony would have to spend a lot of money to build up the new brand name, and the mass merchants may not even accept the brand when it lacks the Sony name.

Moving downmarket carries risks. Kodak introduced Kodak Funtime film to counter lower-priced brands. But it didn't price Kodak Funtime low enough to match the lower-priced film. It also found some of its regular customers buying Funtime, thereby cannibalizing its core brand. So it withdrew Funtime.

Stretching down—A few examples

HLL : For a long time, HLL was playing in the high price slot of the detergent market with Surf, Priced at Rs. 40 plus per kg. In the wake of competition from the low price brands like Nirma, HLL decided to down stretch its detergents line by giving lower priced offers. Introduction of Sunlight detergent powder at around Rs. 26 per kg and Wheel at the still lower price of Rs. 10 per kg, were the result of this decision.

Parker : The Parker pen company which was operating in the high price slot of the pen market for several decades, decided to down stretch its line by offering low priced models, which the mass market could afford.

Prestige : For the TTK group, pressure cookers are one major product line and Prestige is a well-known brand in the line. Prestige enjoyed 26 per cent market share in the late 1990s. When competition from Hawkins tightened, TTK decided to expand the reach of Prestige to the lower end of the market. The company launched Prestige Popular. It was designed as an economy model and offered to the more price sensitive segment. Prestige increased its market share sizeably through this down stretching.

Ariel : When P&G was entering the Indian detergents market, it chose to serve the high-end segment with high price, high-tech offers. Accordingly, Ariel Microsystem was launched in 1991. It was a premium priced (Rs. 56 for 500 gm), concentrated, detergent powder. The price was much higher than that of the leading brand Surf. Ariel did not bring in the sales, which P&G expected. The company then decided to down stretch.

Over the next five years, with a view to penetrating the lower segments, P&G brought several offers such as a cheaper green alternate (at Rs. 46 for 500 gm) in the lower-premium range and Ariel Super Soaker (at Rs. 25 per kg) and Ariel blue and green bars (at Rs. 10.50 for 250 gm) at the popular end.

Upmarket Stretch : Companies may wish to enter the high end of the market for more growth, higher margins, or simply to position themselves as full-line manufacturers. Many markets have spawned surprising upscale segments such as Starbucks in coffee, Haagen-Dazs in ice cream, and Evian in bottled water. The leading Japanese auto companies have each introduced an upscale automobile : Toyota launched Lexus; Nissan launched Infinity; and Honda launched Accura. Note that they invented entirely new names rather than using or including their own names.

Stretching up—A few examples

Philips : Earlier, Philips was synonymous with low-priced two-in-ones, with its wide offers in the Rs. 1,000–2,000 price range. Philips soon found that to become a worthwhile player in two-in-ones, it had to stretch up and address the well-to-do segments with appropriate offers. Its stretching up and entry into premium segment was marked by the launch of the Rs. 6,000 to Rs. 9,000 *Powerhouse* range in 1991. Philips at that time believed that *Powerhouse* could successfully cater to the top and middle ends of the market. Philips, however, found that it could move up still further. The top slot was still far away. In 1993, Philips launched its *Powerplay* range in the Rs. 15,000 to Rs. 25,000 price band. A well drawn out line stretching strategy, supported by healthy investment, helped Philips to emerge as a major player in the music market. *Powerplay* range finally contributed 30 per cent of the company's audio sales. Philips had already become an active player in the very same segment where all new entrants such as Aiwa, Sony and Akai were targeting to enter. Philips would have missed the show but for the timely decision to stretch up the line.

Two-Way Stretch. Companies serving the middle market might decide to stretch their line in both directions. Texas Instruments (TI) introduced its first calculators in the medium-price-medium-quality end of the market. Gradually, it added calculators at the lower end, taking market share away from Bowmar and in the higher end to compete with Hewlett-Packard. This two-way stretch won TI early market leadership in the hand-calculator market.

Line Filling

A product line can also be lengthened by adding more items within the present range. There are several motives for *line filling* : reaching for incremental profits, trying to satisfy dealers who complain about lost sales because of missing items in the line, trying to utilize excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors.

Line filling is overdone if its results in self-cannibalization and customer confusion. The company needs to differentiate each item in the consumer's mind. Each item should possess a *just-noticeable difference*. According to Weber's law, customers are more attuned to relative than to absolute difference. They will perceive the difference between boards 2 and 3 feet long and boards 20 and 30 feet long but not between boards 29 and 30 feet long. The company should make sure that new-product items have a noticeable difference.

The company should also check that the proposed item meets a market need and is not being added simply to satisfy an internal need. The Edsel automobile, on which Ford lost $350 million, met Ford's internal positioning

needs for a car between its Ford and Lincoln lines but not the market's needs.

Example of Videocon air-conditioners : Videocon has several product lines and room air conditioner is one of them. Videocon entered the market for air conditioners, with just two or three models. But within two years of entry, Videocon introduced a dozen models. The offers included : three models in split ACs, two models in window ACs with rotary compressor and six models in window ACs with reciprocatory compressor. Videocon rapidly improved its market standing. It rose from the position of a new entrant to a company offering a relatively full line of products.

Example of Videocon CTV : Similarly, when Videocon entered the TV market, it targeted only the elite market segments and introduced high price models suitable to them. But in the next three years or so, it shook off its premium image and introduced more ranges of CTVs : the 14-inch *Private* for the yuppie, *Bazooka* for the top-end consumer, *Turbo Tough* for the middle-income buyer, and the *Budgetline* for the lower-middle income segment. In 1995 alone, Videocon made 11 new offers, three 14-inch models, two 20-inch models, four 21-inch models, one 25-inch model and one 29-inch model. While Videocon has improved penetration levels in C and D category towns, it has not left the top end of the market un-represented either. It launched 25-inch and 29-inch models to compete with the more expensive top-end Sony range. The strategy of Videocon is to be present in all segments of the TV market with a full line.

Line Modernization

Product lines need to be modernized. A company's machine tools might have a 1950s look and lose out to newer-styled competitor's lines. The issue is whether to overhaul the line piecemeal or all at once. A piecemeal approach allows the company to see how customers and dealers take to the new style. It is also less draining on the company's cash flow. But it allows competitors to see changes and to start redesigning their own lines.

In rapidly changing product markets, modernization is carried on continuously. Companies plan improvements to encourage *customer migration* to higher-valued, higher-priced items. Microprocessor companies such as Intel and Motorola, and software companies such as Microsoft and Lotus, continually introduce more advanced versions of their products. A major issue is timing improvements so they do not appear too early (damaging sales of the current line) or too late (after competition has established a strong reputation for more advanced equipment).

Line Featuring and Line Pruning

The product-line manager typically selects one or a few items in the line to feature. Sears will announce a special low-price washing machine to attract customers. At other times, managers will feature a high-end item to lend prestige to the product line.

Sometimes a company finds one end of its line selling well and the other end selling poorly. The company may try to boost demand for the slower sellers, especially it they are produced in a factory that is idled by lack of demand. This situation faced Honeywell when its medium-size computers were not selling as well as its large computers. But it could be counterargued that the company should promote items that sell well rather than try to prop up weak items.

Product-line managers must periodically review the line for pruning. The product line can include deadwood that is depressing profits. The weak items can be identified through sales and cost analysis. A chemical company cut down its line from 217 to the 93 products with the largest volume, the largest contribution to profits, and the greatest long-term potential.

Another occasion for pruning is when the company is short of production capacity. Companies typically shorten their product lines in periods of tight demand and lengthen their lines in periods of slow demand.

Exhibit 6.1: P&G's Attempts at Line Pruning

- P&G, known for very long product lines, attempted a series of line pruning through the 1990s. And, by the close of the 1990s, P & G's product roster had become a third shorter than what it was at the start of the decade. In hair care line alone, it slashed the number of items to almost half : fewer shapes, sizes, packages and formulae.
- The company was putting a halt to runaway product proliferation carried out in the past; it started standardising product formulae and packaging world-wide.
- P&G had 31 versions of Head & Shoulders shampoo and 52 versions of Crest. The Head & Shoulders brand was pruned to less than half, to 15 variants. The number of variants to Crest was also reduced substantially.
- In Japan, P&G cut the number of its Max Factor brand of cosmetic items from 1,385 to 828; the cut took place during the course of just one year. And, sales went up by 6 percent.
- P&G also withdrew brands that could not be leaders. In the product line of soaps and cleaning materials, it got rid of 11 brands, like Lest household cleaner and Lava soap. In the beginning of the 1990s, P&G launched separate disposable diapers for boys and girls. Later, it started eliminating the variants claiming that such anatomical targeting was not necessary.
- As a global marketer, P&G now feels it is better to get rid of complexity and maintain simpler lines. Whenever it can apply an existing product formula, or package to a new market, it can save lot of resources and can also move faster. Its Vidal Sassoon shampoo and hair conditioners now contain a single fragrance worldwide, with variations only in the quantity of fragrance; less in Japan, where subtle scents are preferred, and more in Europe.

Chapter 7

Branding, Packaging and Labeling

Branding—What's in a Name?

According to legend, the practice of branding products originated when an ancient ruler decided that products should bear some sort of symbol so that, if something should go wrong, buyers and the authorities would know who was to blame. Forced to identify their products with themselves, the story goes, producers began to take greater pride in their products and to make them better than those of their competitors, thus reversing the negative intent of the king's order. Whether the story is true or not, it makes the point that branding serves many purposes, both for the buyer and for the seller.

A brand that has earned a reputation for high quality may pave the way for the introduction of new products.

Branding helps buyers to determine which manufacturer's products are to be avoided and which are to be sought. Without branding, a buyer would have difficulty recognizing products that have proved satisfactory in the past. Many consumers are not able to analyze competing items strictly on the basis of physical characteristics. They rely, therefore, on a brand's or firm's reputation as an assurance that the product being purchased meets certain standards. For example, the computer chip marketer's "Intel Inside" stickers on personal computers offer consumers reassurance when they feel confusion and anxiety about making a computer purchase.

Branding helps sellers to develop loyal customers and to show that the firm stands behind what it offers. A brand that has earned a reputation for high quality may pave the way for the introduction of new products. Part of the attraction of Kellogg's Honey Crunch Corn Flakes, for example, is its connection with the original Kellogg's Corn Flakes, a branded product with a long record of public acceptance.

In large measure, the free enterprise system, with its accent on letting the market decide which firms will succeed and which fail, depends on branding. Even societies that have tried to do away with branding, such as China, have found that citizens somehow determine which products are good and which are bad, even if they have to use product serial numbers or other bits of information to differentiate among products.

BRANDS AND TRADEMARKS

Despite the common practice of speaking of brands, brand names, and trademarks as if all these terms meant the same thing, there are some technical differences among them.

Brand : *An identifying feature that distinguishes one product from another; more specifically, any name, term, symbol, sign, or design or a unifying combination of these.*

Brand name : *The verbal part of a brand—the part that can be spoken or written.*

Brand mark : *A unique symbol that is part of a brand.*

Logo : *A brand name or company name written in a distinctive way; short for logotype.*

Brands: A brand is any name, term, symbol, sign, design, or unifying combination of these. A **brand name** is the verbal part of the brand. For example, Lux, Usha and Rediff.com are brands. When these words are spoken or written, they are brand names. Many branded goods and services rely heavily on some symbol for indentification. Asian Paints, makes considerable use of a boy named Gattu and Microsoft Windows is represented by a window that materializes out of an expanding pattern of rectangles floating to its left. Such unique symbols are referred to as **brand marks**: A brand name or company name written in a distinctive way—for example, *Coca-Cola* written in white script letters on a red background—is called a *logo*, short for *logotype*.

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and

enhance brands. Marketers say that "branding is the art and cornerstone of marketing." The American Marketing Association defines a brand as follows :

- A ***brand*** is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

In essence, a brand identifies the seller or maker. It can be a name, trademark, logo, or other symbol. Under trademark law, the seller is granted exclusive right to the use of the brand name in perpetuity. Brands differ from other assets such as patents and copyrights, which have expiration dates.

A brand is essentially a seller's promise to deliver a specific set of features, benefits, and services consistently to the buyers. The best brands convey a warranty of quality. But a brand is an even more complex symbol. It can convey up to six levels of meaning:

1. *Attributes:* A brand brings to mind certain attributes. Mercedes suggests expensive, well-built, well-engineered, durable, high-prestige automobiles.
2. *Benefits:* Attributes must be translated into functional and emotional benefits. The attribute "durable" could translate into the functional benefit "I won't have to buy another car for several years." The attribute "expensive" translates into the emotional benefit "The car makes me feel important and admired."
3. *Values:* The brand also says something about the producer's values. Mercedes stands for high performance, safety, and prestige.
4. *Culture:* The brand may represent a certain culture. The Mercedes represents German culture; organized, efficient, high quality.
5. *Personality:* The brand can project a certain personality. Mercedes may suggest a no-nonsense boss (person), a reigning lion (animal), or an austere palace (object).
6. *User:* The brand suggests the kind of consumer who buys or uses the product. We would expect to see a 55 year-old top executive behind the wheel of a Mercedes, not a 20-year-old secretary.

If a company treats a brand only as a name, it misses the point. The branding challenge is to develop a deep set of positive associations for the brand. Marketers must decide at which level(s) to anchor the brand's identity. One mistake would be to promote only attributes. First, the buyer is not as interested in attributes as in benefits. Second, competitors can easily copy attributes. Third, the current attributes may become less desirable later.

Promoting the brand only on one benefit can also be risky. Suppose Mercedes touts its main benefit as "high performance". Then several competitive brands emerge with high or higher performance. Or suppose car buyers start placing less importance on high performance as compared to other benefits. Mercedes needs the freedom to maneuver into a new benefit positioning.

The most enduring meanings of a brand are its values, culture, and personality. They define the brand's essence. The Mercedes stands for high technology, performance, and success. Mercedes must project this in its brand strategy. Mercedes must resist marketing an inexpensive car bearing the name; doing so would dilute the value and personality Mercedes has built up over the years.

Trademark: *A legally protected brand name or brand mark. Its owner has exclusive rights to its use. Trademarks are registered with the U.S. Patent and Trademark Office.*

Trademarks: A brand or brand name can be almost anything a marketer wants to be, but it does not have any legal status. A **trademark**, on the other hand, is a legally protected brand name or brand mark. The owners of trademarks have exclusive rights to their use. Thus, the word *trademark* is a legally defined term. Either a brand name is a registered trademark or it is not.

The registered trademark gives a marketer proprietary rights to exclusive use of a symbol or name. The NBC

peacock is a registered trademark. So is the name Coca-Cola, the script style in which it is written, and the product's distinctive bottle design. Since the holder of a trademark has exclusive rights to use the trademarked name or symbol, a certain amount of protection is provided to the trademark holder.

Pizza Hut had not changed its brand mark for many years. When the pizza restaurant decided to update its brand mark, it realized the importance of capitalizing on its unique "red roof" symbol. The new brand mark symbolically communicates the casual and enjoyable eating experience provided at Pizza Hut. The vibrant green and yellow colors are intended to reflect freshness and fun.

Service mark: *A symbol that identifies a service. It distinguishes a service in the way a trade-mark identifies a good.*

Service Marks: Sevice marks provide the same identifying function for services that trademarks provide for goods. Like brands, they can be legally protected by registration. The NBC chimes and GM's Mr. Goodwrench are thus legally protected. Service marks may also include slogans like "Let's make things better."

Generic Names

Generic name: *A brand name so commonly used that it is part of everyday language and is used to describe a product class rather than a particular manufacturer's product.*

Some words are so obviously part of everyday language that no one should be permitted to use them exclusively. These **generic names** describes products or items in terms that are part of our standard vocabulary—for example, *flower* and *food.* Other words and terms, such as *nylon, kerosene, escalator, cellophane* and *formica*, were originally invented to name particular products but have become legally generic through common usage. Therefore, the 3M Company can call its tape Scotch Brand cellophane tape but can no longer claim that it is the one and only cellophane tape. In many instances, a brand name become a generic term when a judge determines that a word, such as *formica,* is in such common usage that the original formulator of the word can no longer hold the right to it.

Rollerblade advertisements call attention to the fact that Rollerblade is a brand name and it is technically incorrect to use "rollerblading" as a verb. Coca-Cola exerts every effort to make certain that you do not get a Pepsi when you ask a waiter for a Coke. Vaseline, Dalda, Frisbee and other commonly used names—names that are in fact employed to mean a generic product class—may one day be legally declared generic.

One clever marketer of waterproof, all-purpose sealing tape turned the generic issue around. An executive at Manco recognized that most customers pronounced the generic *duct* tape as "duck" tape. So the company registered the trademark Duck brand tape and used a friendly yellow duck as its brand symbol. Today, it is the market leader for this product.

What Makes a "Good" Brand Name ?

What constitutes a good brand name? Instant Ocean, a synthetic sea salt for use in aquariums, has a good brand name. It is easy to remember. It is easy to say. It is pronounceable, at least in English, in only one way. It has a positive connotation. And it suggests what the product is supposed to do. Denim deodorant soap, Orange Crush soda, and Hotshot cameras are also excellent names in that they associate the product with an image that is meaningful to consumers. Brand names also are often useful in reinforcing an overall product concept. Brands like Land O' Lakes butter, L'Eggs, Duracell, Moist and Easy, and Nature Fresh may communicate product attributes far better than any other variable in the marketing mix.

Notice that brand names and symbols say something about the product. Jiffy cake mix is quick. Ocean Freeze fish are fresh-frozen. Toast 'Em Pop-Ups tells both what they are and how to cook them. Spic and Span, Dustbuster, and Beautyrest tell what to expect from these products. But brand names also say something about the buyers for whom the products are intended. Right Guard Xtreme Sport is a deodorant for active young guys who try to realize their personal best in sports. Eve and Virginia Slims are cigarette brand names that appeal to certain types of women.

A good brand name has some quality that makes it distinctive and easy to remember. It sticks in buyers'

minds. Most brand names are short, easy to pronounce, and unique. Exxon and Citgo, words coined by petroleum companies, are good brand names. In contrast, Exxon's failed office systems division offered products called Qwip. Qyz, and Vydec—names that were unique but also something of a problem to pronounce. Toys "R" Us employs backward Rs to conjure an image of children, as well as to make the name unique. When the sign appeared on the first store, which opened in 1954, many customers informed the manager that the R on the sign was backward. That told the founder of the firm he had hit on a name that people noticed and remembered. In fact, the R had been used instead of the word *Are* simply to shorten the store's name so that bigger letters could be used on the first outlet's sign, since local ordinances prohibited enlarging the sign itself.

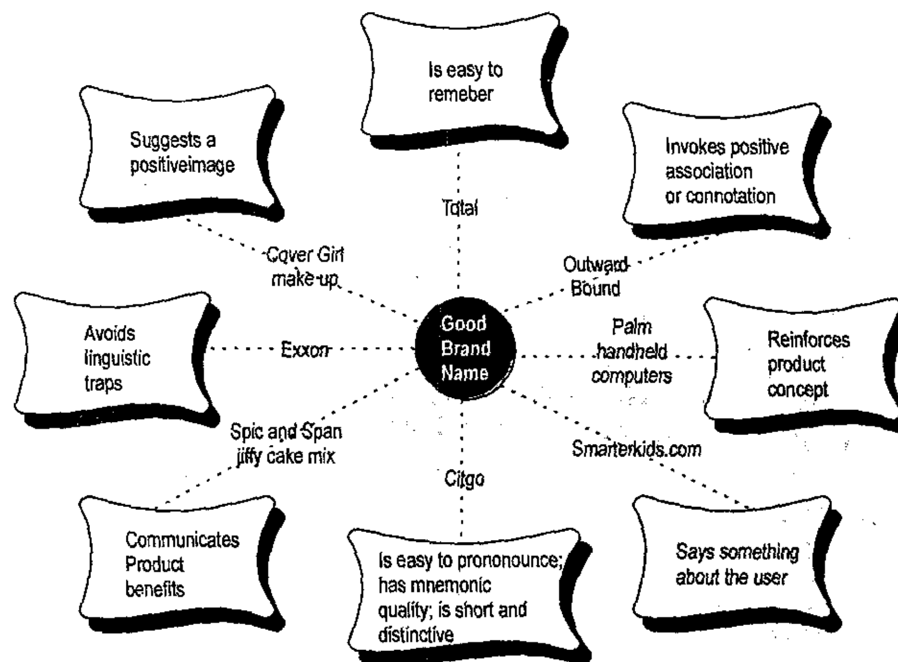


Figure 7.1: Characteristics of a Good Brand Name

Importance of Branding

- Product identification is eased. A customer can order a product by name instead of description.
- Customers are assured that a good or service has a certain level of quality and that they will obtained comparable quality if the same brand is reordered.
- The firm responsible for the product is known. Unbranded items cannot be as directly identified.
- Price comparisons are reduced when customers perceive distinct brands. This is most likely if special attributes are linked to different brands.
- A firm can advertise (position) its products and associate each brand and its characteristics in the buyer's mind. This aids the consumer in forming a *brand image*, which is the perception a person has of a particular brand.
- Branding helps segment markets by creating tailored images. By using two or more brands, multiple market segments can be attracted.
- For socially-visible goods and services, a product's prestige is enhanced via a strong brand name.
- People feel less risk when buying a brand with which they are familiar and for which they have a favourable attitude. This is why brand loyalty occurs.

- Cooperation from resellers is greater for well-known brands. A strong brand also may let its producer exert more control in the distribution channel.
- A brand may help sell an entire line of products, such as Britannia Biscuits.
- A brand may help enter a new product category, like Sansung Mobile.
- "Ultimately, the power of a brand lies in the minds of consumers, in what, they have experienced and learned about the brand over time. Consumer knowledge is really at the heart of brand equity."

Brand Equity

Brands vary in the amount of power and value they have in the marketplace. At one extreme are brands that are not known by most buyers. Then there are brands for which buyers have a fairly high degree of *brand awareness*. Beyond this are brands with a high degree of *brand acceptability*. Then there are brands that enjoy a high degree of *brand preference*. Finally there are brands that command a high degree of *brand loyalty*. Tony O'Reilly, former CEO of H.J. Heinz, proposed this test of brand loyalty. "My acid test..... is whether a housewife, intending to buy Heinz tomato ketchup in a store, finding it to be out of stock, will walk out of the store to buy it elsewhere."

Few customers are as brand-loyal as O'Reilly hopes Heinz's customers will be. Aaker distinguished five levels of customer attitude toward his or her brand, from lowest to highest :

1. Customer will change brands, especially for price reasons. No brand loyalty.
2. Customer is satisfied. No reason to change the brand.
3. Customer is satisfied and would incur costs by changing brand.
4. Customer values the brand and sees it as a friend.
5. Customer is devoted to the brand.

Brand equity is highly related to how many customers are in classes 3, 4 or 5. It is also related, according to Aaker, to the degree of brand-name recognition, perceived brand quality, strong mental and emotional associations and other assets such as patents, trademarks and channel relationships.

Companies do not normally list brand equity on their balance sheets because of the arbitrariness of the estimate. But clearly brand equity relates to the price premium the brand commands times the extra volume it moves over an average brand.

The world's 10 most valuable brands in 1997 were (in rank order): Coca-Cola, Marlboro, IBM, McDonald's Disney, Sony, Kodak, Intel, Gillette and Budweiser. Coca-Cola's brand equity was $48 billion, Marlboro's $47 billion, and IBM's $24 billion.

High brand equity provides a number of competitive advantages :

- The company will enjoy reduced marketing costs because of consumer brand awareness and loyalty.
- The company will have more trade leverage in bargaining with distributors and retailers because customers expect them to carry the brand.
- The company can charge a higher price than its competitors because the brand has higher perceived quality.
- The company can more easily launch extensions because the brand name carries high credibility.
- The brand offers the company some defense against price competition.

A brand name needs to be carefully managed so that its equity doesn't depreciate. This requires maintaining or improving brand awareness, perceived quality and functionality, and positive associations. These tasks require continuous R&D investment, skillful advertising, and excellent trade and consumer service. Canada

Dry and Colgate-Palmolive have appointed "brand equity managers" to guard the brand's image, associations, and quality and prevent short-term tactical actions by overzealous brand managers from hurting the brand. That's why some companies put their branding in the hands of an entirely different company that can focus only on brand management and nothing else.

P&G believes that well-managed brands are not subject to a brand life cycle. Many brand leaders of 70 years ago are still today's brand leaders : Kodak, Wrigley's, Gillette, Coca-Cola, Heinz, and Campbell Soup.

Some analysts see brands as outlasting a company's specific products and facilities. They see brands as the company's major enduring asset. Yet every powerful brand really represents a set of loyal customers. Therefore, the fundamental asset underlying brand equity is *customer equity*. This suggests that the proper focus of marketing planning is that of extending *loyal customer lifetime value*, with brand management serving as a major marketing tool.

Unfortunately, many companies have mismanaged their greatest asset—their brands. In the quest for ever increasing profits, it's easy for a brand to lose its focus.

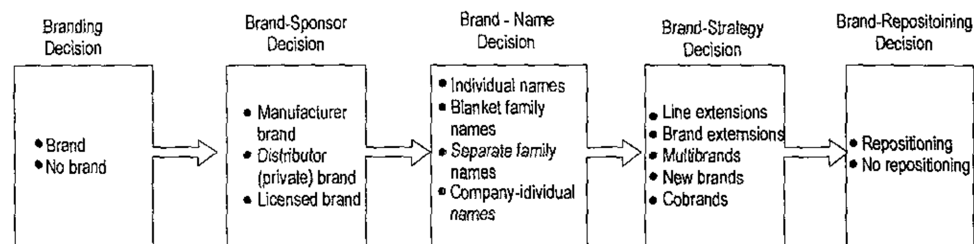


Figure 7.2: An Overview of Branding Decisions

Branding Challenges

Branding poses several challenges to the marketer. The key decisions are shown in Fig. 7.2, and discussed in the following sections.

Branding Decision : To Brand or Not to Brand ?

The first decision is whether the company should develop a brand name for its product. In the past, most products went unbranded. Producers and intermediaries sold their goods out of barrels, bins, and cases, without any supplier identification. Buyers depended on the seller's integrity. The earliest signs of branding were the medieval guilds' efforts to require craftspeople to put trademarks on their products to protect themselves and consumers against inferior quality. In the fine arts, too, branding began with artists signing their works.

Today, branding is such a strong force that hardly anything goes unbranded. Salt is packaged in distinctive manufacturers' containers, oranges are stamped with growers' names, nuts and bolts are packaged in cellophane with a distributor's label, and automobile components—spark plugs, tires, filters—bear separate brand names from the automakers. Fresh food products—such as chicken, turkey and salmon—are increasingly being sold under strongly advertised brand names.

In some cases, there has been a return to "no branding" of certain staple consumer goods and pharmaceuticals. Carrefours, the originator of the French hypermarket, introduced a line of "no brands" or generics in its stores in the early 1970s. *Generics* are unbranded, plainly packaged, less expensive versions of common products such as spaghetti, paper towels and canned peaches. They offer standard or lower quality at a price that may be as much as 20 percent to 40 percent lower than nationally advertised brands and 10 percent to 20 percent lower than retailer private-label brands. The lower price is made possible by lower-quality ingredients, lower-cost labelling and packaging and minimal advertising.

Why do sellers brand their products when doing so clearly involves costs ? Branding gives the seller several advantages.

- The brand name makes it easier for the seller to process orders and track down problems.
- The seller's brand name and trademark provide legal protection of unique product features
- Branding gives the seller the opportunity to attract a loyal and profitable set of customers. Brand loyalty gives sellers some protection from competition.
- Branding helps the seller segment markets. Instead of P&G's selling a simple detergent, it can offer eight detergent brands, each formulated differently and aimed at specific benefit-seeking segments.
- Strong brands help build the corporate image, making it easier to launch new brands and gain acceptance by distributors and consumers.

Distributors and retailers want brand names because brands make the product easier to handle, hold production to certain quality standards, strengthen buyer preferences, and make it easier to identify suppliers. Consumers want brand names to help them identify quality differences and shop more efficiently.

Brand-Spondor Decision

A manufacturer has several options with respect to brand sponsorship. The product may be launched as a *manufacturer brand* (sometimes called a national brand), a *distributor brand* (also called reseller, store, house, or private brand); or a *licensed brand name*. Another alternative is for the manufacturer to produce some output under its own name and some under reseller labels. Maruti, Eicher Tractor and Bajaj sell virtually all of their output under their own brand names. Hart Schaffner & Marx sells some of its manufactured clothes under licensed names such as Christian Dior, Pierre Cardin, and Johnny Carson. Whirlpool produces both under its own name and under distributors' names (Sears Kenmore appliances).

Although manufacturers' brands dominate, large retailers and wholesalers have been developing their own brands by contracting production from willing manufacturers. Sears has created several names—Diehard batteries, Craftsman tools, Kenmore appliances—that command brand preference and even brand loyalty. Retailers such as The Limited, Benetton, Gap and Marks & Spencer carry mostly own-brand merchandise. In Britain, two large supermarket chains have developed popular store-brand colas—Sainsbury Cola (from Sainsbury) and Classic Cola (from Tesco) Sainsbury, Britain's largest food chain, sells 50 percent store-label goods; its operating margins are six times that of U.S. retailer operating margins. U.S. supermarkets average 19.7 percent private-brand sales. Some experts believe that 50 percent is the natural limit for carrying private brands because (1) consumers prefer certain national brands, and (2) many product categories are not feasible or attractive on a private-brand basis.

Why middlemen bother to sponsor their own brands ? They have to hunt down qualified supplie[illegible]n deliver consistent quality, order large quantities and tie up their capital in inventories, and spend money [illegible]ting a private label. Nevertheless, private brands offer two advantages. First, they are more [illegible]table. Intermediaries search for manufacturers with excess capacity who will produce the private label [illegible] Other costs, such as research and development, advertising, sales promotion, and physical distr[illegible] much lower. This means that the private brander can charge a lower price and yet make a [illegible]t profit margin. Second, retailers develop exclusive store brands to differentiate themselves from compet[illegible] Many consumers don't distinguish between national and store brands.

In the confrontation between manufacturers' and private brands, retailers have many adva[illegible] market power. Because shelf space is scarce, many supermarkets now charge a *slot*[illegible] new brand to cover the cost of listing and stocking it. Retailers also charge for s[illegible] store advertising space. They typically give more prominent display to their [illegible] are well stocked. Retailers are now building better quality in their store brands.

Manufacturers of national brands are frustrated by the growing power of retailer brands. [illegible] well : "A decade ago, the retailer was a chihuahua nipping at the manufacturer's heels [illegible]

only a minor irritant; you fed it and it went away. Today it's a pit bull and it wants to rip your arms and legs off. You'd like to see it roll over, but you're too busy defending yourself to even try." Some marketing commentators predict that private brands will eventually knock out all but the strongest manufacturers' brands.

In years past, consumers viewed the brands in a category arranged in a *brand ladder*, with their favourite brand at the top and remaining brands in descending order of preference. There are now signs that this ladder is being replaced with a consumer perception of *brand parity*—that many brands are equivalent. Instead of a strongly preferred brand, consumers buy from a set of acceptable brands, choosing whichever is on sale that day. "People don't think the world will come to a screeching half if they use Tide instead of Ariel."

The growing power of store brands is not the only factor weakening national brands. Consumers are more price sensitive. They are noting more quality equivalence as competing manufacturers and national retailers copy and duplicate the qualities of the best brands. The continuous barrage of coupons and price specials has trained a generation of shoppers to buy on price. The fact that companies have reduced advertising to 30 percent of their total promotion budget has weakened their brand equity. The endless stream of brand extensions and line extensions has blurred brand identity and led to a confusing amount of product proliferation. Of course, one of the newest factors that is not necessarily weakening national brands but changing the entire branding landscape is the Internet.

Spencer's : Spencer's is a middleman's brand (store brand). Many products ranging from bread and soda to consumer durables like storage water heaters are sold by the Spencer's distribution chain under the brand name Spencer's.

Stop is another store brand; it is the brand of the retail chain Shopper's Stop.

Basic Blues is the store brand of Tata's Westside retail chain.

Foodworld is a store brand owned by the Foodworld chain store.

Manufacturers have reacted by spending substantial amounts of money on consumer-directed advertising and promotion to maintain strong brand preference. Their price has to be somewhat higher to cover the higher promotion cost. At the same time, mass distributors pressure manufacturers to put more promotional money into trade allowances and deals if they want adequate shelf space. Once manufacturers start giving in, they have less to spend on advertising and consumer promotion, and their brand leadership starts spiraling down. This is the national brand manufacturers' dilemma.

To maintain their power vis-a-vis the trade, leading brand marketers need to invest in heavy and continuous R&D to bring out new brands, line extensions, features, and quality improvements. They must sustain a strong "pull" advertising program to maintain high consumer brand recognition and preference. They must find ways to "partner" with major mass distributors in a joint search for logistical economies and competitive strategies that produce savings.

Table 7.1: Manufacturer, Private and Generic Brands

Characteristics	*Manufacturer Brand*	*Private Brand*	*Generic Brand*
Target market	Risk avoider, quality conscious, brand loyal, status conscious, quick shopper.	Price conscious, comparison shopper, quality conscious, moderate risk taker, dealer loyal	Price conscious, careful shopper, willing to accept lower quality, large family or organization
Product	Well known, trusted, best quality control, clearly identifiable, deep product line	Same overall quality as manufacturer, less emphasis on packaging, less assortment, not known to non-shoppers of the dealer.	Usually less overall quality than manufacturer, little emphasis on packaging, very limited assortment, not well known.
Distribution	Often sold at many competing dealers	Usually only available from a particular dealer in the area.	Varies
Promotion	Manufacturer-sponsored ads, cooperative ads	Dealer-sponsored ads	Few ads, secondary shelf space
Price	Highest, usually suggested by manufacturer	Moderate, usually controlled by dealer	Lowest, usually controlled by dealer.
Marketing focus it.	To generate brand loyalty and manufacturer control	To generate dealer loyalty and control	To offer a low-priced, lesser-quality item to those desiring

Brand-name Decision

Manufacturers and service companies who brand their products must choose which brand names to use. Four strategies are available :

1. *Individual names:* The policy is followed by Hindustan Liver Limited (Dove, Lux, Hamam, Lifebuoy). A major advantage of an individual-names strategy is that the company does not tie its reputation to the product's. If the product fails or appears to have low quality, the company's name or image is not hurt. A manufacturer of good-quality watches, such as Seiko, can introduce a lower-quality line of watches (called Pulsar) without diluting the Seiko name. The strategy permits the firm to search for the best name for each new product.

Rx for Brand Awareness : Nine Brand Strengtheners : As companies become more aware of the importance of brand power, they wonder how they can strengthen their brands. Most managers think the answer lies in increasing the advertising budget. But advertising is expensive and it isn't always effective. Advertising is only one of nine ways to build more brand awareness and brand preference :

1. *Develop creative advertising :* Absolute vodka, United Colors of Benetton, Fevicol.
2. *Sponsor well-regarded events:* IBM sponsoring art shows, ITC classic sponsoring golf tournaments.
3. *Invite your customers to join a club:* Nestle's Casa Buitoni Club, Harley-Davidson's HOG Club
4. *Invite the public to visit your factory or offices*: Cadbury's theme park, Kellogg's Cereal City
5. *Create your own retail units*: Niketown, Sony, Raymonds.
6. *Provide well-appreciated public services:* Permier exercise trails, Nestle Nestops.
7. *Give visible support to some social causes:* The Body Shop's support for helping the homeless, Ben & Jerrys giving 7½ percent of profits to charity.
8. *Be known as a value leader:* IKEA, Home Depot.
9. *Develop a strong spokesperson or symbol to represent the company* : Richard Branson (Virgin) Anita Roddick (The Body Shop), Colonel Sanders (KFC).

HLL-individual brands: In its bathing soaps line, HLL has several brands like Dove, Lux, Pears, Lifebuoy, Liril and Hamam. In detergents, it has Surf, Rin and Wheel. The washing soaps line carry brand names like Sunlight and 501. In toothpastes, it has brands like Close-up and Pepsodent. Its coconut hair oil has the name Nihar. Its cooking oil is Dalda. So HLL has built numerous brands in its different lines. They are individual brands, each moving in its own right, independently.

Nestle: Nestle is another company going in for individual brand names. Nescafe is its premium coffee brand. Maggi is its brand of noodles, Kitkat its chocolate brand and Milo its chocolate beverage brand. It has Milkmaid as its brand in condensed milk and Cerelac in baby food. Of late, Nestle is also going in for umbrella branding in select categories. For instance, Maggi is now becoming an umbrella brand for several food items like soups, sauces, pickles, ketchups and jams.

When an individual brand name is given for each product, there is no question of any joint resp[illegible] the different products. Each brand gets promoted separately and moves by itself. The promo[illegible] tends to be high with individual brands. Still, many companies follow individual branding as they [illegible] the associated benefits.

2. *Blanket family names:* This policy is followed by Heinz and General Electric. A blan[illegible] also has advantages. Development cost is less because there is no need for "name [illegible] advertising expenditures to create brand-name recognition. Furthermore, sa[illegible] the new [illegible]

likely to be strong if the manufacturer's name is good. Campbell's introduces new soups under its brand name with extreme simplicity and achieves instant recognition.

Exhibit 7.1: Family/Umbrella Brand

Amul is an example of family/umbrella brand. Amul is the common brand name for the company's milk powder, butter, ghee and milk chocolates.

Vijay is the family brand name for the products of Vijay Electricals. Mixer-grinders, electric irons, electric kettles, water heaters and other products of the company go under the 'Vijay' brand.

Videocon is a family brand name for a variety of products of Videocon Corporation. Its TVs. VCRs, refrigerators, washing machines and air conditioners go under the Videocon brand name.

Godrej is another family brand. Several product lines of the company, and several products in each of the lines go under the brand name Godrej. The products include locks, steel almirahs, office furniture, electronic typewriter, desktop printers, refrigerators, air conditioners, etc. The company also uses separate brand names for some other lines. In soaps, it has individual brands like Cinthol and Ganga. In detergents, it has individuals brands like Key and Biz.

Johnson's is another family brand. The company, Johnson & Johnson sells many of its baby care products under the Johnson's brand name—Johnson's Baby Powder, Johnson's Baby Soap, Johnson's Baby Shampoo, etc.

BPL *is another noteworthy family brand. About five dozen products of the company go under the brand name BPL. It also happens to be the company name.*

3. *Separate family names for all products :* This policy is followed by Sears (Kenmore for appliances, Craftsman for tools and Homart for major home installations). Where a company produces quite different products, it is not desirable to use one blanket family name.

HLL has umbrella brands, too: However, it does not mean that HLL is totally dependant on individual branding. HLL has also developed a couple of umbrella brands for certain product categories. Brooke Bond is being developed as an umbrella brand for its tea and coffee products. And, Kissan is becoming an umbrella brand for its foods line. Under Kissan, Annapurna is being developed as another brand to cover a variety of raw food items. In the make-up line, Lakme is being developed as an umbrella brand to cover a variety of products, ranging from nail polish to perfumes.

4. *Company trade name combined with individual product names :* The policy is followed by Kellogg (Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes). Some manufacturers tie their company name to an individual brand name for each product. The company name legitimizes, and the individual name individualizes, the new product.

Once a company decides on its brand-name strategy, it faces the task of choosing a specific brand name. The company could choose the name of a person (Honda, Estee Lauder), location (American Airlines, Kentucky Fried Chicken), quality (Safeway, Duracell), lifestyle (Weight Watchers, Healthy Choice), or an artificial name (Exxon, Kodak). Among the desirable qualities for a brand name are the following :

- *It should suggest something about the product's benefits* : Examples : Beauty-rest, Craftsman, Accutron.
- *It should suggest product qualities such as action or colour:* Examples; Sunkist, Spic and Span, Firebird.
- *It should be easy to pronounce, recognize and remember:* Short names help. Examples : Tide Crest, Puffs.
- *It should be distinctive:* Examples: Mustang, Kodak, Exxon.
- *It should not carry poor meanings in other countries and languages* : Examples : Nova is a poor name for a car to be sold in Spanish-speaking countries: it means "doesn't go."

Normally, companies choose brand names by generating a list of possible names, debating their merits, eliminating all but a few, testing them with target consumers, and making a final choice. Today many companies hire a marketing research firm to develop and test names. These companies use human brainstorming sessions and

vast computer databases, catalogued by association, sounds, and other qualities. Name-research procedures include *association tests* (What images come to mind ?), *learning test* (How easily is the name pronounced ?), *memory tests* (How well is the name remembered ?), and *preference tests* (Which names are preferred ?). Of course, the firm must also conduct searches through other databases to make sure the chosen name hasn't already been registered. The whole process, however, isn't cheap.

Many firms strive to build a unique brand name that eventually will become intimately identified with the product category. Examples are Frigidaire, Kleenex, Kitty Litter, Levis, Jell-O, Popsicle, Scotch Tape, Xerox, and Fiberglas. In 1994 Federal Express officially shortened its marketing identity to FedEx, a term that has become a synonym for "to ship overnight." Yet identifying a brand name with a product category may threaten the company's exclusive rights to that name. Cellophane and shredded wheat are now in the public domain and available for any manufacturer to use.

Given the rapid growth of the global marketplace, companies should choose brand names that work globally. These names should be meaningful and pronounceable in other language. One thing Compaq liked about the name Presario for its line of home computers is that it conjures up similar meanings in various Latin-influenced languages. In French, Spanish, Latin, or Portuguese, Presario has the same, or similar, association that it does in English. It makes one immediately think of an "Impresario," the magical master of the whirl and fantasy of a stage production. Companies also should not change names owned by someone in another country. For example, Anheuser-Busch cannot use the name "Budweiser" in Germany.

Choosing a Brand Name

There are several potential sources when a firm chooses brand names :

1. Under brand extension, an existing name is used with a new product (*Business Today*)
2. For a private brand, the reseller specifies the name (St. John's Bay—an apparel brand of J.C. Penney).
3. If a new name is sought, these alternatives are available :
   (*a*) Initials (HBO).
   (*b*) Invented name (Kleenex).
   [illegible] 1).
   (*d*) Mythological character (Samsonite luggage).
   (*e*) Personal name (Heineken)
   (*f*) Geographical name (Air France)
   (*g*) Dictionary word (Scope mouthwash)
   (*h*) Foreign word (Nestle)
   (*i*) Combination of words, initials, numbers, etc. (Head & Shoulders shampoo).
4. With a *licensing agreement*, a company pays a fee to use a name or logo whose trademark rights are held by another firm. Due to the high consumer recognition of many popular trademarks, sales for a product may be raised by paying a royalty fee to use one. Examples of names used in licensing are Coca-Cola, Dallas Cowboys, and George Foreman.
5. In **co-branding,** two or more brand names are used with the same product to gain from the brand images of each. Typically, a company uses one of its own brand names in conjunction with another firm's—often, via a licensing agreement.

Name Communicating the Functions/Attributes of the Product

Most companies select brand names, which communicate the functions/some key attributes of the product. In the above cited examples, Goodknight, the mosquito repellant, offers a good night's sleep; Boost is the energy booster drink; Aquaguard gives protected water and Fair & Lovely promises fair and lovely skin. To cite a few more examples,

When Wipro Systems offered a software programme on astrology, the name chosen was:

Jyothishi.

TVS named its tyre : *Srichakra.*

Shinex was the name chosen for an instant polish.

A paint for wooden furniture was named *Touchwood.*

The first portable stereo player was named *Walkman.*

Names, Which Communicate the Speciality of the Product

Some others try to communicate the speciality of the product through the chosen name. GM's Opel, Ford's Ikon, Mitsubishi's Lancer, Suzuki's Zen are names intended to communicate the speciality of the respective brands. Shampoos with names Halo, Sunsilk, and Velvette, are also trying to communicate certain special product effects/claims. The name Taj given to the hotel chain of Indian Hotels is an attempt to recapture and reflect the Moghul splendour.

Use of Acronyms

Sometimes brand names are acronyms. *Amul* originated from Anand Milk Union Ltd. MRF originated from Madras Rubber Factory. FIAT too has similar origin.

Use of the Company Name

The temptation to use the company name as a brand name is also strong. Some of the most famous brand names belong to this category : Bata, Cadbury's, Samsung, Philips and Sony are good examples.

Whatever is the approach in selecting a brand name, there is always a search for some meaning/associations. It is natural because the name is the first tool for the owner of the brand to communicate his brand's properties/ uniqueness. The name is important because it really does some selling.

A good brand name has several attributes, depending on the situation : It suggests something about a product's use or attributes (Cleanwipes moist cleansing tissues). It is easy to spell and remember and is pronounceable in only one way). It can be applied to a whole line of products (Eicher tractors). It is capable of legal protection from use by others Perrier (www.perrierusa.com). It has a pleasant or at least neutral meaning internationally (Onvia—the business-to-business marketplace). It conveys a differential advantage (Pert Plus).

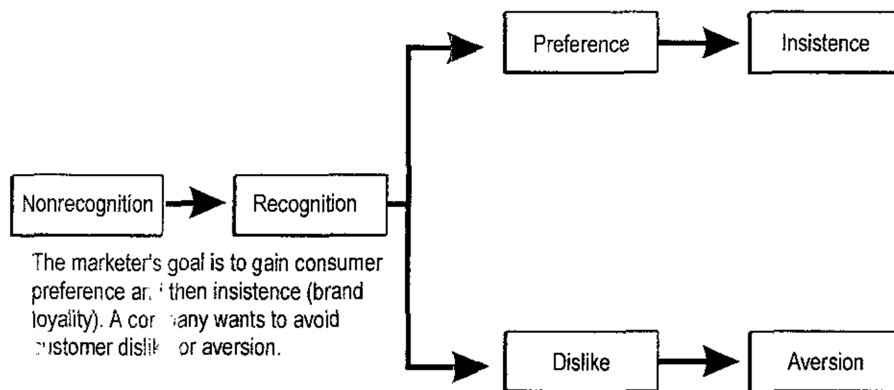


Figure 7.3: The Consumer's Brand Decision Process

As firms expand globally, branding takes on special significance. Regardless of whether brands are "global" or tailored to particular markets, their meanings must not have negative connotations or violate cultural taboos. To make sure that this does not happen, such specialized firms as Namestormers can devise names for clients that are acceptable around the world. But outside of the leading power brands, which firms may want to make into global brands, brands often must reflect the cultural and societal diversity in the way products are positioned and used in different nations.

When branding, a firm should plan for the stage in the ***consumer's brand decision process***, as shown in Fig. 7.3. For a new brand, a consumer begins with non-recognition of the name; the seller must make the person aware of it. He or she then moves to recognition, where the brand and its attributes are known; the seller stresses persuasion. Next, the person develops a preference (or dislike) for a brand and buys it (or opts not to buy); the seller's task is to gain brand loyalty. Last, some people show a brand insistence (or aversion) and become loyal (or never buy); the seller's role is to maintain loyalty. Often times, people form preferences toward several brands but do not buy or insist upon one brand exclusively.

By using brand extension, a new product would begin at the recognition, preference, or insistence stage of the brand decision process because of the carryover effect of the established name. However, consumers who dislike the existing product line would be unlikely to try a new product under the same name, but they might try another company product under a different brand.

Brand-strategy Decision

A company has five choices when it comes to brand strategy. The company can introduce *line extensions* (existing brand name extended to new sizes or flavours in the existing product category), *brand extensions* (brand names extended to new-product categories), *multibrands* (new brand names introduced in the same product category), *new brands* (new brand name for a new category product), and *cobrands* (brands bearing two or more well-known brand names).

Line Extensions. Line extensions consist of introducing additional items in the same product category under the same brand name, such as new flavour, forms, colours, added ingredients, and package sizes. The vast majority of new-product introductions consists of line extensions.

Many companies are now introducing *branded variants*, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to enable the retailers to provide distinctive offerings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops.

Line extension involves risks and has provoked heated debate among marketing professionals. On the downside, extensions may lead to the brand name losing its specific meaning; Ries and Trout call this the "line-extension trap." When a person asked for a Coke in the past, she received a 6.5-ounce bottle. Today the seller will have to ask : New, Classic or Cherry Coke ? Regular or diet ? Caffeine or caffeine-free ? Bottle or can ? Sometimes the original brand identity is so strong that its line extensions serve only to confuse and don't sell enough to cover development and promotion costs.

However, line extensions can and often do have a positive side. They have a much higher chance of survival than brand-new products. Some marketing executives defend line extensions as the best way to build a business.

Line extensions are also fueled by fierce competition in the marketplace, calling for matching competitors new offerings. Nabisco has had such success with its Snack-well Fat Free cookies that every competitor has had to extend its product line in defense. One study, by Reddy, Holak, and Bhat, examined what makes a line extension succeed or fail. Data on 75 line extensions of 34 cigarette brands over a 20-year period yielded these findings : Line extensions of strong brands, symbolic brands, brands given strong advertising and promotion support, and those entering earlier into a project subcategory are more successful. The size of the company and its marketing competence also play a role.

Surf: In detergents, HLL launched Surf Ultra, Surf Excel, Surf Excelmatic and International Surf Excel as line extensions of Surf.

Colgate: Exhibit 7.2. shows the line extensions of Colgate. All of them exist under the strength of the mother brand Colgate and simultaneously contribute to the spreading of the Colgate tentacles to new market segments. What Colgate alone could not do—fighting competition, increasing corporate revenue and profits—is now being accomplished by the new Colgate additions, especially Colgate Gel, Herbal and Cibaca Top.

Exhibit 7.2: Line Extension—Colgate

Extending Colgate brand name to variants in the same toothpaste line

- Colgate Dental Cream : The mega-brand, the category's volume driver.
- Colgate Gel : Positioned as giving long-lasting fresh breath
- Colgate Calciguard : With an anti-cavity therapeutic positioning.
- Colgate Total : With therapeutic, multi-benefits positioning.
- Colgate Sensitive : Positioned for special need and marketed through the dental profession
- Colgate Herbal : Positioned on the strength of herbal ingredients
- Colgate Cibaca Top : Positioned on economy.

Exhibit 7.3: Building Line Extensions—Example of Lifebuoy

When HLL introduced Lifebuoy in the Indian market in 1895 (more than 100 years ago!), it was positioned as the soap that would destroy germs and keep the body healthy.

The brand found the going tough, especially in rural markets where most people were accustomed to bathing without any soap. HLL then decided to project Lifebuoy as a soap for hand wash.

The approach seemed to pay off. By 1900, Lifebuoy had established itself as a soap for hand wash.

At this stage, the brand's inherent properties were expanded and Lifebuoy was repositioned as a bath soap. Health remained the benefit proposition. 'Where there is Lifebuoy, there is health' became a very popular jingle in rural India. The brand was also projected on the plank of economy.

Much later, in 1964, the brand was relaunched with a slight change in its shape and wrapper design. The relaunch was also backed by promotion campaigns highlighting the 'health benefit'. Lifebuoy started associating with sports events, seeking the image of champion's soap. Naturally, the 'health and body fitness' dimension got reinforced.

By the 1970s, competitors entered challenging Lifebuoy's supremacy. The benefit-propositions in soaps were also changing from healthcare to aspects such as freshness, beautify, nature-care and deodorant-quality.

HLL now had many requirements to meet; it had to tap some of these emerging market needs, it had to play down the image of Lifebuoy as a mere villager's soap and it had to enhance the earnings from the Lifebuoy brand in the long term.

HLL decided to meet these needs by enlarging the scope of the Lifebuoy brand through line extensions.

Lifebuoy Personal : HLL now launched *Lifebuoy Personal,* in pink colour, with a new perfume. But the brand suffered because it did not carry the benefit proposition of health and body care. HLL subsequently mended these drawbacks through an appropriate promotion campaign.

Lifebuoy Plus : In the 1980s, HLL made special attempts to expand the reach of Lifebuoy to urban consumers. To quote HLL, 'Lifebuoy was considered down market especially in the urban areas. So, we had to instill a sense of pride in the user; he should not be ashamed of using Lifebuoy.' So Lifebuoy Plus came; it basically was the old Lifebuoy with a different perfume. Backed by high budget advertising, HLL managed to popularise Lifebuoy Plus. Says HLL, '*With Lifebuoy Plus, we could widen the appeal to new, urban consumers.*'

Lifebuoy Gold : One more extension appeared for the urban consumer, Lifebuoy Gold; it broke away from the traditional red colour of Lifebuoy; it was pure white, had different fragrance and was higher priced.

Liquid Lifebuoy : By this time, Liquid Lifebuoy also staged its entry to strengthen the brands' presence in the urban market. It was a modern product form.

In the rural markets, Lifebuoy continued its dominance in spite of competition; there was the stubborn [illegible] user in the rural areas, who continued to patronise the brand. The line extensions—*Lifebuoy Personal*, *Lifebuoy Plus* and *Lifebuoy Gold* and the campaigns around them helped strengthen the brand name *Lifebuoy* to a great extent.

Lifebuoy Active : But by the late 1990s, Lifebuoy was again under pressure. To quote HLL: 'Lifebuoy has been facing pressure; Carbolic soaps are being challenged by cheap fatty-matter based soaps. We are taking a series of measures to counter it.' HLL then came out with another extension, *Lifebuoy Active* to take on the challenge posed by non-carbolics.

While Lifebuoy continues its fight into the next century of its growth, HLL is endeavouring to keep Lifebuoy young and novel. The parent brand and the extensions together enhance the competitiveness of HLL's soaps line. Lifebuoy remains the largest selling soap brand in India and a big revenue/profit earner for HLL.

Advantages of Line Extension :

- Line extensions help strengthen brand power and keep the brand live, modern and contemporary. Surf Ultra and Surf Excel help Surf remain modern and also strengthen its claim as a major player in detergents.
- Changing consumer tastes can be accommodated through line extensions. Every change in consumer tastes may not warrant an altogether new brand.
- Usually, mounting advertising and promotion costs necessitate a reduction in the brand portfolio of any firm. Line extensions help the firm to contain its brand portfolio.
- Line extensions provide a convenient route for infusing new values into an ongoing brand and [illegible] presence in new markets.
- Sometimes, companies add independent brands to a product line, but later they find these brands cannot stand independently and then they bring it under an ongoing strong brand, *i.e.*, they revert to line extensions. Nestle, for example, first made *Sunrise* an independent brand and later reverted it as a line extension of *Nescafe* and called it *Nescafe Sunrise.*

Brand Extensions. A company may use its existing brand name to launch new products in other categories. Honda uses its company name to cover such different products as automobiles, motorcycles, snowblowers, lawn mowers, marine engines, and snowmobiles. This allows Honda to advertise that it can fit "six Hondas in a two-car garage."

Brand-extension strategy offers many of the same advantages as line extensions. Sony puts its name on most of its new electronic products and instantly establishes the new product's high quality. Like line extension, brand extension also involves risks. The new product might disappoint buyers and damage their respect for the company's other products. The brand name may be inappropriate to the new product—consider buying Castrol Oil ketchup, Drano milk, or Boeing cologne. The brand name may lose its special positioning in the consumer's mind through overextension. *Brand dilution* occurs when consumers no longer associate a brand with a specific product or highly similar products. A brand is stronger the more narrow its focus.

Companies that are tempted to transfer their brand name must research how well the brand's associations fit the new product. The best result would occur when the brand name builds the sales of both the new product and the existing product. An acceptable result would be one in which the new product sells well without affecting the sales of the existing product. The worst result would be one in which the new product fails and hurts the sales of the existing product.

Maggi initially was a brand of noodles. Later, the brand name was extended to other product lines in the related category food—Maggi Ketchup, Maggi Soup, etc. It is a case of related brand extension. Maggi's

'Instant culinary' expertise was extended to related food items. This is called *related brand extension* or *category extension*.

Dettol : For years, Dettol has been a well-known brand of antiseptic lotion. When the company, Reckitt & Colman, decided to expand into new antiseptic products, they decided to launch them under the Dettol brand name, *i.e.*, as brand extensions in related category. They felt that it would enable the new products to gain immediate identification as sister products of Dettol and they would easily move under the Dettol name. The Dettol brand name was extended to a number of related products as shown follow :

Dettol Soap—antiseptic soap

Dettol Plaster—antiseptic bandage

Dettol Handwash—antiseptic wash

Exhibit 7.4: Line and Category Extensions by Pond's

- Pond's Dreamflower Talc
- Pond's Dreamflower Talc Magic
- Pond's Sandal Talc
- Pond's Dreamflower Soap
- Pond's Cold Soap
- Pond's Face Wash
- Pond's Cold Cream
- Pond's Complexion Defense Moisturiser
- Pond's Moisturising Lotion
- Pond's Dreamflower Moisturising Body Lotion
- Pond's Moisturising Cleansing Bar

Why Firms Opt for Brand Extension ?

- Helps the new item to acquire instant brand recognition.
- Saves costs; a brand extension costs much less than launching a new brand; today, for sheer economic reasons, more and more firms are resorting to brand extensions.
- Helps leverage the strength of the existing brand to new additions within the line, within the category and outside the category.
- When a brand lends for premium pricing, benefit of brand extension is all the more significant.
- If an existing brand name can be extended across totally new and unrelated categories of products, the benefit is particularly large. It's a tremendously less expensive way of introducing new products.
- Extensions also help built the brand into a 'superbrand' in the minds of consumers. It creates an extendable brand canopy with high scaope for profits.

Main Requirements for Success of Brand Extension

For brand extension to succeed, three basic requirements covering the mother brand and the extensions must be met. These are :

(*i*) In customer's perception, there must be consistency between the parent brand and the extensions.

(*ii*) Extension should be in the brand's area of expertise, so that there is scope for leverage.

(*iii*) Benefit transfer.

Let us discuss them one by one.

(*i*) Consistency Factor

Consumers must perceive the extended item to be consistent with the mother brand. This is difficult to achieve when the extension is to unrelated/outside the category products.

In the case of Pond's, in consumer's perception, there was no consistency between the 'mother' brand, talcum powder, and the extension, Pond's toothpaste. This extension suffered in the market

(*ii*) Brand's Area of Expertise

As a rule, extension of brand name has a better chance of success when it is to a product, which is within the brand's area of expertise. Consumers then find the extension credible. For example, Surf's extension to Surf Ultra and Lifebuoy's extension to Lifebuoy Plus were within the parent brand's area of expertise. Similarly, Lipton had great expertise in tea. But, in the consumers' perception, biscuits needed a different expertise altogether. On the contrary. Maggi's extension of its 'instant culinary' expertise across food categories from noodles to ketchups, soups, and pickles—looked natural to the consumer.

(*iii*) Benefit Transfer

Another tenet in brand extensions is that the mother brand's benefit must be transferable and be transferred to extensions, because consumers expect and desire the benefit offered by the parent brand in the extensions. Thus, users of 5-Star *ice cream* will expect the same kind of gratification as they have received from 5-Star *chocolate*.

In unrelated/outside category extensions, all the three conditions mentioned above are under strain; it is difficult to fulfill these conditions. And that is why the risk of brand extension is higher in such cases.

Multibrands. A company will often introduce additional brands in the same product category. Sometimes the company is trying to establish different features or appeal to different buying motives. Thus, P&G produces nine different brands of detergents. A multibranding strategy also enables the company to lock up more distributor shelf space and to protect its major brand by setting up *flanker brands*. Seiko establishes different brand names for its higher-priced (Seiko Lasalle) and lower-priced watches (Pulsar) to protect its flanks. Sometimes the company inherits different brand names in the process of acquiring competitors.

A major pitfall in introducing multibrand entries is that each might obtain only a small market share, and none may be particularly profitable. The company will have dissipated its resources over several brands instead of building a few highly profitable brands. Ideally, a company's brands within a category should cannibalize the competitor's brands and not each other. At the very least the net profits with multibrands should be larger even if some cannibalism occurs.

New Brands. When a company launches products in a new category, it may find that none of its current brand names are appropriate. If Timex decides to make toothbrushes, it is not likely to call them Timex toothbrushes. Yet establishing a new brand name in the U.S. marketplace for a mass-consumer packaged good can cost anywhere from $50 million to $100 million.

Cobrands. A rising phenomenon is the emergence of *cobranding* (also called *dual branding*), in which two or more well-known brands are combined in an offer. Each brand sponsor expects that the other brand name will strengthen preference or purchase intention. In the case of copackaged products, each brand hopes it might be reaching a new audience by associating with the other brand.

Many manufacturers make components—motors, computer chips, carpet fibers—that enter into final branded products, and whose individual identity normally gets lost. These manufacturers hope their brand will be featured as part of the final product. Among the few component branders that have succeeded in building a separate identity is Intel. Intel's consumer-directed brand compaign convinced many personal computer buyers to buy only computer brands with "Intel Inside". As a result, major PC manufacturers—IBM, Dell, Compaq—purchase their chips from Intel at a premium price rather than buy equivalent chips from an unknown

supplier. Despite these success stories, most component manufactures find it hard to convince buyers to insist on a certain component, material, or ingredient in the final product. A consumer is not likely to choose a car because it features Champion spark plugs or Stainmaster upholstery.

Brand Repositioning

However well a brand is currently positioned, the company may have to reposition it later when facing new competitors or changing customer preferences. Consider the following repositioning story :

- **7-up.** 7-up was one of several soft drinks bought primarily by older people who wanted a bland, lemon-flavoured drink. Research indicated that although a majority of soft drink consumers preferred a cola, they did not prefer it all the time, and many other consumers were non-cola drinkers. 7-Up went for leadership in the noncola market by calling itself the Uncola. The campaign featured the Uncola as a youthful and refreshing drink, the one to reach for instead of a cola. 7-Up established itself as the *alternative* to colas, not just another soft drink.

Logo

Selecting the Logo

Along with the brand name, companies also use a logo for visual identification. Logo enhances recognition by the provision of a *symbol* of identity. A logo is a pictorial symbol intended to communicate with the consumers. It is an accompaniment to the brand name and the two together identify a company's product. Flags, mascots, pictures, graphic designs or plain alphabets are all used as logos. The logo is a piece of creativity. Marketers have understood that a logo/mascot, with a well-defined personality, can greatly increase memorability, aid recall and help sales. The mascot's special traits tend to have a rub off on the brand and help sales. And over time, the symbol and the brand become inseparable. Exhibit presents some well-known logos.

The logo can be made of anything—words, alphabets, pictures, graphics or even a splash of colours.

Exhibit 7.5: Some well-known Logos

HMV's Master's Voice

The dog was a very popular logo for HMV. All HMV gramophone records carried the picture of the dog. And the punch line 'His Master's Voice' lent more meaning to the logo and together they enhanced the product appeal.

Air India's Maharaja

Think of Air India, the 'Maharaja' comes to mind. The Maharaja, with his myriad moods has become one of the most endearing mascots. The logo has become inseparable to the brand.

Kelvinator's Penguin

Kelvinator's mascot, the Penguin, is also well known and has become almost inseparable to Kelvinator. The friendly bird which weathers all storms and is identified with extreme cold climate goes well with the product, refrigerator. The ad line, 'the coolest one' is also apt.

Asian Paint's Gattu

Asian Paints is another company that has created a winning logo. When you look for Asian Paints, you catch sight of Gattu—the impish little boy with a paintbrush in one hand and a dripping can of paint in the other. In many towns of North India, buyers ask for Asian Paints, by asking for the 'bacha chaap paint' (the kid's paint).

Onida's Devil

Even a mascot with some negative association can work for a brand's prospects, if handled imaginatively. That's what MIRC Electronics did when it launched its TV brand Onida in the 1980s. It used the 'devil', which represented envy, as the logo for Onida. Onida's marketing team explained their approach : 'We thought, why not personify envy ? It would fuel interest, Onida's strength lies in its pride and envy platform.' The devil has remained a central part of Onida's advertising theme, securing one of the highest recall levels in brand rating studies.

Dos and Don'ts in Logo Selection

The logo should fulfil the requirements of media suitability. It has to be reproduced on various media like the print, television and other electronic vehicles. It should also lend for attractive reproduction on different surfaces like glass and plastics. It should also have the flexibility to accommodate national/global and business-to-business marketing contexts.

The memory value of the logo is also very important. If one attempts to pack everything into the logo, the people may not remember anything. So, one has to be very choosy about the features to be incorporated in the logo. The design must aid memorability.

Uniqueness is another aspect. The more exclusive the symbol, the better the identification and response.

Changing the Logo

Though a logo is a relatively permanent entity for a company, sometimes changes are warranted. Many companies do change logos with the passage of time. They completely alter the logo or modify it depending on the need.

Eicher : Eicher had the head of a horse as their logo for over three decades. The logo served its purpose as long as Eicher remained a one-product company, making only tractors; the logo stood for the power and sturdiness of the tractor. When Eicher diversified into many unrelated fields, including financial services and consultancy, there was a need to show the company's new face. The logo was modified subtly to show the fast pace set by the company; the new logo showed the movement of a galloping horse.

Singer : The 150-year-old American company Singer had the alphabet 'S' and the picture of a lady in bonnet using the sewing machine as its logo. Almost a century later, this was dropped, instead the name 'Singer' was adopted. The earlier logo was more appropriate when the company was manufacturing only sewing machines. After diversifying into a variety of house-hold appliances, the company had to adopt a new logo, relevant to the company's altered range of products.

Goodlass Nerolac : When the paint company Goodlass Nerolac chose a tiger as its mascot, it fitted its requirements : it stood for bright lasting colours. Goody, as the mascot was called, figured in all communications of the company. But today, it is played down. 'We have deliberately underplayed him to avoid tedium. Moreover, Nerolac has built up a name for itself and today our priority is the omnibus brand name 'Nerolac itself.'

Brand Name, Logo and Slogan

The three go together; they must be compatible, one reinforcing the other. Let us see a few examples.

Brand Name	*Logo*	*Slogan*
Onida	The green-eyed devil	Neighbour's envy, owner's pride.
MRF radial	The man with steel muscles	India's answer to world-class car.
AT&T	The globe	Connecting people, anytime, anywhere.

PACKAGING

Packaging

Packaging is the part of product planning where a firm researches, designs, and produces package(s). A ***package*** is a container used to protect, promote, transport, and/or identify a product. It may consist of a product's physical container, an outer label, and/or inserts. The physical container may be a cardboard, metal, plastic, or wooden box; a cellophane, waxpaper, or cloth wrapper; a glass, aluminium, or plastic jar or can; a paper bag; styrofoam; some other material or a combination of these. Products may have more than one

container : Cereal is individually packaged in small boxes, with inner waxpaper wrapping, and shipped in large corrugated boxes; watches are usually covered with cloth linings and shipped in plastic boxes. The label indicates a product's brand name, the company logo, ingredients, promotional messages, inventory codes, and/ or instructions for use. Inserts are (1) instructions and safety information placed in drug, toy, and other packages or (2) coupons, prizes, or recipe booklets. They are used as appropriate.

About 10 percent of a typical product's final selling price goes for its packaging. The amount is higher for such products as cosmetics (as much as 40 percent or more). The complete package redesign of a major product might cost millions of dollars for machiney and production. Packaging decisions must serve both resellers and consumers. Plan are often made in conjunction with production, logistics, and legal personnel. Errors in packaging can be costly.

*A **package*** involves decisions as to a product's physical container, label, and inserts.

Package redesign may occur when a firm's current packaging receives a poor response from channel members and customers or becomes too expensive; the firm seeks a new market segment, reformulates a product, or changes or updates its product positioning, or new technology is available.

We define packaging as follows :

- ***Packaging*** includes the activities of designing and producing the container for a product.

The container is called the *package*, and it might include up to three levels of material. Old Spice aftershave lotion is in a bottle (*primary package*) that is in a cardboard box (*secondary package*) that is in a corrugated box (*shipping package*) containing six dozen boxes of Old Spice.

Packaging has become a potent marketing tool. Well-designed packages can create convenience and promotional value. Various factors have contributed to packaging's growing use as a marketing tool :

- *Self-service* : An increasing number of products are sold on a self-service basis. In an average supermarket, which stocks 15,000 items, the typical shopper passes by some 300 items per minute. Given that 53 percent of all purchases are made on impulse, the effective package operates as a "five-second commercial." The package must perform many of the sales tasks : attract attention, describe the product's features, create consumer confidence, and make a favourable overall impression.

- *Consumer affluence :* Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability and prestige of better packages.

- *Company and brand image* : Packages contribute to instant recognition of the company or brand. The Campbell Soup Company estimates that the average shopper sees its familiar red and white can 76 times a year, creating the equivalent of $26 million worth of advertising.

- *Innovation opportunity :* Innovative packaging can bring large benefits to consumers and profits to producers. Softsoap cornered the market on pumps for dispersing soap. Toothpaste pump dispensers have captured 12 percent of the toothpaste market because they are more convenient and less messy. Chesebrough-Pond's increased its overall nail-polish sales by 22 percent after introducing its novel Aziza Polishing Pen for fingernails.

Developing an effective package for a new product requires several decisions. The first task is to establish the *packaging concept* : defining what the package should basically *be* or *do* for the particular product. Decisions must now be made on additional elements—size, shape, materials, colour, text, and brand mark. Decisions must be made on the amount of text, on cellophane or other transparent films, on a plastic or a laminate tray, and so on. Decisions must be made on "tamperproof" devices. The various packaging elements must be harmonized. The packaging elements must also be harmonized with decisions on pricing, advertising, and other marketing elements.

After the packaging is designed, it must be tested. *Engineering tests* are conducted to ensure that the package stands up under normal conditions; *visual tests*, to ensure that the script is legible and the colours harmonious; *dealer tests*, to ensure that dealers find the packages attractive and easy to handle; and *consumer tests*, to ensure favourable consumer response.

Developing effective packaging may cost several hundred thousand dollars and take several months to complete. Companies must pay attention to growing environmental and safety concerns about packaging. Shortages of paper, aluminium, and other materials suggest that marketers should try to reduce packaging. Many packages end up as broken bottles and crumpled cans littering the streets and countryside. All of this packaging creates a major problem in solid waste disposal, requiring huge amounts of labor and energy. Fortunately, many companies have gone "green" : S.C. Johnson repackaged Agree Plus shampoo in a stand-up pouch using 80 percent less plastic. P&G eliminated outer cartons from its Secret and Sure deodorants, saving 3.4 million pounds of paper broad pa...

- **Tetra Pak.** Tetra Pak, a major Swedish multinational, provides an example of the power of innovative packaging and customer thinking. Tetra Pak invented an "aseptic" package that enables milk, fruit juice, and other perishable liquid foods to be distributed without refrigeration. This allows dairies to distribute milk over a wider area without investing in refrigerated trucks and facilities. Supermarkets can carry Tetra Pak packaged products on ordinary shelves, allowing them to save expensive refrigerator space. Tetra's motto is "the package should save more than it cost." Tetra Pak advertises the benefits of its packaging to consumers directly and even initiates recycling programs to save the environment.

Basic Packaging functions

The basic ***packaging functions*** are containment and protection, usage, communication, segmentation, channel cooperation, and new-product planning :

Packaging functions range from containment and protection to product planning.

- *Containment and protection*—Packaging enables liquid, granular and other divisible products to be contained in a given quantity and form. It protects a product while it is shipped, stored, and handled.
- *Usage*—Packaging lets a product be easily used and re-stored. It may even be reusable after a product is depleted. Packaging must also be safe for all, from a young child to a senior.
- *Communication*—Packaging communicates a brand image, provides ingredients and directions, and displays the product. It is a major promotion tool.
- *Segmentation*—Packaging can be tailor-made for a specific market group. If a firm offers two or more package shapes, sizes, colours, or designs, it may employ differentiated marketing.
- *Channel cooperation*—Packaging can address wholesaler and retailer needs with regard to shipping, storing, promotion and so on.
- *New-product planning*—New packaging can be a key innovation for a firm and stimulate sales.

Factors Considered in Packaging Decisions

Several factors must be weighed in making packaging decisions.

Because package design affects the image a firm seeks for its products, the colour, shape and material all influence consumer perceptions. Thus, "After 115 years, Listerine Antiseptic changed from glass to plastic in its most popular bottle sizes, as well as redesigned the classic barbell-shaped package that signified amber mouthwash—and 'medicine-y' taste to generations of consumers. The product inside is the same. We wanted to modernize it from the package in your grandmother's cabinet.

In family packaging, a firm uses a common element on each package in a product line. It parallels family branding. Campbell has virtually identical packages for its traditional soups, distinguished only by flavour or content identification. American Home Products, maker of Advil and Anacin pain medicine, does not use family packaging with these brands; they have distinct packages to lure different segments.

A global firm must decide if a standardized package can be used worldwide (with only a language change on the label). Standardization boosts global recognition. Thus, Coke and Pepsi have standard packages when

possible. Yet, some colours, symbols, and shapes have negative meanings in some nations. For example, white can mean purity or mourning, two vastly different images. Tide detergent has different packaging in Shanghai, China, than in the United States.

Package costs must be considered on both a total and per-unit basis. As noted earlier, total costs can run into the millions of dollars, and per-unit costs can go as high as 40 percent or more of a product's price—depending on the purpose and extend of packaging.

A firm has many packaging materials from which to select, such as paperboard, plastic, metal, glass, styrofoam, and cellophane. In the choice, trade-offs are probably needed: Cellophane allows products to be attractively displayed, but it is highly susceptible to tearing: paperboard is relatively inexpensive, but it is hard to open. A firm must also decide how innovative it wants its packaging to be. Aseptic packaging (for milk and juice boxes) allows beverages to be stored in special boxes without refrigeration. They are more popular in Europe than in the United States.

There is a wide range of package features from which to choose, depending on the product. These features include pour spouts, hinged lids, screw-on tops, pop-tops, see-through bags, tuck or seal-end cartons, carry handles, product testers (for items like batteries), and freshness dating. They may provide a firm with a differential advantage.

A firm has to select the specific sizes, colours, and shapes of its packages. In picking a package size, shelf life (how long a product stays fresh), convenience, tradition, and competition must be considered. In the food industry, new and larger sizes have captured high sales. The choice of package colour depends on the image sought. Mello Yello, a citrus soft drink by Coca-Cola, has a label with bright orange and green lettering on a lemon-yellow background, Package shape also affects a product's image. Hanes created a mystique for L'eggs pantyhose via the egg-shaped package. The number of packages used with any one product depends on competition and the firm's use of differentiated marketing. By selling small, medium, and large sizes, a firm may ensure maximum shelf space, appeal to different consumers, and make it difficult and expensive for a new company to gain channel access.

The placement, content, size, and prominence of the label must be set. Both company and brand names (if appropriate) need to appear on the label. The existence of package inserts and others useful information (some required by law) should be noted on the label. Sometimes, a redesigned label may be confusing to customers and hurt a product's sales.

Multiple packaging couples two or more product items in one container. It may involve the same product (such as razor blades) or combine different ones (such as a first-aid kit). The goal is to increase usage (hoarding may be a problem), get people to buy an assortment of items, or have people try a new item (such as a new toothpaste packaged with an established toothbrush brand). Many multiple packs, like cereal, are versatile—they can be sold as shipped or broken into single units.

Individually wrapping portions of a divisible product may offer a competitive advantage. It may also be costly. Kraft has done well with its individually wrapped cheese slices. Alka-Seltzer sells tablets in individually wrapped tin-foil containers, as well as in a bottle without wrapping.

For certain items (such as shirts, magazines, watches and candy), some resellers may want pre-printed prices. They then have the option of charging those prices or adhering their own labels. Other resellers prefer only a space for the price on the package and insert their own price label automatically. Because of the growing use of computer technology by resellers in monitoring their inventory levels, more of them are insisting on pre-marked inventory codes on packages. The National Retail Federation endorses the Universal Product Code as the voluntary vendor marking standard in the United States.

With the ***Universal Product Code (UPC),*** manufacturers pre-mark items with a series of thick and thin vertical lines. Price and inventory data bar codes are represented by these lines, which appear on outer package labels but are not readable by employees and customers. Lines are "read" by computerized scanning equipment at the checkout counter; the cashier does not have to ring up a transaction manually and inventory

data are instantly transmitted to the main computer of the retailer (or manufacturer). In the UPC system human-readable prices must still be marked, either by the manufacturer or the reseller.

Last, a firm must be sure the package design fits in with the rest of its marketing mix. A well-known perfume may be extravagantly packaged, distributed in select stores, advertised in upscale magazines, and sold at a high price. In contrast, a firm making perfumes that imitate leading brands has more basic packages, distributes in discount stores, does not advertise, and uses low prices. The two brands may cost an identical amount to make, but the imitator would spend only a fraction as much on packaging.

At its Web site, Chamber Biz (www.chamberbiz.com) has a very good discussion about package design including its relationship with brand positioning, the use of graphics, and reflecting target market values. In the tool bar at the left of the screen, go to "Expand Your Business" and click on "Sales/Marketing." Then, scroll down to "Packaging and pricing your product."

Criticisms of Packaging

The packaging practices of some industries and firms have been heavily criticized and regulated due to their impact (or potential impact) on the environment and scarce resources, the high expenditures on packaging, questions about the honesty of labels and the confusion caused by inconsistent designations of package sizes (such as large, family, super), and critics perceptions of inadequate package safety.

Yet, consumers—as well as business—must bear part of the responsibility for the negative results of packaging. Throwaway bottles (highly preferred by consumers) use almost three times the energy of returnable ones. Shoplifting annually adds to packaging costs because firms must add security tags and otherwise alter packages.

In planning their packaging programs, firms need to weigh the short-term and long-term benefits and costs of providing environmentally safer ("green"), less confusing, and more tamper-resistant packages. Generally, firms are responding quite positively to the criticisms raised here.

Package Materials

Changing trends—from wood to paper and plastics : Over the years a great deal of changes have taken place in the materials used for packaging. In the earlier days, wood was the main material used. It has slowly given place to paper and paperboard, especially on account of the shortage in wood supplies. Paperboard cartons, paper bags and corrugated boards have become popular forms of packaging for a variety of products, from groceries to garments.

Metal containers are also popular. Metal containers are an excellent packaging medium for processed foods, fruit, vegetables, meat products, oil, paint, etc. However, the acute shortage of tin in India makes metal packaging rather costly. In recent years, aluminium-based packaging has become popular. It is used in the form of foil, foil-based laminates, cans, pilfer-proof caps, etc. Products like tea, coffee, and spices have adopted aluminium foil packaging.

Plastics, the new packing medium : With the growth of the petrochemical industry; a new range of packaging materials have entered the marketing scene. Films of low-density and high-density polyethylene (LDPE and HDPE), metalised polyester film, metalised polyester laminates and polypropylene have become the preferred packaging medium for several products. In fact, such packaging materials have [illegible] large extent replaced the traditional medium of paper, metal and jute.

This new family of synthetic packaging materials, generally known as 'plastics', have several [illegible] : (*i*) waterproof and moisture proof property, (*ii*) capacity to provide effective barrier to vapour [illegible] resistance to sun exposure, (*iv*) thermal stability, (*v*) light weight, (*vi*) alkali and acid proof property, attractiveness and transparency.

They also allow attractive printing/branding on them. Plastics as a group are now dominating the packaging field in India. They are now used in a variety of packaging applications—from simple grocery bags to sophisticated stretch blown bottles. Popular brands like Tata Tea, Nescafe, Dalda, Amul milk chocolates and even agricultural inputs like chemical fertilisers have all gone in for plastic packaging materials

More innovations in packaging : The continuous search for improved types of packing has led to a stream of innovations. These innovations have embraced packaging materials, package design, package a esthetics and package convenience. Also, the innovations have been brought in with a view to reducing the costs of packaging and enhancing the shelf life of the product.

Tetrapacks : Tetrapacks or aseptic packaging is the new development in food packaging. Here, the package as well as the contents are sterilised and human handling dispensed with. The package consists of several thin layers of polyethylene foil and paper. Several manufacturers of fruit juices and fruit drinks are now using tetrapacks. Tetrapacks have an edge over cans since their contents have a shelf life of three months without the addition of preservatives.

Parle's Frooti and Godrej's Jump in were the early ones to go in for aseptic tetrapacks. Fruit juice brands like Onjus and Tropicana have joined them and now many other brands are opting for tetrapacks.

Package Aesthetics

For enhancing the sales appeal of the package, more and more attention is now being given to package aesthetics. Marketing men are always in search of packaging materials, package designs and package sizes and shapes that will enhance the sales appeal of their products. Marketing men, especially in consumer products, rely heavily on package aesthetics as a powerful tool for sales appeal, brand identification and product differentiation.

When the shape and looks of the product is integral to its appeal, innovative packaging can greatly help in generating trials. Hindustan Lever's LeSancy soap, with its unique bean shape, was packaged in transparent polythene to exhibit the shape. For the first time in soap category, the customer could see the unique shape, colour and appearance of the product. The packaging strongly influence high trial purchases.

In some cases, packaging also facilitates merchandising. The package as a silent salesman and in projecting the right image of the product is discussed in the chapter. Suffice here to say that the size and shape of the package, the material used, the finish, the colour, the labelling, etc., are all influential components of the total sales appeal of the product.

Package Size and Convenience

Along with packaging aesthetics, package size and convenience also contribute to the total product appeal.

Pond's cold cream and Brylcream in tubes : Earlier, Pond's cold cream was coming in a bottle container. And, it was intended and used as a dressing table item. Subsequently, Pond's introduced the cream in a handy plastic tube. The new package changed the very concept of the product. From a dressing table item, it also became a carry-along product. This change in package increased the sales of Pond's cold cream. The same was the case with Brylcream. Earlier, this hair-cream used to come only in bottle containers. Later, Brylcream appeared in a convenient tube, Brylcream in the new package became a convenient, carry-along, dressing item.

Application convenience of Harpic : Harpic liquid toilet cleaner is another product that has successfully exploited the concept of customer convenience in packaging. The container, fitted with a nozzle for cleaning the toilet, gives Harpic an advantage over other similar products, which pose application problems for consumers.

The beer can : The beer can serves as one of the best examples of packaging convenience. Opening the can is so simple an action and requires no instructions whatsoever. The design is based on an understanding of people's basic pattern of expectations. Confronted with the ring when given a beer can, what would you do but pull it.

Fractional packaging : Providing 'fractional package' or small unit package is also a method of going with customer preference and convenience. Toothpastes are now available in 200 gm packing as well as in 50 gms pcaking.

Economy pack : The economy or family package makes available the product in larger size. Households with several members can buy the economy packs and avoid the inconvenience of repeat purchases, making a saving in the bargain.

Sachets : More recently, the tiny pack, sachet, is becoming popular. Many consumer products like soups beverages, candy, cough syrup, toothpaste, digestive salts, hair oil and shampoo are now being popularised through sachets. The use of sachets gained popularity with the arrival of pan masala in the 1980s. Now, sachets have become a key marketing tool for penetrating rural markets, for inducing product trials and even enticing the casual user. Some estimates put the turnover of consumer goods marketed in sachets at Rs. 500 crore per annum. In shampoo, brands like Sunsilk and Velvette, were the pioneers; they gained a lot of penetration in the rural markets through sachets. The low unit price of sachets (*e.g.*, Sunsilk Rs. 1.50, Velvette Rs [illegible]) made them affordable even to the lower end of the market and helped in speedy trial and adoption. Today almost all shampoo brands are available in sachets and more than half the total shampoo sales is in sachets.

Reusable containers : Providing reusable containers is another way of enhancing product appeal. Nescafe at a point of time came in a glass jar, which could be later used as a glass. And the Nescafe campaigns persuaded the customers to collect a set of such glasses. Plastic containers, (*e.g.*, Rath and Dalda) lend themselves for reuse in the kitchen store. Bournvita in the 200 gm handle-jar was much sought after by the housewife. Bournvita was also sold in smaller drinking mugs and pet jars. Cadbury's cocoa was introduced in a special 'measuring glass cup'.

Refill packs : Refill packaging is also related to customer convenience and economy. Several product categories like health drinks, coffee and tea and cooking oils are now coming in refill packs. Brands like Nescafe, Bru, Bournvita, Maltova, Suffola, etc., are examples. The refill packs are sold at a slightly lesser price than the regular package and that itself serves as a sales promotion support.

Quite often, marketers use packaging for product renovation too. They change the package to give a new look to the product : no changes are brought about in the product; only the package is changed in an attempt to set right a declining trend in sales. The product is then advertised as new. In some other cases, the package is changed even when the sales are going up. The intention is to retain the interest of the existing customers and to attract new groups of customers.

Labelling

Labelling

Sellers must label products. The label may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. The label might carry only the brand name or a great deal of information. Even if the seller prefers a simple label, the law may require additional information.

Labels perform several functions. First, the label *identifies* the product or brand—for instance, the name Sunkist stamped on oranges. The label might also *grade* the product; canned peaches are grade labelled A, B and C. The label might *describe* the product : who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely. Finally, the label *promote* the product through its attractive graphics.

Labels eventually become outmoded and need freshening up. The label on Ivory soap has [illegible] 18 times since the 1890s, with gradual changes in the size and design of the letters. The label on [illegible] soft drink was substantially changed when competitors' labels began to picture fresh fruit [illegible] more sales. In response, Orange Crush developed a label with new symbols to sugges[illegible]ness and with much stronger and deeper colours.

There is a long history of legal concerns surrounding labels, as well as packaging. In [illegible] Commission Act held that false, misleading, or deceptive labels or packages constitute unfair competition. The Fair Packaging and Labeling Act, passed by Congress in 1967, set mandatory labelling require[illegible] voluntary industry packaging standards, and allowed federal agencies to set packaging re[illegible] industries. The Food and Drug Adminstration (FDA) has rqeuired processed-food [illegible]oduce[illegible] labelling that clearly states the amounts of protein, fat, carbohydrates, and calories contained [illegible] well as their vitamin and mineral content as a percentage of the recommended daily [illegible] recently launched a drive to control health claims in food labeling by taking action aga[illegible]

misleading use of such descriptions as "light", "high fiber" and "low fat." Consumerists have lobbied for additional labelling laws to require *open dating* (to describe product freshness), *unit pricing* (to state the product cost in standard measurement units), *grade labelling* (to rate the quality level), and *percentage labelling* (to show the percentage of each important ingredient).

LABELLING—TELLING ABOUT THE PRODUCT

Label : *The paper or plastic sticker attached to a container to carry product information. As packaging technology improves, labels become incorporated into the protective aspects of the package rather than simply being affixed to the package.*

The paper or plastic sticker attached to a can of peas or a mustard jar is technically called a **label**. But as packaging technology improves and cans and bottles become less prominent, labels become incorporated into the protective aspects of the package. In the case of a box of frozen broccoli, for example, a good portion of the vegetable's protection comes from the label, which is more properly called, in this case, the *wrapper*.

Whether the label is a separate entity affixed to a package or is, in effect, the package itself, it must perform certain tasks. It carries the brand name and information concerning the contents of the package, such as cooking instructions and information relating to safe and proper use of the product. A label may also carry instructions for the proper disposal of the product and its package, or at least a plea to consumers to avoid littering. The label must contain any specific nutritional information, warnings, or legal restrictions required by law. Some labels, such as those of Procter & Gamble, also give an 800 telephone number that customers with ideas or complaints can use. Consumers' calls are a major source of Procter & Gamble's product improvement ideas.

Universal Product Code (UPC). *The array of black bars, readable by optical scanners, found on many products. The UPC permits computerization of tasks such as checkout and compilation of sales volume information.*

Most consumer packaged goods are labeled with an appropriate **Universal Product Code (UPC),** and array of black bars readable by optical scanners. The advantages of the UPC—which allow computerized checkout and compiling of computer-generated sales volume information—have become clear to distributors, retailers and consumers in recent years.

Global Implications and Legal Guidelines for Packaging

Package designers are relatively free to develop package designs. However, when the package will be used in several countries, marketers must determine whether to use a single package with one language, a single package with two or more languages, or multiple packages tailored to the separate countries. Decisions about use of colours and symbols, protection in transit over long distances, etc. should also be made.

Chapter 8
Product Life Cycle

Product Life-cycle Marketing Strategies

A company's differentiating and positioning strategy must change as the product, market, and competitors change over time. Here we will describe the concept of the product life cycle and the changes that are normally made as the product passes through each stage of the life cycle.

The Concept of the Product Life Cycle

To say that a product has a life cycle is to assert four things :

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

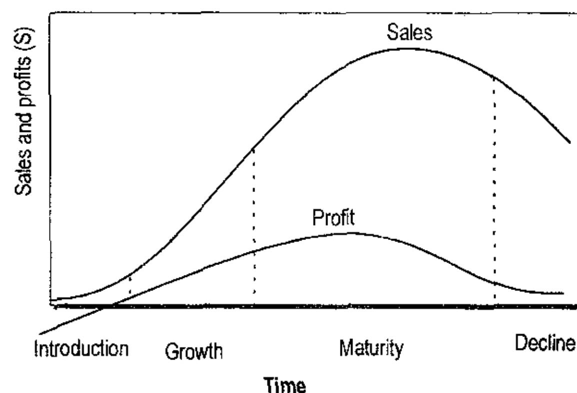


Figure 8.1: Sales and Profit Life Cycles.

Most product life-cycle curves are portrayed as bell-shaped (Fig. 8.1). This curve is typically divided into four stages : introduction, growth, maturity and decline.

1. *Introduction*: A period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses incurred with product introduction.
2. *Growth*: A period of rapid market acceptance and substantial profit improvement.
3. *Maturity*: A period of a slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. *Decline*: The period when sales show a downward drift and profits erode.

The PLC concept can be used to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff).

- *Product categories* have the longest life cycles. Many product categories stay in the mature stage indefinitely and grow only at the population growth rate. Some major product categories – typewriters,

newspapers—seem to have entered the decline stage of the PLC. Some others—fax machines, cellular telephones, bottled water—are clearly in the growth stage.

- *Product forms* follow the standard PLC more faithfully. Manual typewriters passed through the stages of introduction, growth, maturity, and decline; their successors—electric typewriters and electronic typewriters—passed through these same stages.
- *Products* follow either the standard PLC or one of several variant shapes.
- *Branded products* can have a short or long PLC. Although many new brands die an early death, some brand names—such as Lifebuoy, Rin, Lux—have a very long PLC and are used to name and launch new products.

Other Shapes of the Product Life Cycle

Not all products exhibit a bell-shaped PLC. Researchers have identified from six to seventeen different PLC patterns. Three common alternate patterns are shown in Fig. 8.2, Fig. 8.2.(*a*), shows a *growth-slump-maturity pattern,* often characteristic of small kitchen appliances. Some years ago, the sales of electric knives grew rapidly when the product was first introduced and then fell to a "petrified" level. The petrified level is sustained by late adopters buying the product for the first time and early adopters replacing the product.

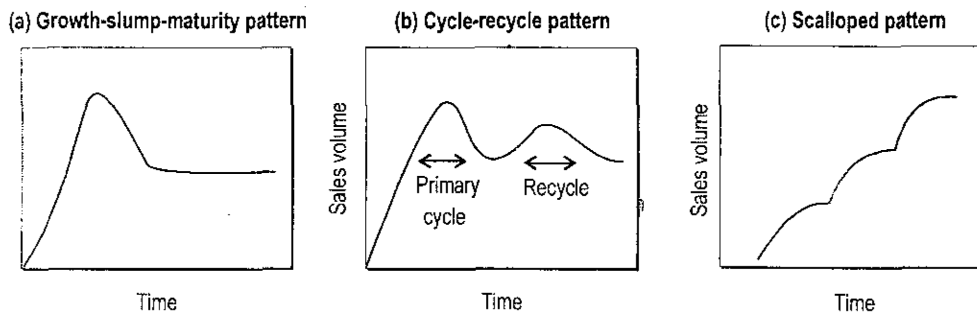


Figure 8.2: Common Product Life-Cycle Patterns

The *cycle-recycle pattern* in Fig. 8.2(*b*), often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, and this produces the first cycle. Later, sales start declining and the company gives the drug another promotion push, which produces a second cycle (usually of smaller magnitude and duration).

Another common pattern is the *scalloped PLC* in Fig. 8.2(*c*). Here sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses, or users. Nylon's sales, for example, show a scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tyres—that continue to be discovered over time.

Style, Fashion, and Fad Life Cycles

Three special categories of product life cycles should be distinguished—styles, fashions, and fads (Fig. 8.3). A *style* is a basic and distinctive mode of expression appearing in a field of human endeavour. Styles appear in homes (colonial, ranch, Cape *Cod*); clothing (formal, casual, funky); and art (realistic, surrealistic, abstract). A style can last for generations, going in and out of vogue. A *fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages : distinctiveness, emulation, mass fashion, and decline.

The length of a fashion cycle is hard to predict. Wasson believes that fashions end because they represent a purchase compromise, and consumers start looking for missing attributes. For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Furthermore, too many consumers adopt the fashion, thus turning others away. Reynolds suggests that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in

the society, satisfies societal norms and values, and does not exceed technological limits as it develops.

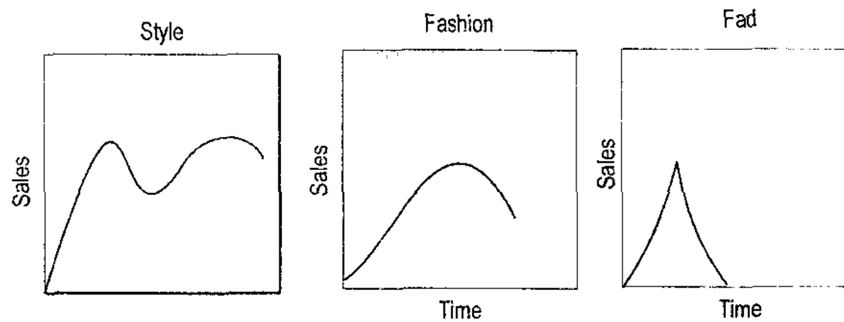


Figure 8.3: Style, Fashion, and Fad Life Cycles.

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend attract only a limited following of those who are searching for excitement or want distinguish themselves from others. They often have a novel or capricious aspect, such as body piercing and tattooing. Fads do not survive because they do not normally satisfy a strong need.

Marketing Strategies: Introduction Stage

Because it takes time to roll out a new product and fill dealer pipelines, sales growth tends to be slow at this stage. Buzzell identified several causes for the slow growth : delays in the expansion of production capacity; technical problems ("working out the bugs"); delays in obtaining adequate distribution through retail outlets; and customer reluctance to change established behaviours. Sales of expensive new products such as high-definition TV are retarded by additional factors such as product complexity and fewer buyers.

Profits are negative or low in the introduction stage because of low sales and heavy distribution and promotion expenses. Much money is needed to attract distributors. Promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets. Firms focus their selling on those buyers who are the readiest to buy usually higher-income groups. Prices tend to be high because costs are high due to relatively low output rates, technological problems in production, and high required margins to support the heavy promotional expenditures.

In launching a new product, marketing management can set a high or a low level for each marketing variable (price, promotion, distribution, product quality). Considering only price and promotion, management can pursue one of four strategies.

1. *Rapid skimming*: Launching the new product at a high price and a high promotion level. This strategy makes sense when a large part of the potential market is unaware of the product; those who become aware of the product are eager to have it and can pay the asking price; and the firm faces potential competition and wants to build brand preference.
2. *Slow skimming*: Launching the new product at a high price and low promotion. This strategy makes sense when the market is limited in size; most of the market is aware of the product; buyers are willing to pay a high price; and potential competition is not imminent.
3. *Rapid penetration*: Launching the product at a low price and spending heavily on promotion. This strategy makes sense when the market is large, the market is unaware of the product, most buyers are price sensitive, there is strong potential competition, and the unit manufacturing costs fall with the company's scale of production and accumulated manufacturing experience.
4. *Slow penetration*: Launching the new product at a low price and low level of promotion. This strategy makes sense when the market is large, is highly aware of the product, is price sensitive, and there is some potential competition.

The Competitive Cycle

The pioneer knows that competition will eventually enter and cause prices and its market share to fall. When will this happen? What should the pioneer do at each stage ? Frey describes five stages of the *competitive cycle* that the pioneer has to anticipate (Fig. 8.4).

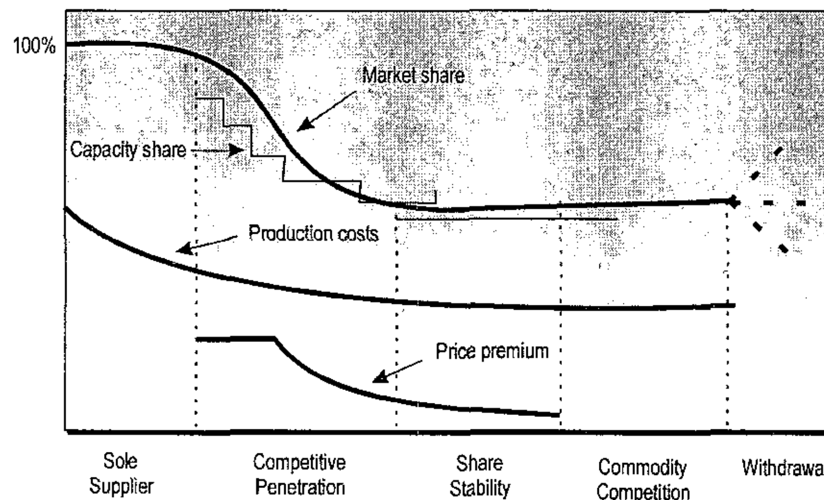


Figure 8.4: Stage of the Competitive Cycle

- Initially the pioneer is the *sole supplier*, with 100 per cent of production capacity and sales. *Competitive penetration* starts when a new competitor has built production capacity and begins commercial sales. The leader's share of production capacity and share of sales fails. As more competitors enter the market and charge a lower price, the perceived relative value of the leader's offer declines, forcing a reduction in the leader's price premium.
- Capacity tends to he overbuilt during rapid growth. When a cyclical slowdown occurs, industry overcapacity drives down margins to lower levels. New competitors decide not to enter, and existing competitors try to solidify their positions. This leads to *share stability.*
- Stability is followed by *commodity competition.* The product is viewed as a commodity, buyers no longer pay a price premium, and the suppliers earn only an average rate of return. At this point, *withdrawal* begins. The pioneer might decide to build share further as other firms withdraw.

Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution.

Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain their promotional expenditures at the same or at a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion-sales ratio.

Profits increase during this stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the producer learning effect. Firms have to watch for a change from an accelerating to a decelerating rate of growth in order to prepare new strategies.

During this stage, the firm uses several strategies to sustain rapid market growth as long as possible :

- It improves product quality and adds new product features and improved styling.

- It adds new models and flanker products (*i.e.*, products of different sizes, flavours, and so forth that protect the main product).
- It enters new market segments.
- It increases its distribution coverage and enters new distribution channels.
- It shifts from product-awareness advertising to product-preference advertising.
- It lowers 'prices to attract the next layer of price-sensitive buyers.

These market expansion strategies strengthen the firm's competitive position.

The firm in the growth stage faces a trade-off between high market share and high current profit. By spending money on product improvement, promotion, and distribution, it can capture a dominant position. It forgoes maximum current profit in the hope of making even greater profits in the next stage,

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will enter a stage of relative maturity. This stage normally lasts longer than the previous stages, and poses formidable challenges to marketing. *Most products are in the maturity stage of the life cycle, and most marketing managers cope with the problem of marketing the mature product*

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first phase, the sales growth rate starts to decline. There are no new distribution channels to fill. In the second phase, sales flatten on a per capita basis because of market saturation. Most potential consumers have tried the product, and future sales are governed by population growth and replacement demand. In the third phase, *decaying maturity*, the absolute level of sales starts to decline, and customers begin switching to other products and substitutes.

The sales slowdown creates overcapacity in the industry, which leads to intensified competition. Competitors scramble to find niches. They engage in frequent markdowns. They increase advertising and trade and consumer promotion. They increase R & D budgets to develop product improvements and line extensions. They make deals to supply private brands. A shakeout begins, and weaker competitors withdraw. The industry eventually consists of well-entrenched competitors whose basic drive is to gain or maintain market share.

Dominating the industry are a few giant firms—perhaps a quality leader, a service leader, and a cost leader that serve the whole market and make their profits mainly through high volume and lower costs. Surrounding these dominant firms are a multitude of market nichers, including market specialists, product specialists, and customizing firms. The issue facing a firm in a mature market is whether to struggle to become one of the "big three" and achieve profits through high volume and low cost or to pursue a niching strategy and achieve profits through low volume and a high margin.

In the maturity stage, some companies abandon weaker products and concentrate on more profitable products and on new products. Yet they may be ignoring the high potential many mature markets and old products still have. Many industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found, ways to offer new values to customers.

Market Modification

The company might try to expand the market for its mature brand by working with the two factors that make up sales volume :

$$\text{Volume} = \text{number of brand users} \times \text{usage rate per user}$$

The company can try to expand the number of brand users in three ways :

1. *Convert nonusers* : The key to the growth of air freight service is the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.

2. *Enter new market segments* : Johnson and Johnson successfully promoted its baby shampoo to adult users.

3. *Win competitor's customers* : Pepsi-Cola is constantly tempting Coca-Cola users to switch.

Volume can also be increased by convincing current brand users to increase their usage of the brand. Here are three strategies : (1) The company can try to get customers to use the product more frequently : Orange juice marketers try to get people to drink orange juice at occasions other than breakfast time. (2) The company can try to interest users in using more of the product on each occasion : A shampoo manufacturer might indicate that the shampoo is more effective with two applications than one. (3) The company can try to discover new product uses and convince people to use the product in more varied ways : Food manufacturers list several recipes on their packages to broaden consumers' uses of the product.

Product Modification

Managers also try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement.

Quality improvement aims at increasing the product's functional performance—its durability, reliability, speed, taste. A manufacturer can often overtake its competition by launching a "new and improved" product. Grocery manufacturers call this a "plus launch" and promote a new additive or advertise something his "stronger," "bigger," or "better." This strategy is effective to the extent that the quality is improved, buyers accept the claim of improved quality, and a sufficient number of buyers will pay for higher quality.

Feature improvement aims at adding new features (for example, size, weight, materials, additives, accessories) that expand the product's versatility, safety, or convenience.

This strategy has several advantages. New features build the company's image as an innovator and win the loyalty of market segments that value these features. They provide an opportunity for free publicity and they generate sales force and distributor enthusiasm. The chief disadvantage is that feature improvements are easily imitated; unless there is a permanent gain from being first, the feature improvement might not pay off in the long run.

A strategy of *style improvement* aims at increasing the product's aesthetic appeal. The periodic introduction of new car models amounts to style competition rather than quality or feature competition. In the case of packaged-food and household products, companies introduce colour and texture variations and restyle the package. A style strategy might give the product a unique market identity. Yet style competition has problems. First, it is difficult to predict whether people—and which people—will like a new style. Second, a style change usually requires discontinuing the old style, and the company risks losing customers. Consumers may become attached to something as seemingly insignificant as a peanut shell. In the United States, eating unshelled peanuts at baseball games is a time-honoured tradition. During the 1986 major league baseball season at New York's Shea Stadium, the concessionaire began selling preshelled peanuts in cellophane packages. Sales fell 15 per cent and consumers complained strongly.

Marketing-Mix Modification

Product managers might also try to stimulate sales by modifying other marketing-mix elements. They should ask the following questions :

- *Prices:* Would a price cut attract new buyers? If so, should the list price be lowered, or should prices be lowered through price specials, volume or early-purchase discounts, freight cost absorption, or easier

credit terms ? Or would it be better to raise the price to signal higher quality ?

- *Distribution*: Can the company obtain more product support and display in existing outlets ? Can more outlets be penetrated ? Can the company introduce the product into new distribution channels? When Goodyear decided to sell its tyres via Wal-Mart, Sears, and Discount Tyre, it boosted market share from 14 per cent to 16 percent in the first year.
- *Advertising*: Should advertising expenditures be increased? Should the message or copy be changed? Should the media mix be changed ? Should the timing, frequency, or size of ads be changed ?
- *Sales promotion* : Should the company step up sales promotion—trade deals, centsoff coupons, rebates, warranties, gifts, and contests ?
- *Personal selling*: Should the number or quality- of salespeople be increased ?

  Should the basis for sales force specialization be changed ? Should sales territories be revised? Should sales force incentives be revised? Can sales-call planning be improved?
- *Services*: *Can* the company speed up delivery ? Can it extend more technical assistance to customers? Can it extend more credit ?

Marketers often debate which tools are most effective in the mature stage. For example, would the company gain more by increasing its advertising or its sales-promotion budget ? Sales promotion has more impact at this stage because consumers have reached an equilibrium in their buying habits and preferences, and psychological persuasion (advertising) is not as effective as financial persuasion (sales-promotion deals). Many consumer-packaged-goods companies now spend over 60 per cent of their total promotion budget on sales promotion to support mature products. Other marketers argue that brands should be treated as capital assets and supported by advertising. Advertising expenditures should be treated as a capital investment, not a current expense. Brand managers, however, use sales promotion because its effects are quicker and more visible to their superiors. But excessive sales-promotion activity can hurt the brand's image and long-run profit performance.

A major problem with marketing-mix modifications, especially price reductions and additional services, is that they are easily imitated. The firm may not gain as much as expected, and all firms might experience profit erosion as they step up their marketing attacks on each other.

Marketing Strategies: Decline Stage

The sales of most product forms and brands eventually decline. The decline might be slow, as in the case of oatmeal; or rapid, as in the case of the Edsel automobile. Sales may plunge to zero, or they may petrify at a low level

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All lead to overcapacity, increased price cutting, and profit erosion

As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budget and reduce their prices further.

Unfortunately, most companies have not developed a well-thought-out policy for handling their aging products. Sentiment often plays a role:

Putting products to death—or letting them die—is a drab business, and often engenders much of the sadness of a final parting with old and tried friends. The portable, six-sided pretzel was the first product The Company ever made. Our line will no longer be our line without it.

Logic may also play a role. Management believes that product sales will improve when the economy improves, or when the marketing strategy is revised, or when the product is improved. Or the weak product may be

retained because of its alleged contribution to the sales of the company's other products. Or its revenue may cover out-of-pocket costs, even if it is not turning a profit.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm. The cost is not just the amount of uncovered overhead and profit : There are many hidden costs. Weak products often consume a disproportionate amount of management's time, require frequent price and inventory adjustments, generally involve short production runs in spite of expensive setup times, require both advertising and sales force attention that might be better used to make the healthy products more profitable, and can cause customer misgivings and cast a shadow on the company's image. The biggest cost might well lie in the future. Failing to eliminate weak products delays the aggressive search for replacement products. The weak products create a lopsided product mix, long on yesterday's breadwinners and short on tomorrow's.

In handling its aging products, a company faces a number of tasks and decisions. The first task is to establish a system for identifying weak products. Many companies appoint a product-review committee with representatives from marketing, R & D, manufacturing, and finance, which develops a .system for identifying weak products. The controller's office supplies data for each product showing trends in market size, market share, prices, costs, and profits. A computer program then analyzes this information. The managers responsible for dubious products fill out rating forms showing where they think sales and profits will go, with and without any changes in marketing strategy. The product-review committee makes a recommendation for each dubious product—leave it alone, modify its marketing strategy, or drop it.

Evaluating the Product Life-cycle Concept

The product life cycle provides a good framework for product planning; but, it has not proven very useful for forecasting. In using the product life-cycle concept, these key points should be kept in mind :

1. The stages, time span, and shape of a cycle (such as flat, erratic, or sharply inclined) vary by product.
2. Such external factors as the economy, inflation, and consumer life-styles may shorten or lengthen a product's life cycle.
3. A firm may do better or worse than the industry "average" at any stage in the cycle. An industry's being in the growth stage for a product does not mean success for every firm in the market, nor does its being in the decline state for a product mean lower sales for every firm.
4. A firm may not only be able to manage a product life cycle, it may also be able to extend it or reverse a decline. Effective marketing may lure a new market segment, find a new product use, or foster better reseller support.
5. Many firms may engage in a **self-fulfilling prophecy**, whereby they predict falling sales and then ensure this by reducing or removing marketing support. See Fig. 8.5. With proper marketing, some products might not fail.

A self-fulfilling prophecy may occur when a firm reduces marketing.

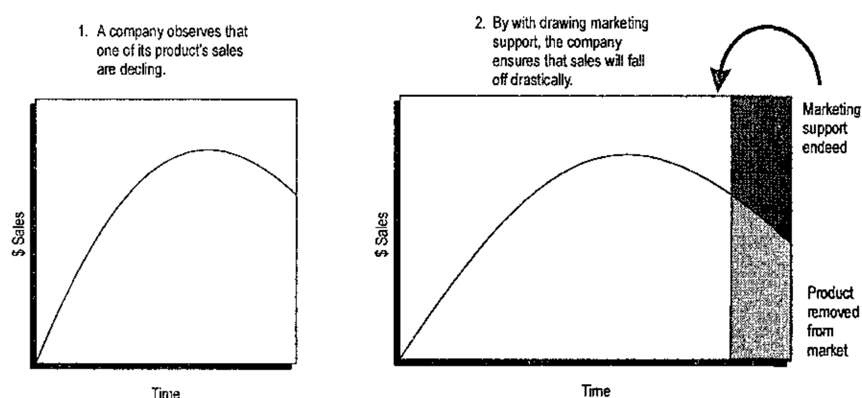


Figure 8.5: A Self-Fulfilling Prophecy.

Chapter 9
New Product Development

Once a company has carefully segmented the market, chosen its target customers, identified their needs, and determined its market positioning, it is better able to develop new products. Marketers play a key role in the new-product process, by identifying and evaluating new-product and working with R & D and others in every stage of development.

Every company must develop new products. New-product development shapes the company's future. Replacement products must be created to maintain or build sales. Customers want new products, and competitors will do their best to supply them. Each year over 16,000 new products (including line extensions and new brands) are introduced into groceries and drugstores.

A company can add new products through acquisition or development. The acquisition route can take three forms. The company can buy other companies, it can acquire patents from other companies, or it can but a licence or franchise from another company. The development route can take two forms. The company can develop new products in its own laboratories. Or it can contract with independent researchers or new-product-development firms to develop specific new products.

Booz, Allen and Hamilton had identified six categories of new products :

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

Less than 10 per cent of all new products are truly innovative and new to the world. These products involve the greatest cost and risk because they are new to both the company and the marketplace. Most new-product activity is devoted to improving existing products. At Sony, over 80 per cent of new-product activity is undertaken to modify and improve existing Sony products.

What is a New Product?

New product : *The meaning of this relative term is influenced by the perceptions of marketers and consumers. In general, it refer to a product new to a company or any recently introduced product that offers some benefit that other product do not.*

Before reading further, however, pause for a second to decide in your own mind what a **new product** is. Think of an example or two, and try to identify what makes them new. Is the egg-shaped video camera that plugs into your desktop computer's USB port really a new product ? Is Logitech's Cordless MouseMan Wheel that uses radio frequency truly different from the first mouse ? Does the ingenious, and highly practical, voice-activated word-processing software qualify as really new ?

To some marketers, a new product may be a major technological innovation. The first computers were introduced in the 1940s. Though primitive by today's standards, at that time they were altogether new to the market. At one time or other, so were microwave ovens, radial tyres, adjustable rate mortgages, and automatic teller machines. To other marketers, new products might be simple additions to an otherwise unchanged product line, such as new shades of lipstic or hair colouring introduced by Revlon or Clairol.

Even a "me, too" item, developed in imitation of a competitor's successful product, is a new product to the imitating company. Furthermore, a product may be new because it offers some benefit that similar products do not. For example, Velcro tabs on paper diapers, which allow parents to check for wetness and reseal the diaper securely, make these diapers different from those that reseal with ordinary adhesive tape. The marketing concept, after all, tells marketers to consider a product as a bundle of tangible and intangible benefits. If the bundle of benefits offered by a product differs from the bundle already available, then the product can be said to be new.

From the buyer's point of view, a product may be new if it is something never before purchased, even if it has been on the market for years. In international marketing, old products may become "new" again, especially when a manufacturer's established product is being offered to people in a less-developed country. There are, for example, places in the world where VCRs and colour televisions are new to most people. It is clear, then, that the term *new* and the related term *novel* are used in a relative sense. They are influenced by perceptions, whether you are a marketing manager or a consumer. Let's begin by taking the manager's perspective.

Management's Perspective on New Products

Managers may consider a product new if it is new to the market or simply new to the company. Products can be either new-to-the-world products, product category extensions, product line extensions, or product modifications. Companies have considerable experience marketing product modifications but far less experience with products in the first three categories.

- New-to-the-world products are inventions that create an entirely new market. These are the highest-risk products, because they are new to both the company and the market. The technology for producing these innovative products, which is itself new to the company, is often the result of a large investment in research and development.
- Product category extensions are new products that, for the first time, allow a company to diversify and enter an established market for an existing product category. These products are not entirely new to the market, but the company has had no previous technological or marketing experience with them. If these products imitate competitive products with identical features, they can be described as 'me, too" products.
- Product line extensions are additions to an existing product line that supplement the basic items in the established line. Line extensions include enhanced models, low-price economy models, and variations in colour, flavour, design, and so on. These new products may be family branded or marketed under a new brand name, perhaps a private label that appeals to a different market segment.
- Product modifications include product improvements, cost reductions, and repositionings. "New and improved' versions replace existing products and are intended to provide improved performance, enhanced features, or greater perceived value. Cost reductions replace existing products by providing similar performance at a lower cost. Repositionings may modify existing products by targeting new market segments, offering a new benefit, or assuming a different competitive position. The marketing task for these products often is to communicate the benefits of product modifications to consumers who do not see the product as unique or strikingly different from past offerings.

The Consumer's Perspective on Newness

From a consumer perspective, new products vary in degree of newness. There are three types of innovations : discontinuous, dynamically continuous, and continuous, as shown in Fig.9.1.

Discontinuous Innovation

Discontinuous innovation : *A product so new that no previous product performed an equivalent function. Such a product requires the development of new consumption or usage patterns.*

Discontinuous innovations are pioneering products so new that no previous product performed an equivalent function. As a result of this near-complete newness, new consumption or usage patterns are required. The lithium battery pacemaker implanted in heart patients was a discontinuous innovation. The fax machine was another. These products, once new to the world, did things no products before them had done, and to use them properly, people had to make extensive behaviour changes. Artificial hearts and a drug to cure AIDS are still in their developmental stages, but once perfected and made available, they, too, will be discontinuous innovations.

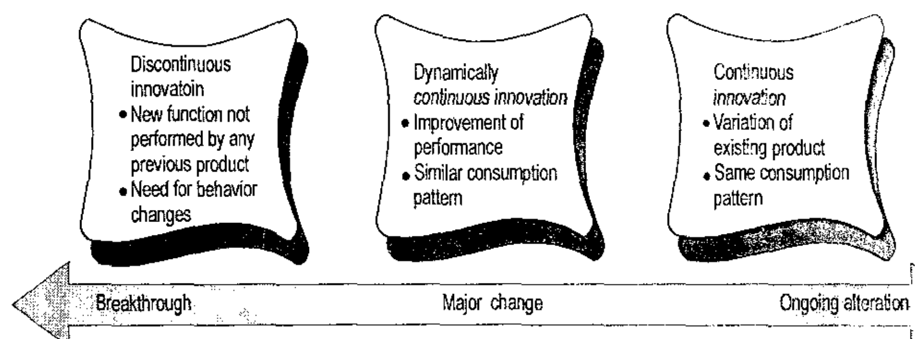


Figure 9.1

Dynamically Continuous Innovation

Dynamically continuous innovation : *A product that is different from previously available products but that does not strikingly change buying or usage patterns.*

In the newness continuum, somewhere between the breakthrough achieved with the perfected artificial heart and the commonplace newness of the *new* and *improved* consumer product, is the **dynamically continuous innovation.** New products in this middle range represent changes and improvements that do not strikingly change buying and usage patterns.

The hybrid gasoline engine/electric motor car is an example of a dynamically continuous innovation. The buying habits of those purchasing cars and fuel may be altered by successful and appealing hybrid gas/electric automobiles but virtually all driving behaviour will remain as it is. Compare this situation with the way the Model T Ford affected society. Similarly, although TiVo's personal video recorder system, is genuinely new, its effect on buyers and users is nothing like the effect of the first video-tape recorder.

Continuous Innovation

Continuous innovation : *A new product that is characterized by minor alterations or improvements to existing products and that produces little change in consumption patterns.*

A **continuous innovation** is a commonplace change that is part of an ongoing product modification effort, such as a minor alteration of a product or the introduction of an imitative product. The flat-panel computer monitor is an example of a continuous innovation. This new product is an improvement over existing monitors because it takes up less space. Although the product has a new form, it is used in the traditional manner, so consumers do not have to change their consumption behaviour. This is a key characteristic of a continuous innovation. Marketers constantly strive to improve products, because even minor improvements, such as reducing calories or salt, can provide a competitive advantage. Although this approach may be viewed as fine-tuning the product, the new product is an innovation of a sort.

The Slim Chances of Success

Product success is both difficult to define and difficult to achieve. It is problematic to determine the number of new product successes and failures because, like newness, success is so hard to define. How much of a success must a new product be before it is truly "a success"? It is a widely accepted belief that relatively few new product ideas

become commercial successes. But because most organizations would rather not talk about failures, this belief is based largely on estimates. Moreover, some product ideas wither in their developmental stages and documentation of ideas that were suggested but never made it to market is seldom available. For our purpose, failure occurs when a product does not meet the organization's expectations.

Several estimates of new product failure rates are available. Some of these suggest that 80 per cent of new product ideas do not become commercial successes. One consulting organization, after considerable study, has suggested that only one successful product is generated from 40 new product ideas. Once a new product has actually appeared on the market, the success rate is much higher because of the research, planning, and effort that have gone into its introduction. It is estimated that there is a one-in-three failure rate among new product introductions.

Clearly, failure and success rates vary from organization to organization. In general, the failure rate is higher for consumer products than for organizational goods. In the consumer package-goods market, for instance, the failure rate is likely to be far higher than in the organizational electrical components field. This difference is due to the dynamic nature of the consumer marketplace and the fact that consumers often cannot tell marketers exactly what new products will satisfy them. In contrast, the organizational buyers of electrical components are able to give detailed information to component manufacturers. No wonder, then, that new product failure and success rates vary greatly.

The Characteristics of Success

Five characteristics influence a new product's chances for success in the market place : relative advantage, compatibility with existing consumption patterns, trialability, observability, and simplicity of usage. When a product lacks one or more of these characteristics, the others may be used effectively to make up for the deficiency. Non product elements of the marketing mix—price, promotion, and distribution—must be developed and adjusted with these same characteristics in mind.

Relative Advantage

Relative advantage : *The ability of a product to offer clear-cut advantages over competing offerings.*

Products that offer buyers clear-cut advantages over competing offerings are said to have **relative advantage.** In organizational markets, relative advantage often arises when new products perform exactly the same functions less expensively or faster than existing products. Experience and improved technology, for example may make it possible to replace metal parts with cheaper and lighter plastic ones. In other cases, relative advantage arises from totally new technology. Computer systems that use spoken words as input obviously have a relative advantage over earlier generations that require typed input. In contrast, some new products prove to have no relative advantage over their competitors. When the Miller Brewing company test-marketed its Clear Miller Beer, the company quickly learned that its colourless beer didn't look or taste like beer. This new product has no relative advantage.

Compatibility with Existing Consumption Patterns

Everything else being equal, a new product that is compatible with existing patterns of consumption stands a better change of market acceptance than one that incompatible. This is true even when the newer item has some relative advantage.

Consider, for example, the LifeSaver Company's Ice Breakers gum, with 'freshener capsule" technology that allows a bigger hit of mint to be released when you chew the gum. It is completely compatible with the existing behaviour of people who buy breath mints or chewing gum; and because it has a relative advantage, it should achieve rapid market acceptance. On the other hand, it will take time for the market to accept the Handwriter for

Windows, a digital pad on which a computer user writes or draws with a pen. The pad converts [illegible] characters into computerized text and gives the pen mouselike pointing capabilities with Windows programs. [illegible] the thin pad is quite different from a keyboard or mouse and requires a departure from existing usage patterns.

Trialability — The Opportunity for Buyer Testing

Trialability : *The ability of a product to be tested by possible future users with little risk or effort.*

Trial sampling : *The distribution of newly marketed products to enhance trialability and familiarity; giving away free samples.*

Divisibility : *The ability of a product to be sampled in small amounts by consumers.*

A new product has **trialability** when possible future users can test it with little risk or effort. Dior Mascara [illegible] an instant "makeup" for hair highlighting, has trialability. Clorox Disinfecting Wipes, premoistened and [illegible] towels that kill 99.9% of bacteria; they are not expensive, and the buyer need not invest in special equipment to use them. A product's trialability may be enhanced by coupon in newspapers, magazines, and the mail. New shampoo and laundry products are made available in small, inexpensive packages to encourage consumers to try them [illegible] little monetary risk. When companies give away free samples to possible buyers, bringing trialability to perhaps [illegible] highest level, the process is termed **trial sampling.** Sending computer discs and offering 10 or 50 hours of [illegible] Internet and online service is America Online's major means of generating new customers.

Effective marketing management demands careful consideration of steps that may encourage buyer sampling [illegible] new product. Items intended to be sold in cases or six-packs, like juices, sodas, and other drinks, might [illegible] offered in single digit packages or be given away by the cupful in shopping malls. Customers who are reluctant [illegible] buy 12 of a given product may be willing to try just one. Trialability is more appropriately referred to as **divisibility** when it refers to the opportunity to try a small amount.

Observability — The Chance to See the Newness

Observability : *The ability of a product to display to consumers its advantages over existing products.*

Some new products enter the marketplace with attributes or characteristics that are visible to the customer. [illegible] Visual Phone is a mobile phone that can send and receive images of callers. The new product has a [illegible] and a small camera embedded in its upper right-hand corner. The gadget has a relative advantage [illegible] mobile phones, and that advantage is easy to see.

Kyocera's Visual Phone is a product with **observability.**

Other products possess definite relative advantages that are not observable or so easily grasped. [illegible] allergy tablets with an advanced formula that relieves allergy symptoms without causing drowsiness [illegible] that is not observable by most buyers. Advertisements for products with hidden qualities frequently [illegible] or credible users who attest to the products' worth, making hidden qualities observable.

Simplicity of Usage

A complex product — or one that requires complex procedures for storage or use—starts out with a [illegible]. Digital cameras, at their introduction, were viewed by consumers as phenomenal. However, because [illegible] difficult for the average person to understand the technical mechanism inside the cameras, the cameras [illegible] were designed for easy operation. The **simplicity of usage** offsets the complexity of the product [illegible] disc digital recordings were similarly surprising to consumers, who found it difficult to grasp the system [illegible] these recordings were played. Makers of early CD players carefully trained sales people to explain [illegible] and arranged for newspaper and magazine columnists to try it so that they could explain it to [illegible]

Simplicity of usage : *Ease of operation. This product benefit can offset any complexity in the product itself*

The Importance of New Products

A firm's product policy should be future-oriented and recognize that products, no matter how successful, tend to be mortal — they usually cannot sustain peak sales and profits indefinitely : "Who survives in today's highly competitive environment ? The innovators. They don't just have new designs. They passionately pursue new ways to serve their customers." So, product line additions and replacements should be constantly planned and a balanced product portfolio pursued — by both small and large firms.

New products offer differential advantages.

Introducing new products is important for several reasons. Desirable differential advantages can be attained. The Venus shaver from Gillette is a product especially designed for women, unlike Sensor for women and other men's shaving products adapted for women. Gillette spent three years and $300 million to develop Venus, and introduced it simultaneously in 29 nations during early 2001. The product has three blades, a pivoting head, and aloe strips for comfort.

New products lead to sales growth or stability.

New products may be needed for continued growth. That is why ESPN has a new and growing restaurant chain, known as ESPN Zone, that is capitalizing on the cable network's strong brand loyalty among viewers. ESPN Zone was named as one of 2001's "Hot Concepts" by *Nation's Restaurant News.* For firms with cyclical or seasonal sales, new products can stabilize revenues and costs. Dow Chemical manufactures medical-testing equipment, and other rather stable product categories, to reduce its dependence on cyclical chemicals. Black & Decker has cut back on lawn-care items and looks for new opportunities in less seasonal products, such as power tools for the home.

New products can take time

Planning for growth must take into account the total time it takes to move from the idea stage to commercialization. For instance, in 2001, Boeing announced that it would develop a new long-range plane, tentatively named the "Sonic Cruiser," with the goal of introducing it in 2007 or 2008. The 200 to 300-seat plane will fly at up to Mach 0.95 or faster, saving one hour per 3,000 miles flown. As Boeing's executive vice-president of sales and marketing says, nothing in the plane besides its efficiency will be very different: 'There is no other plane around at the moment that can travel 9,000 miles nonstop except for this one. However, it is still under development. The Sonic Cruiser is a result of Boeing's analysis on the need for a plane to fly from point to point. You can't fly often if you have a bigger aircraft. The demand now is for smaller airplanes and not the bigger ones.'

New products can increase profit and control.

New products can lead to larger profits and give a company better control over a marketing strategy. For example, new models of luxury cars such as Lincoln and Lexus are often quite popular. When they are, the cars sell at or close to the "sticker" price, with dealers earning gross profits of up to $10,000 or more on each car sold. Because there are fewer luxury dealers relative to ones selling lower-priced cars, they do not use much price discounting and have firm command over their marketing efforts.

Risk may be lessened through diversity.

To limit risk, many firms seek to reduce dependence on one product or product line. That is why many movie theatres converted to multiplexes, so their revenues are not tied to any one film's performance. Hewlett-Packard makes electronic components and test equipment, medical electronic equipment, and analytical instrumentation— besides its core computing and printing products; and it regularly adds new products. Turtle Wax, the world's leader in car-care products, now makes glass cleaners, leather cleaners, carpet cleaners, and upholstery cleaners.

New products may improve distribution.

Firms may improve the efficiency of their established distribution systems by placing new products in them. They

can then spread advertising, sales, and distribution costs among several products, gain dealer support, and discourage others from entering the market, Manufacturers like AT & T, Unilever and Revlon can place new products in many outlets quickly. Service firms such as the Royal Bank of Canada also can efficiently add new products (financial services) into their distribution networks.

Technology can be exploited.

Firms often seek technological breakthroughs. Makers of computer storage devices, such as Western Digital, are constantly introducing newer, faster, better versions of their products—at lower prices. In 2000, a Western Digital 15-gigabyte hard drive sold for $200. By 2001, the firm's newer 30-gigabyte drives were selling for $115. Japan's Toshiba, one of the world's largest office equipments firms, has a new high-speed digital copier that prints up to 80 pages a minute and can store paper at 24 locations. The machine has the ability to print 440,000 copies per month.

Waste materials can be used.

Sometimes, firms want to find uses for waste materials from existing products—to aid productivity or be responsive to recycling : "Electric utilities are spinning gold out of gunk they once spewed in the air. To comply with the 1970 Clean Air Act, companies have been 'scrubbing' the smoke coming out of their stacks to remove sulphur and fly ash, then dumping the wastes into landfills. Now, they are finding farmers and construction companies will buy the stuff. Near Oak Ridge, Tennessee, a unit of Caraustar Industries built a factory to make wallboard out of sulfur residue produced at the Tennessee Valley Authority power plant next door. Farmers buy sulphur residue—'scrubber sludge'—since it improves soil and boost crop yields. 'Wherever you put that stuff, it just greens up.' By selling what it calls 'coal by products,' the TVA makes from $6 million to $10 million a year."

New products respond to consumer needs.

Companies may bring out new products to respond to changing consumer demographics and life-styles. Single-serving pre-packaged foods are aimed at smaller households. Kodak and Fuji have introduced a full line of single-use disposable cameras that appeal to people interested in convenience. Microsoft offers computer keyboard that are easier on the wrist. The Hain Celestial Group markets foods that appear to consumers interested in natural, speciallty, organic, and snack foods under brand names sold as "better-for-you" products.

Government mandates are addressed.

New products may be devised in response to government mandates. To address growing concerns about battery disposal (and the carcinogenic properties of nickel cadmium batteries), battery makers (led by Rayovac) have introduced rechargeable batteries that can be recharged up to 25 times or more. Rayovac even hired Michael Jordan as a celebrity endorser of its Renewal batteries. Although sales of rechargeable batteries are still rather low, they are expected to rise.

Good long-run new-product planning requires systematic research and development, matching the requirements of new-product opportunities with company abilities, emphasizing consumer desires, properly spending time and money, and defensive—as well as offensive—planning. A firm must accept that some new products may fail; a progressive firm will take risks : "Innovation is a risky business, and failure is commonplace. Rewarding success is easy, but rewarding intelligent failure is more important. Don't judge people strictly by results; try to judge them by the quality of their efforts. People should take intelligent business risks without also risking their compensation or their careers." There has been some criticism about the negative effects of many U.S. firms' short-run, bottom-line orientation on their level of innovativeness (and willingness to take risks).

Challenges in New-product Development

Companies that fail to develop new products are putting themselves at great risk. Their existing products are vulnerable to changing customer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition.

At the same time, new-product development is risky. Texas Instruments lost $660 million before withdrawing from the home computer business, RCA lost $500 million on its videodisc players, Federal Express lost $340 million on its Zap mail, Ford lost $250 million on its Edsel, DuPont lost an estimated $100 million on a synthetic leather called Corfam, and the British-French Concorde aircraft will never recover its investment.

Why do new products fail ?

- A high-level executive pushes a favorite idea through in spite of negative market research findings.
- The idea is good, but the market size is overestimated.
- The product is not well designed.
- The product is incorrectly positioned in the market, not advertised effectively, or overpriced.
- Development costs are higher than expected.
- Competitors fight back harder than expected.

Several other factors hinder new-product development :

- *Shortage of important ideas in certain areas :* There may be few ways left to improve some basic products (such as steel, detergents).
- *Fragmented markets :* Keen competition is leading to market fragmentation. Companies have to aim their new products at smaller market segments, and this can mean lower sales and profits for each product.
- *Social and government constraints :* New products have to satisfy consumer safety and environmental concerns. Government requirements slow down innovation in drugs, toys, and some other industries.
- *Costliness of the development process:* A company typically has to generate many ideas to find just one worthy of development. Furthermore, the company often faces high R & D, manufacturing, and marketing costs.
- *Capital shortages:* Some companies with good ideas cannot raise the funds needed to research and launch them.
- *Faster required development time:* Companies that cannot develop new products quickly will be at a disadvantage. Companies must learn how to compress development time by using computer-aided design and manufacturing techniques strategic partners, early concept tests, and advanced marketing planning. Alert companies use *concurrent new-product development,* in which cross-functional teams collaborate to push new products through development and to market Concurrent product development resembles a rubgy match rather than a relay race, with team members passing the new product back and forth as they head toward the goal. The Allen-Bradley Corporation (a maker of industrial controls) was able to develop a new electrical control device in just two years, as opposed to six years under its old system.
- *Shorter product life cycles :* When a new product is successful, rivals are quick to copy it. Sony used to enjoy a three-year lead on its new products. Now Matsushita will copy the product within six months, leaving hardly enough time for Sony to recoup its investment.

Given these challenges, what can a company do to develop successful new products ? Cooper and Kleinschmidt found that the number-one success factor is a unique, superior product. Products with a high product advantage succeed 98 per cent of the time, compared to products with a moderate advantage (58 per cent success) or minimal advantage (18 per cent success). Another key success factor is a well-defined product concept prior to development. The company carefully defines and assesses the target market, product requirements, and benefits before proceeding. Other success factors are technological and marketing synergy, quality of execution in all stages, and market attractiveness.

Madique and Zirger, in a study of successful product launches in the electronics industry, found eight factors accounting for new-product success. New-product success is greater the deeper the company's understanding of customer needs, the higher the performance-to-cost ratio, the earlier the product is introduced ahead of competition, the greater the expected contribution margin, the more spent on announcing and launching the product, the greater the top management support, and the greater the cross-functional teamwork.

New-product development is most effective when there is teamwork among R & D, engineering, manufacturing, purchasing, marketing, and finance. The product idea must be researched from a marketing point of view, and a specific cross-functional team must guide the project throughout its development. Studies of Japanese companies show that their new-product successes are due in large part to cross-functional teamwork.

Exhibit: New Product Failures to Faulty Product Idea

Cibaca Lime Toothpaste

In 1991, Hindustan Ciba-Geigy launched *Cibaca-Lime* toothpaste. But despite the 14 genuine herbal ingredients, the product failed. While people like the lemon flavour in foods, when it came to brushing, the citrus taste jarred the teeth.

Cool Cats—decorated ceiling fans

Polar Industries launched *Cool Cats,* ceiling fans decorated with carbon characters, meant primarily for children. The company got noted singer Sharon Prabhakar to do the promotional video and conducted a door-to-door promotion campaign. Polar spent substantial sums of money on advertising and marketing.

Despite all this, *Cool Cats* sold barely a few thousand pieces. Polar investigated why the sales did not take off. When the fan moved, all the colours in the fan dissolved into a blur. There was no colour effect to be seen by the children ! There was no other extra-functional benefit either that justified its premium pricing at Rs. 1,200.

The company later slashed prices of Cool Cats by around 25 per cent, and also made the non-metro towns its target market, instead of the metros.

Paloma and Nestea iced tea

Another product that has not taken off is iced tea. Nestle tried it in the 1980s with Paloma and yet again in the 1990s with Nestea. Both left the consumers cold. For the majority of the consumers, tea was still a hot drink and furthermore the customers at both the times were not ready to try something new like iced tea. But now the customers are more willing to try new things and it will be appropriate for Nestle to conduct marketing research to know about customer's preference towards the iced tea.

Walls frozen desserts

BBLIL's Walls range of frozen desserts is another example. It is yet to capture a big market. It could not be promoted as ice cream for technical reasons. And, since it is based on vegetable fats, it has gained the name *Dalda ka Ice cream,* doing considerable damage to its intended position of a premium product.

Distribution Problems Causing New Product Failure

Nestle Chocolates

When Nestle launched its new chocolates, the product was ok; the promotion too was ok. In fact, the promotion won several awards. But, the new product encountered difficulties on the distribution side.

The company insisted that at the retail outlets, its chocolates should be stored inside refrigerators: otherwise they would melt. The stipulation resulted in two difficulties at the retail level: First, it meant excluding a majority of the available outlets as they did not have refrigerators. Second, chocolates being an impulse buy, the products are not picked up, if they are not visible upfront in the retail shops.

Nestle eventually had to reformulate its product in line with channel requirements.

Pepsi's Ruffles

Pepsi had problems with its *Ruffles* chips. The company decided that the same distribution system (Pepsi) could be used both for the soft drink and the chips; the rationale was that both products were breakable and fragile.

But, in actual practice, the two differed in distribution characteristics; the chips got crushed while being transported along with the sturdier bottles. Eventually, Pepsi had to drop the combination arrangement and go in for an independent distribution system for Ruffles.

Effective Organizational Arrangements

Top management is ultimately accountable for the success of new products. New product development requires senior management to define business domains, product categories, and specific criteria. For example, the Gould Corporation established the following acceptance criteria :

- The product can be introduced within five years.
- The product has a market potential of at least $50 million and a 15 per cent growth rate.
- The product would provide at least 30 per cent return on sales and 40 per cent on investment.
- The product would achieve technical or market leadership.

Budgeting for new Product Development

Senior management must decide how much to budget for new-product development. R & D outcomes are so uncertain that it is difficult to use normal investment criteria. Some companies solve this problem by financing as many projects as possible, hoping to achieve a few winners. Other companies set their budget by applying a conventional percentage of sales figures or by spending what the competition spends.

Still other companies decide how many successful new products they need and work backward to estimate the required investment.

The U.S. company best known for its commitment to new-product research and development is Minneapolis-based 3M Company :

3M Minnesota Mining and Manufacturing (3M) fosters a culture of innovation and improvisation that was evident at its very beginnings: In 1906 the directors were faced with a failed mining operation, but they ended up making sandpaper out of the grit and wastage. Today 3M makes more than 60,000 products, including sandpaper, adhesives, computer diskettes, contact lenses, and Post-it notes. Each year 3M launches scores of new products. This $15 billion company's immodest goal is to have each of its divisions generate at least 30 per cent of sales from products less than four years on the market.

- 3M encourages everyone, not just engineers, to become "product champions." The company's 15 per cent rule allows all employees to spend up to 15 per cent of their time working on projects of personal interest. Products such as Post-it notes, masking tape, and 3M's microreplication technology grew from 15 per cent-rule activities.
- Each promising new idea is assigned to a multidisciplinary venture team headed by an "executive champion."
- 3M expects some failures and learns from them. Its slogan is "You have to kiss a lot of frogs to find a prince."
- 3M hands out its Golden Step awards each year to the venture teams whose new product earned more than $2 million in U.S. sales or $4 million in worldwide sales within three years of its commercial introduction.

Table shows how a company might calculate the cost of new-product development. The new-products manager at a large consumer packaged-goods company reviewed the results of 64 new-product ideas. Only one in four ideas, or 16, passed the screening stage. It cost Rs. 20,000/- to review each idea at this stage. Half of these ideas or eight, survived the concept-testing stage, at a cost of Rs. 60,000/- each. Half of these or four, survived the product-development stage, at a cost of Rs. 5,00,000/- each. Half of these, or two, did well in the test market, at a cost of Rs, 50,00,000 each. When these two ideas were launched, at a cost of Rs. 2.5 crore each. Only one was highly successful. Thus the one successful idea had cost the company Rs. 3,05,80,000 to develop. In the process, 63 other ideas fell by the wayside. The total cost for developing one successful new product was Rs. 7,62,40,000. Unless the company can improve the pass ratios and reduce the costs at each stage, it will have to budget nearly Rs. 8 crore for each successful new idea it hopes to find. If top management wants four successful new products in the next few years. it will have to budget at least Rs. 32 crore (4 × Rs. 8 crore) for new-product development.

Table 9.1: Estimated Cost of Finding One Successful New Product (Starting with 64 New Ideas).

Stage	*Number of Ideas*	*Pass Ratio*	*Cost per Product Idea*	*Total Cost*
1. Idea screening	64	1:4	Rs. 20,000/-	Rs. 12,80,000/-
2. Concept testing	16	1:2	Rs. 60,000/-	9,60,000/-
3. Product development	8	1:2	5,00,000/-	40,00,000/-
4. Test marketing	4	1:2	50,00,000/-	2,00,00,000/-
5. National launch	2	1:2	2,50,00,000/-	5,00,00,000/-
			Rs. 3,05,80,000/-	Rs. 7,62,40,000

Organizing New-product Development

Companies handle the organizational aspect of new-product development in several ways. The most common are :

- *Product managers* : Many companies assign responsibility for new-product ideas to product managers. In practice, this system has several faults. Product managers are so busy managing existing lines that they give little thought to new products other than line extensions. They also lack the specific skills and knowledge needed to develop and critique new products.
- *New-product managers* : Johnson & Johnson have new-product managers who report to category managers. This position professionalizes the new-product function. However, like product managers, new-product managers tend to think in terms of modifications and line extensions limited to their product market in which they operate. For *e.g.*, A new product manager in car manufacturing company will focus more on modification in existing cars.
- *New-product committees* : Many companies have a high-level management committee charged with reviewing and approving proposals. These proposals must be complete and describe the steps from conceptualisation to economic, commercial & technical analysis in brief.
- *New-product departments* : Large companies often establish a department headed by a manager who has substantial authority and access to top management. The department's major responsibilities include generating and screening new ideas, working with the R & D department, and carrying out field testing and commercialization.
- *New-product venture teams* : 3M, Dow, Westinghouse, and General Mills often assign new-product development work to venture teams. A *venture team* is a group brought together from various operating departments and charged with developing a specific product or business. They are "intrapreneurs" relieved of their other duties and given a budget, a time frame, and a "skunkworks" setting. *Skunkworks* are informal workplaces, sometimes garages, where intrapreneurial teams attempt to develop new products.

The most sophisticated tool for managing the innovation process is the *stage-gate system* used by 3M and a number of other companies. The innovation process is divided into several stages. At the end of each stage is a gate or checkpoint. The project leader, working with a cross-functional team, must bring a set of known deliverables to each gate before the project can pass to the next stage. To move from the business plan stage into product development requires a convincing market research study of consumer needs and interest, a competitive analysis, and a technical appraisal. Senior managers review the criteria at each gate to judge whether the project deserves to move to the next stage. The gatekeepers make one of four decisions: go, kill, hold, or recycle.

Go : The Product development process is given a go-ahea.

Kill : The process is halted forever because the economics may not be making the sense or the profitability may not be justified etc.

Hold : The process is halted for the time being may be because of inadequate information or time may not be right.

Recycle : The process is sent back to the initial stage so that extra details about customer preferences may be collected or proposed projections of cost & profits be revised etc.

Stage-gate systems put strong discipline into the innovation process, making its steps visible to all involved and clarifying the project leader's and team's responsibilities at each point. Some of the companies that rely on the stage-gate process are Mobil, 3M, Hewlett-Packard, and Seattle-based Fluke,' a pioneer in handheld electronic instruments. Lego, the Danish toy maker, replaces about one-third of its product line every year with new products. Since the late 1980s, Lego has been relying on a stages gate new-product process to ensure that everything comes together for rapid product' launches.

New Product Development Process

Managing The Development Process : Ideas

Idea Generation

The new-product development process starts with the search for ideas. Top managers should define the product and market scope and the new product's objectives. They should state how much effort should be devoted to developing breakthrough products, modifying existing products, and copying competitors' products. New-product ideas can come from many sources: customers, scientists, competitors, employees, channel members, and top management.

The marketing concept holds that *customer needs and wants* are the logical place to start the search for ideas. Hippel has shown that the highest percentage of ideas for new industrial products originate with customers' Technical companies can learn a great deal by studying their *lead users,* those customers who make the most advanced use of the company's products and who recognize the need for improvements before other customers do. Many of the best ideas come from asking customers to describe their problems with current products.

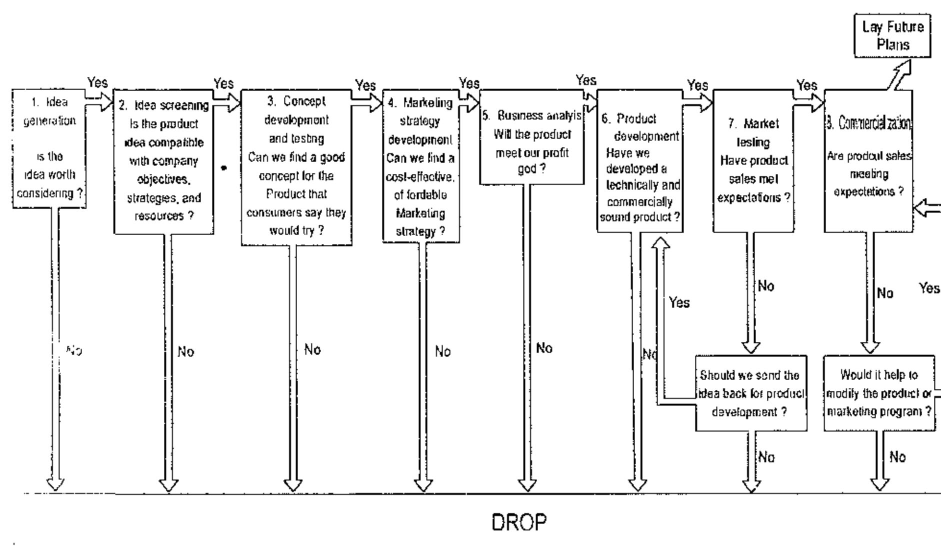


Figure 9.2: The New-Product-Development Decision Process

Successful companies have established a company culture that encourages every employee to seek new ways of improving production, products, and services. Toyota claims its employees submit 2 million ideas annually (about 35 suggestions per employee), over 85 per cent of which are implemented. Kodak and other firms give monetary, holiday, or recognition awards to employees who submit the best ideas.

Companies can also find good ideas by researching their *competitors' products and services*. They can learn from distributors, suppliers, and sales representatives. They can find out what customers like and dislike in their competitors' products. They can buy their competitors' products, take them apart, and build better ones. Many automobile companies do this. Company *sales representatives* and *intermediaries* are a particularly good source of ideas. These groups have firsthand exposure to customers and their problems and are often the first to learn about competitive developments. An increasing number of companies train and reward sales representatives, distributors, and dealers for finding new ideas.

Top management can be another major source of ideas. Some company leaders, such as Edwin H. Land, former CEO of Polaroid, took personal responsibility for technological innovation in their companies. On the other hand, Lewis Platt, CEO of Hewlett-Packard, believes senior management's role is to create an environment that encourages business managers to take risks and create new growth opportunities. Under Platt's leadership, HP has been structured as a collection of highly autonomous entrepreneurial businesses.

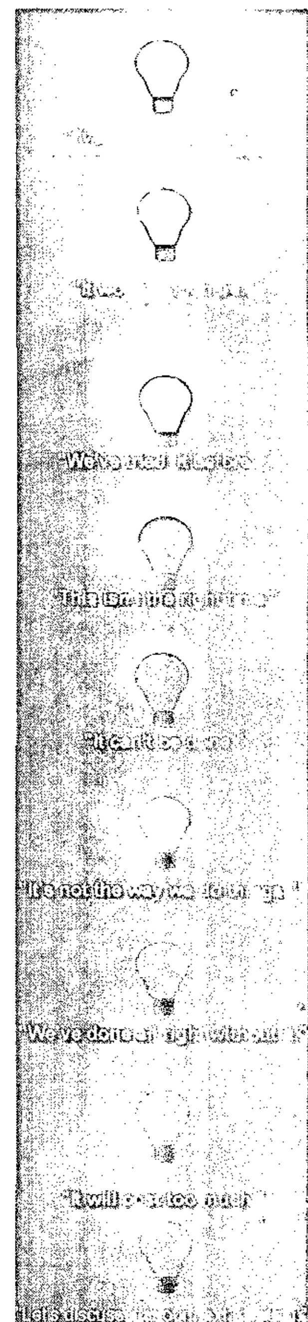


Figure 9.3: Forces Fighting New Ideas.

New-product ideas can come from other sources as well, including inventors, patent attorneys, university and commercial laboratories, industrial consultants, advertising agencies, marketing research firms, and industrial publications. But although ideas can flow from many sources, their chances of receiving serious attention often depend on someone in the organization taking the role of *product champion*. The product idea is not likely to receive serious consideration unless it has a strong advocate.

Ten Ways to Great New Product Ideas

1. Run pizza-video parties, as Kodak does-informal sessions where groups of customers meet with company engineers and designers to discuss problems and needs and brainstorm potential solutions.
2. Allow time off—scounting time—for technical people to putter on their own pet projects 3M allows 15 per cent time off; Rohm & Haas allows 10 per cent.
3. Make a customer brainstorming session a standard feature of plant tours.
4. Survey your customers : Find out what they like and dislike in your and competitor's products.
5. Undertake "fly-on-the-wall" or "camping out" research with customers, as do Fluke and Hewlett-Packard.
6. Use iterative rounds : a group of customers in one room, focusing on identifying problems, and a group of your technical people in the next room, listening and brainstorming solutions. The proposed solutions are then tested immediately on the group of customers.
7. Set up a keyword search that routinely scans trade publications in multiple countries for new-product announcements and so on.
8. Treat trade shows as intelligence missions, where you view all that is new in your industry under one roof.
9. Have your technical and marketing people visit your suppliers' labs and spend time with their technical people–find out what's new.
10. Set up an idea vault, and make it open and easily accessed. Allow employees to review the ideas and add constructively to them.

Idea Screening

Any company can attract good ideas by organizing itself properly. The company should motivate its employees to submit their ideas to an *idea manager* whose name and phone number are widely circulated. Ideas should be written down and reviewed each week by an *idea committee,* which sorts them into three groups : promising ideas, marginal ideas, and rejects. Each promising idea is

researched by a committee member, who reports back to the committee. The surviving promising ideas then move into a full-scale screening process. The company should reward employees submitting the best ideas.

In screening ideas, the company must avoid two types of errors. A *DROP-error* occurs when the company dismisses an otherwise good idea. It is extremely easy to find fault with other people's ideas (Fig. 9.3). Some companies shudder when they look back at ideas they dismissed: Xerox saw the novel promise of Chester Carlson's copying machine, but IBM and Eastman Kodak did not. IBM thought the market for personal computers was minuscule. RCA saw the opportunity of radio; the Victor Talking Machine Company did not. Marshall Field understood the unique market-development possibilities of instalment buying; Endicott Johnson did not. Sears dismissed the importance of discounting; Wal-Mart and Kmart did not. If a company makes too many DROP-errors, its standards are too conservative.

A *GO-error* occurs when the company permits a poor idea to move into development and commercialization. We can distinguish three types of product failures. An *absolute product failure* loses money; its sales do not cover variable costs. A *partial product failure* loses money, but its sales cover all its variable costs and some of its fixed costs. A *relative product failure* yields a profit that is less than the company's target rate of return.

The purpose of screening is to drop poor ideas as early as possible. The rationale is that product-development costs rise substantially with each successive development stage. Most companies require new-product ideas to be described on a standard form that can be reviewed by a new-product committee. The description states the product idea, the target market, and the competition, and roughly estimates market size, product price, development time and costs, manufacturing costs, and rate of return.

The executive committee then reviews each idea against a set of criteria. Does the product meet a need ? Would it offer superior value ? Can it be distinctively advertised ? Does the company have the necessary know-how and capital? Will the new product deliver the expected sales volume, sales growth, and profit ? The surviving ideas can be rated using a weighted-index method like that in Table 9.2. The first column lists factors required for successful product launches, and the second column assigns importance weights. The third column scores the product idea on a scale from 0 to 1.0, with 1.0 the highest score. The final step multiplies each factor's importance by the product score to obtain an overall rating. In this example, the product idea scores .69, which places it in the "good idea" level. The purpose of this basic rating device is to promote systematic product-idea evaluation and discussion. It is not supposed to make the decision for management.

As the new-product idea moves through development, the company will constantly need to revise its estimate of the product's overall probability of success, using the following formula :

Overall probability of success	=	*Probability of technical completion*	×	*Probability of commercialization given technical completion*	×	*Probability of economic success given commercialization*

For example, if the three probabilities are estimated as .50, .65, and .74, respectively, the company would conclude that the overall probability of success is .24. The company then has to judge whether this probability is high enough to warrant continued development.

Managing the Development Process : Concept To Strategy

Concept Development and Testing

Attractive ideas must be refined into testable product concepts. A *product idea is* a possible product the company might offer to the market. A *product concept* is an elaborated version of the idea expressed in meaningful consumer terms.

Concept Development

We shall illustrate concept development with the following situation: A large food processing company gets the idea of producing a powder to add to milk to increase its nutritional value and taste. This is a product idea. But consumers do not buy product ideas; they buy product concepts.

A product idea can be turned into several concepts. The first question is: Who will use this product? The powder can be aimed at infants, children, teenagers, young or middle-aged adults, or older adults. Second, what primary benefit should this product provide ? Taste, nutrition, refreshment, energy ? Third, when will people consume this drink ? Breakfast, midmorning, lunch, midafternoon, dinner, late evening ? By answering these questions, a company can form several concepts :

- *Concept 1:* An instant breakfast drink for adults who want a quick nutritious breakfast without preparing a breakfast.
- *Concept 2:* A tasty snack drink for children to drink as a midday refreshment.
- *Concept 3:* A health supplement for older adults to drink in the late evening before they go to bed.

Each concept represents a *category concept* that defines the product's competition. An instant breakfast drink would compete against bacon and eggs, breakfast cereals coffee and pastry, and other breakfast alternatives. A tasty snack drink would compete against soft drinks, fruit juices, and other thirst quenchers.

Table 9.2: Product-Idea Rating Device

Product Success Requirements	*Relative Weight* (*a*)	*Product Score* (*b*)	*Product Rating* ($c = a \times b$)
Unique or superior product	.40	.8	.32
High performance-to-cost ratio	.30	.6	.18
High marketing dollar support	.20	.7	.14
Lack of strong competition	.10	.5	.05
Total	1.00		.69*

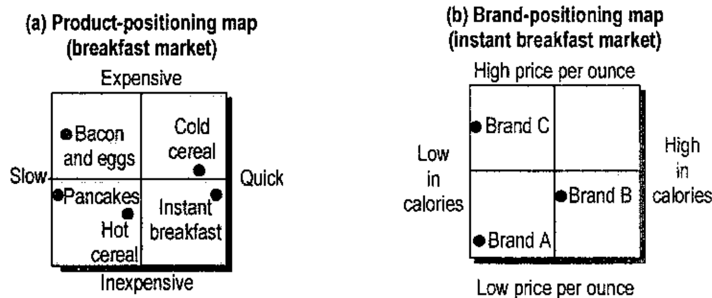


Figure 9.4. Product and Brand Positioning.

Suppose the instant-breakfast-drink concept looks best. The next task is to show where this powdered product would stand in relation to other breakfast products. Fig. 9.4.(*a*), uses the two dimensions of cost and preparation time to create a *product-positioning map* for the breakfast drink. An instant breakfast drink offers low cost and quick preparation. Its nearest competitor is cold cereal; its most distant competitor is bacon and eggs. These contrasts can be utilized in communicating and promoting the concept to the market.

Next, the product concept has to be turned into a *brand concept.* Fig. 9.4.(*b*), is a *brand-positioning map* showing the current positions of three existing brands of instant breakfast drinks. The company needs to decide how much to charge and how calorific to make its drink. The new brand would be distinctive in the medium-price, medium-calorie market or in the high-price, high-calorie market. The company would not want to position it next to an existing brand, where it would have to fight for market share.

Concept Testing

Concept testing involves presenting the product concept to appropriate target consumers and getting their reactions. The concepts can be presented symbolically or physically. However, the more the tested concepts resemble the final product or experience, the more dependable concept testing is. In the past, creating physical prototypes was costly and time-consuming, but computer-aided design and manufacturing programs have changed that. Today firms can design alternative physical products (for example, small appliances or toys) on a computer, and then produce plastic models of each. Potential consumers can view the plastic models and give their reactions.

Companies are also using virtual reality to test product concepts. Virtual reality programs use computers and sensory devices (such as gloves or goggles) to simulate reality. Gadd International has developed a research tool called Simul-Shop, a CD-ROM virtual reality approach that re-creates shopping situations in which researchers can test consumer reactions to factors such as product positioning, store layouts, and package designs. Suppose a cereal marketer wants to test reactions to a new package design and store shelf positioning. Using Simul-Shop on a standard desktop PC, test shoppers begin their shopping spree with a screen showing the outside of a grocery store. They click to enter the virtual store and are guided to the appropriate store section. Once there, they can scan the shelf, pick up various cereal packages, rotate them study the labels—even look around to see what is on the shelf behind them. A Gadd's research director explains: "Once users move toward the item we want to test, [they] can look at different packaging, shelf layouts, and package colours. Depending on the activity, we can even ask users why they did what they did."

Many companies today use *customer-driven engineering* to design new products. Customer-driven engineering attaches high importance to incorporating customer preferences in the final design.

Concept testing entails presenting consumers with an elaborated version of the concept. Here is the elaboration of concept I in our milk example :

Our product is a powdered mixture that is added to milk to make an instant breakfast that gives the person all the needed nutrition along with good taste and high convenience. The product would be offered in three flavors (chocolate, vanilla, and strawberry) and would come in individual packets six to a box at $ 2.49 a box.

After receiving this information, consumers respond to the following questions :

Question	*Product Dimension Measured*
1. Are the benefits clear to you and believable?	*Communicability* and *believability.* If the scores are low, the concept must be refined or revised.
2. Do you see this product solving a problem or filling a need for you ?	*Need level.* The stronger the need, the higher the expected consumer interest.
3. Do other products currently meet this need and satisfy you ?	*Gap level. The* greater the gap, the higher the expected consumer interest. The need level can be multiplied by the gap level to produce a *need-gap score.* A high need gap score means that the consumer sees the product as filling a strong need that is not satisfied by available alternatives. A high need gap score implies greater chances of success of the new product.

4. Is the price reasonable in relation to the value ?	*Perceived value. The* higher the perceived value, the higher the expected consumer interest.
5. Would you (definitely, probably, probably not, definitely not) buy the product ?	*Purchase intention.* This would be high for consumers who answered the previous three questions positively.
6. Who would use this product, and when and how often will the product be used ?	*User targets, purchase occasions, purchasing frequency,* number of times product is consumed and average consumption at a single time.

The respondents' answers indicate whether the concept has a broad and strong consumer appeal, what products the new product competes against, and which consumers are the best targets. The need-gap levels and purchase-intention levels can be checked against norms for the product category to see whether the concept appears to be a winner, a long shot, or a loser. In case of the winner there will be definite go ahead; incase of long shot cost will be the determining factor for *e.g.*, if the cost is high then the company may not go ahead and in case of a loser its no go.

Conjoint Analysis

Consumer preferences for alternative product concepts can be measured through *conjoint analysis*, a method for deriving the utility values .that consumers attach to varying levels of a product's attributes. Respondents are shown different hypothetical offers formed by combining varying levels of the attributes, then asked to rank the various offers. Management can identify the most appealing offer and the estimated market share and profit the company might realize.

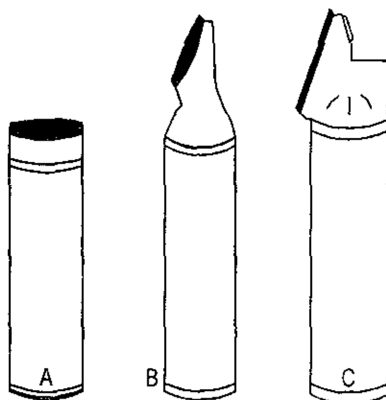


Figure 9.5: Samples for Conjoint Analysis.

Green and Wind have illustrated this approach in connection with developing a new spot-removing carpet-cleaning agent for home use. Suppose the new-product marketer is considering five design elements :

- Three package designs (A, B, C — see Fig. 9.5.)
- Three brand names (K2R, Glory, Bissell)
- Three prices ($1.19, $1.39, $1.59)
- A possible Good Housekeeping seal (yes, no)
- A possible money-back guarantee (yes, no)

Although the researcher can form 108 possible product concepts ($3 \times 3 \times 3 \times 2 \times 2$), it would be too much to ask consumers to rank 108 concepts. A sample of, say, 18 contrasting product concepts can be chosen, and consumers would rank them from the most preferred to the least preferred.

The marketer now uses a statistical program to derive the consumer's utility functions for each of the five attributes (Fig. 9.6). Utility ranges between zero and one; the higher the utility, the stronger the consumer's preference for

that level of the attribute. Looking at packaging, we see that package B is the most favoured, followed by C and then A (A hardly has any utility). The preferred names are Bissell, K2R, and Glory, in that order. The consumer's utility varies inversely with price higher utility at lower price. A Good House-keeping seal is preferred, but it does not add that much utility and may not be worth the effort to obtain it. A money-back guarantee is strongly preferred. Putting these results together, we can see that the consumer's most desired offer would be package design B, with the brand name Bissell, selling at the price of $1.19, with money-back guarantee.

We can also determine the relative importance of each attribute to this consumer—the difference between the highest and lowest utility level for that attribute. The greater the difference, the more important the attribute. Clearly, this consumer sees price and package design as the most important attributes followed by money-back guarantee, brand name, and last, a Good Housekeeping seal.

When preference data are collected from a sufficient sample of target consumers, the data can be used to estimate the market share any specific offer is likely to achieve, given any assumptions about competitive response. The company, however, may not launch the market offer that promises to gain the greatest market share because of cost considerations. The most customer-appealing offer is not always the most profitable offer to make.

Under some conditions, researchers will collect the data not with a full-profile description of each offer but by presenting two factors at a time. For example, respondents may be shown a table with three price levels and three package types and asked which of the nine combinations they would like most, followed by which one they would prefer next, and so on. They would then be shown a further table consisting of trade-offs between two other variables. The trade-off approach may be easier to use when there are many variables and possible offers. However, it is less realistic in that respondents are focusing on only two variables at a time.

Conjoint analysis has become one of the most popular concept development and testing tools. Other applications have included airline travel services, ethical drug design, and credit-card features.

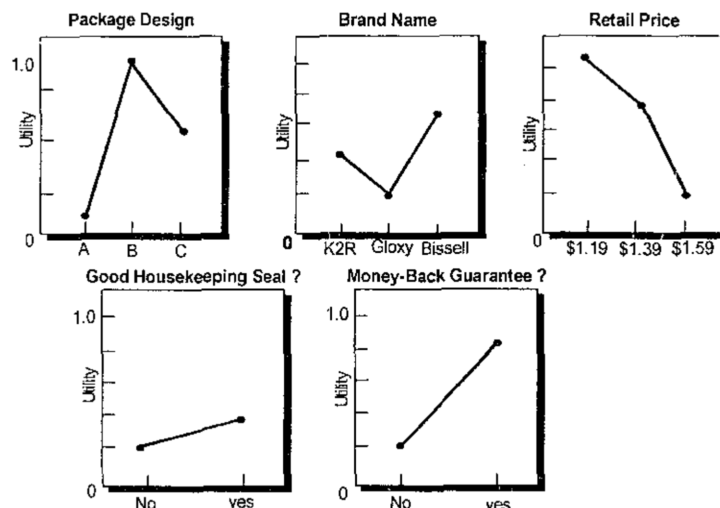


Figure 9.6: Utility Functions Based on Conjoint Analysis

Marketing—Strategy Development

After testing, the new-product manager must develop a preliminary marketing-strategy plan for introducing the new product into the market. The plan consists of three parts. The first part describes the target market's size, structure, and behaviour; the planned product positioning; and the sales, market share, and profit goals sought in the first few years :

The target market for the instant breakfast drink is families with children who are receptive to a new, convenient, nutritious, and inexpensive form of breakfast. The company's brand will be positioned at the higher-price, higher-

quality end of the instant-breakfast-drink category. The company will aim initially to sell 500,000 cases or 10 per cent of the market, with a loss in the first year not exceeding $1.3 million. The second year will aim for 700,000 cases or 14 per cent of the market, with a planned profit of $2.2 million.

The second part outlines the planned price, distribution strategy, and marketing budget for the first year :

The product will be offered in chocolate, vanilla, and strawberry in individual packets of six to a box at a retail price of $2.49 a box. There will be 48 boxes per case, and the case price to distributors will be $24. For the first two months, dealers will be offered one case free for every four cases bought, plus cooperative-advertising allowances. Free samples will be distributed door to door. Coupons for 20 cents off will appear in newspapers. The total sales-promotional budget will be $2.9 million. An advertising budget of $6 million will be split 50:50 between national and local. Two-thirds will go into television and one-third into newspapers. Advertising copy will emphasize the benefit concepts of nutrition and convenience. The advertising-execution concept will revolve around a small boy who drinks instant breakfast and grows strong. During the first year, $100,000 will be spent on marketing research to buy store audits and consumer-panel information to monitor market reaction and buying rates.

The third part of the marketing-strategy plan describes the long-run sales and profit goals and marketing-mix strategy over time :

The company intends to win a 25 per cent market share and realize an after-tax return on investment of 12 per cent. To achieve this return, product quality will start high and be improved over time through technical research. Price will initially be set at a high level and lowered gradually to expand the market and meet competition. The total promotion budget will be boosted each year about 20 per cent, with the initial advertising-sales promotion split of 65:35 evolving eventually to 50:50. Marketing research will be reduced to $60,000 per year after the first year.

Business Analysis

After management develops the product concept and marketing strategy, it can evaluate the proposal's business attractiveness. Management needs to prepare sales, cost, and profit projections to determine whether they satisfy company objectives. If they do, the product concept can move to the product-development stage. As new information comes in, the business analysis will undergo revision and expansion.

Estimating Total Sales

Management needs to estimate whether sales will be high enough to yield a satisfactory profit. Total estimated sales are the sum of estimated first-time sales, replacement sales, and repeat sales. Sales-estimation methods depend on whether the product is a one-time purchase (such as an engagement ring or retirement home), an infrequently purchased product, or a frequently purchased product. For one-time purchased products, sales rise at the beginning, peak, and later approach zero as the number of potential buyers is exhausted [Fig. 9.7(*a*)]. If new buyers keep entering the market, (the curve will not go down to zero.

Infrequently purchased products—such as automobiles, toasters, and industrial equipment—exhibit replacement cycles dictated by physical wearing out or by obsolescence associated with changing styles, features, and performance. Sales forecasting for this product category calls for estimating first-time sales and replacement sales separately [Fig. 9.7(*b*)].

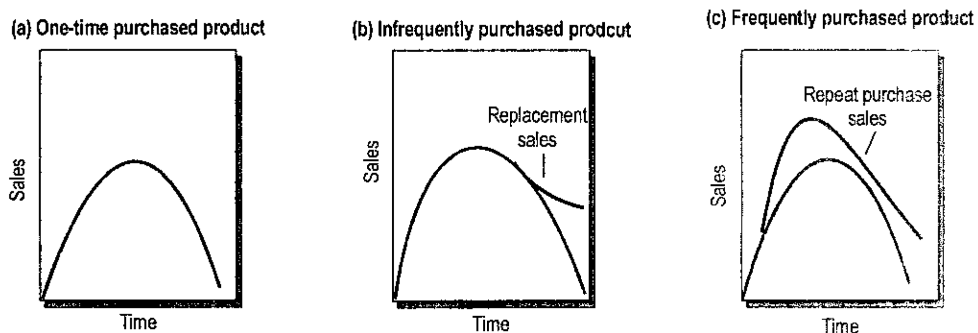


Figure 9.7: Product Life-Cycle Sales for Three Types of Product.

Frequently purchased products, such as consumer and industrial non-durables, have product life-cycle sales resembling Fig. 9.7.(*c*). *The number of first-time buyers initially increases and then decreases as fewer buyers are left* (assuming a fixed population). Repeat purchases occur soon, providing that the product satisfies some buyers. The sales curve eventually falls to a plateau representing a level of steady repeat-purchase volume; by this time, the product is no longer a new product.

In estimating a new product's sales, the manager's first task is to estimate first-time purchases of the new product in each period. A variety of techniques is available. To estimate replacement sales, management has to research the product's *survival-age distribution*—that is, the number of units that fail in year one, two, three, and so on. The low end of the distribution indicates when the first replacement sales will take place. The actual timing of replacement will be influenced by a variety of factors. Because replacement sales are difficult to estimate before the product is in use, some manufacturers base the decision to launch a new product solely on the estimate of first-time sales.

For a frequently purchased new product, the seller has to estimate repeat sales as well as first-time sales. A high rate of repeat purchasing means that customers are satisfied; sales are likely to stay high even after all first-time purchases take place. The seller should note the percentage of repeat purchases that take place in each repeat-purchase class; those who rebuy once, twice, three times, and so on. Some products and brands are bought a few times and dropped.

Estimating Costs and Profits

After preparing the sales forecast, management should estimate expected costs and profits. Costs are estimated by the R&D, manufacturing, marketing, and finance departments. Table illustrates a five-year projection of sales, costs, and profits for the instant breakfast drink.

Row I shows the projected sales revenue over the five-year period. The company expects to sell $11,889,000 (approximately 500,000 cases at $24 per case) in the first year. Behind this sales projection is a set of assumptions about the rate of market growth, the company's market share, and the factory-realized price.

Row 2 shows the cost of goods sold, which hovers around 33 per cent of sales revenue. This cost is found by estimating the average cost of labour, ingredients, and packaging per case.

Row 3 shows the expected gross margin, which is the difference between sales revenue and cost of goods sold.

Table 9.3: Project Five-year Cash-Flow Statement (in thousands of dollars)

	Year 0	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
1. Sales Revenue	$0	$11,889	$15,381	$19,654	$28.253	$32.491
2. Cost of goods sold	0	3,981	5,150	6,581	9,461	10,880
3. Gross margin	0	7,908	10.231	13,073	18,792	21.611
4. Development costs	–3,500	0	0	0	0	0
5. Marketing costs	0	8,000	6,460	8,255	11,866	13,646
6. Allocated overhead	0	1,189	1,538	1,965	2,825	3,249
7. Gross contribution	–3,500	–1,281	2,233	2,853	4,101	4.716
8. Supplementary contribution	0	0	0	0	0	0
9. Net contribution	–3,500	–1,281	2,233	2,853	4,101	4.716
10. Discounted contribution (15%)	–3,500	–1,113	1,691	1,877	2,343	2,346
11. Cumulative discounted cash flow	–3,500	–4,613	–2,922	–1,045	1,298.	3,644

Row 4 shows anticipated development costs of $3.5 million, including product-development cost, marketing research costs, and manufacturing-development costs.

Row 5 shows the estimated marketing costs over the five-year period to cover advertising, sales promotion,, and marketing research and an amount allocated for sales force coverage and marketing administration.

Row 6 shows the allocated overhead to this new product to cover its share of the cost of executive salaries, heat, light, and so on.

Row 7, the gross contribution, is found by subtracting the preceding three costs from the gross margin.

Row 8, supplementary contribution, lists any change in income from other company products caused by the introduction of the new product. It has two components. Dragalong income is additional income on other company products resulting from adding this product to the line. Cannibalized income is the reduced income on other company products resulting from adding this product to the line. Table assumes no supplementary contributions.

Row 9 shows the net contribution, which in this case is the same as the gross contribution.

Row 10 shows the discounted contribution—that is, the present value of each future contribution discounted at 15 per cent per annum. For example, the company will not receive $4,716,000 until the fifth year. This amount is worth only $2,346,000 today if the company can earn 15 per cent on its money through other investments.

Finally, row 11 shows the cumulative discounted cash flow, which is the cumulation of the annual contributions in row 10. Two things are of central interest. The first is the maximum investment exposure, which is the highest loss that the project can create. We see that the company will be in a maximum loss position of $4,613,000 in year 1. The second is the payback period, which is the time when the company recovers all of its investment including the built-in return of 15 per cent. The payback period here is approximately three and a half years. Management therefore has to decide whether to risk a maximum investment loss of $4.6 million and a possible pay-back period of three and a half years.

Companies use other financial measures to evaluate the merit of a new-product proposal. The simplest is *break-even analysis,* in which management estimates how many units of the product the company would have to sell to break even with the given price and cost structure. If management believes sales could easily reach the break-even number, it is likely to move the project into product development.

The most complex method of estimating profit is *risk analysis.* Here three estimates (optimistic, pessimistic, and most likely) are obtained for each uncertain variable affecting profitability under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a rate-of-return probability distribution shelving the range of possible rates of returns and their probabilities.

Managing the Development Process : Development to Commercialization

Product Development

If the product concept passes the business test, it moves to R&D or engineering to be developed into a physical product. Up to now it has existed only as a word description, a drawing, or a prototype. This step involves a large jump in investment that dwarfs the costs incurred in the earlier stages. At this stage the company will determine whether the product idea can be translated into a technically and commercially feasible product. If it cannot, the accumulated project cost will be lost except for an useful information gained in the process.

The job of translating target customer requirements into a working prototype is helped by a set of methods known as *quality function deployment* (QFD). The methodology takes the list of desired *customer attributes* (CAs) generated by market research and turns them into a list of *engineering attributes* (EAs) that the engineers can use. For example, customers of a proposed truck may want a certain acceleration rate (CA). Engineers can turn this into the required horse power and other engineering equivalents (EAs). The methodology permits measuring the trade-offs and costs of providing the customer requirements. A major contribution of QFD is that it improves communication between marketers, engineers, and the manufacturing people.

The R & D department will develop one or more physical versions of the product concept. Its goal is to find a

prototype that consumers see as embodying the key attributes described in the product-concept statement, that performs safely under normal use and conditions, and that can be produced within the budgeted manufacturing costs.

Developing and manufacturing a successful prototype can take days, weeks, months, or even years. Designing a new commercial aircraft takes several years of development work, yet sophisticated virtual reality technology is speeding the process. By designing and testing product designs through simulation, for example, companies achieve the flexibility to respond to new information and to resolve uncertainties by quickly exploring alternatives.

Boeing At Boeing, the all-digital development of the 777 aircraft made use of a computer-generated "human" who would climb inside the three-dimensional design on-screen to show how difficult maintenance access would be for a live mechanic. Such computer modeling allowed engineers to spot design errors that otherwise would have remained undiscovered until a person began to work on a physical prototype. By avoiding the time and cost associated with building physical prototypes at several stages, Boeing's development process has acquired the flexibility to evaluate a wider range of design options than previously thought possible.

Laboratory scientists must not only design the product's functional characteristics but also communicate its psychological aspects through physical cues. How will consumers react to different colours, sizes, and weights ? In the case of a mouthwash, a yellow colour supports an "antiseptic" claim (Listerine), a red colour supports a "refreshing" claim, (Lavoris), and a green or blue colour supports a "cool" claim (Scope). Marketers need to supply lab people with information on what attributes consumers seek how consumers judge whether these attributes are present.

When the prototypes are ready, they must be put through rigorous *functional tests* and *customer tests. Alpha testing* is the name given to testing the product within firm to see how it performs in different applications. After refining the prototype further, the company moves to *beta testing.* It enlists a set of customers to use the prototype and give feedback on their experiences. Beta testing is most useful when potential customers are heterogeneous, the potential applications are not fully known several decision makers are involved in purchasing the product, and opinion leadership from early adopters is sought. Here of the functional tests that products go through before they enter the marketplace :

- **Gillette** At Gillette, 200 volunteers from various departments come to work unshaven each day, troop to the second floor of the company's South Boston manufacturing and research plant, and enter small booths with a sink and mirror. There they take instructions from technicians on the other side of small window as to which razor, shaving cream, or aftershave to use, are then they fill out questionnaires. "We bleed so you'll get a good shave home," says one Gillette employee.

Consumer testing can take a variety of forms, from bringing consumers into a laboratory to giving them samples to use in their homes. In-home placement tests are common with products ranging from ice cream flavours to new appliances. When DuPont developed its new synthetic carpeting, it installed free carpeting in several homes in exchange for the homeowners' willingness to report their likes and dislikes about the carpeting.

When testing cutting-edge products such as electric cars, marketers must be as creative as the product designers and engineers : Rugen, a small island in the Baltic Sea, has become the testing ground for the cars of the future, Fifty-eight residents of the former East German island have gone from driving decrepit gas-guzzling cars to sleek new electric models manufactured by BMW, Daimler Chrysler, and Audi. The Rugen tests have made the auto manufacturers aware of several problems: Rugen drivers have found that trips of any length must be carefully mapped out because of the batteries' limited life. Recharging the batteries can consume anywhere from a half hour to an entire evening.

Consumer preferences can be measured in several ways. Suppose a consumer is shown three items—A, B, and C, such as three cameras, three insurance plans, or three advertisements.

- The *rank-order* method asks the consumer to rank the three items in order of preference. The consumer might respond with A > B > C. Although this method has the advantage of simplicity, it does not reveal how

intensely the consumer feels about each item nor whether the consumer likes any item very much. It is also difficult to use this method when there are many objects to be ranked.

- The *paired-comparison* method calls for presenting pairs of items and asking the consumer which one is preferred in each pair. Thus the consumer could be presented with the pairs AB, AC, and BC and say that she prefers A to B, A to C, and B to C. Then we could conclude that A > B > C. People find it easy to state their preference between two items, and this method allows the consumer to focus on the two items, noting their differences and similarities.
- The *monadic-rating* method asks the consumer to rate liking of each product on a scale. Suppose a seven-point scale is used, where 1 signifies intense dislike, 4 indifference, and 7 intense like. Suppose the consumer returns the following ratings : A = 6, B = 5, C = 3. We can derive the individual's preference order (*i.e.*, A > B > C) and even know the qualitative levels of the person's preference for each and the rough distance between preferences.

Market Testing

After management is satisfied with functional and psychological performance, the product is ready to be dressed up with a brand name and packaging, and put to a market test. The new product is introduced into an authentic setting to learn how large the market is and how consumers and dealers react to handling, using, and repurchasing the product.

Not all companies undertake market testing. A company officer at Revlon, Inc., stated: "In our field—primarily higher-priced cosmetics not geared for mass distribution—it would be unnecessary for us to market test. When we develop a new product, say an improved liquid makeup, we know it's going to sell because we're familiar with the field. And we've got 1,500 demonstrators in department stores to promote it." Most companies, however, know that market testing can yield valuable information about buyers, dealers, marketing program effectiveness, and market potential. The main issues are: How much market testing should be done, and what kind(s) ?

The amount of market testing is influenced by the investment cost and risk on the one hand, and the time pressure and research cost on the other. High investment-high risk products, where the chance of failure is high, must be market tested ; the cost of the market tests will be an insignificant percentage of the total project cost. High-risk products—those that create new-product categories (first instant breakfast drink) or have novel features (first fluoride toothpaste)—warrant more market testing than modified products (another toothpaste brand). Procter & Gamble spent two years market testing its new no-calorie fat substitute, Olestra. While the Food and Drug Administration approved the new product in 1996, a very small percentage (estimated at 2 per cent) of consumers experienced stomach problems and the indelicately named side effect, "anal leakage." The company made a slight change in the formula, but even after test marketing has proved that this side effect does not occur, the IDA requires that every package containing food made with Olestra bear a label that reads: "This product contains Olestra. Olestra may cause abdominal cramping and loose stools. Olestra inhibits the absorption of some vitamins and other nutrients. . . ." But the amount of market testing may be severely reduced if the company is under great time pressure because the season is just starting or because competitors are about to launch their brands. The company may therefore prefer to face the risk of a product failure to the risk of losing distribution or market penetration on a highly successful product.

Next we describe consumer-goods market testing and business-goods testing.

Consumer-Goods Market Testing

In testing consumer products, the company seeks to estimate four variables: trial, first repeat, adoption, and repurchase frequency. The company hopes to find all these variables at high levels. In some cases, it will find many consumers trying the product but few rebuying it. Or it might find high permanent adoption but low purchase frequency.

Here we describe the major methods of consumer-goods market testing, from the least to the most costly.

Sales-Wave Research. In *sales-wave research*, consumers who initially try the product at no cost are [illegible]ered

the product, or a competitor's product, at slightly reduced prices. They might be reoffered the product as many as three to five times (sales waves), with the company noting how many customers selected that company's product again and their reported level of satisfaction. Sales-wave research can also include exposing consumers to one or more advertising concepts to see the impact of that advertising on repeat purchase.

Sales-wave research can be implemented quickly, conducted with a fair amount of security, and carried out without final packaging and advertising. However, sales-wave research does not indicate the trial rates that would be achieved with different sales-promotion incentives, because the consumers are preselected to try the product. Nor does it indicate the brand's power to gain distribution and favourable shelf position.

Simulated Test Marketing. *Simulated test marketing* calls for finding 30 to 40 qualified shoppers and questioning them about brand familiarity and preferences in a specific product category. These people are then invited to a brief screening of both well-known and new commercials or print ads. One ad advertises the new product, but it is not singled out for attention. Consumers receive a small amount of money and are invited into a store where they may buy any items. The company notes how many consumers buy the new brand and competing brands. This provides a measure of the ad's relative effectiveness against competing ads in stimulating trial. Consumers are asked the reasons for their purchases or nonpurchases. Those who did not buy the new brand are given a free sample. Some weeks later, they are reinterviewed by phone to determine product attitudes, usage, satisfaction, and repurchase intention and are offered an opportunity to repurchase any products.

This method has several advantages. It gives fairly accurate results on advertising effectiveness and trial rates (and repeat rates if extended) in a much shorter time and at a fraction of the cost of using real test markets. Pretests often take only three months and may cost $250,000. The results are incorporated into new-product forecasting models to project ultimate sales levels. Marketing research firms report surprisingly accurate predictions of sales levels of products that are subsequently launched in the market.

Controlled Test Marketing. In this method, a research firm manages a panel of stores that will carry new products for a fee. The company with the new product specifies the number of stores and geographic locations it wants to test. The research firm delivers the product to the participating stores and controls shelf position; number of facings, displays, and point-of-purchase promotions; and pricing. Sales results can be measured through electronic scanners at the checkout. The company can also evaluate the impact of local advertising and promotions during the test.

Controlled test marketing allows the company to test the impact of in-store factors and limited advertising on buying behaviour. A sample of consumers can be interviewed later to give their impressions of the product. The company does not have to use its own, sales force, give trade allowances, or "buy" distribution. However, controlled test marketing provides no information on how to sell the trade on carrying the new product. This technique also exposes the product and its features to competitors' scrutiny.

Test Markets. The ultimate way to test a new consumer product is to put it into full-blown test markets. The company chooses a few representative cities, and the sales force tries to sell the trade on carrying the product and giving it good shelf exposure. The company puts on a full advertising and promotion campaign in these markets similar to the one that it would use in national marketing. A full-scale test can cost over $1 million, depending on the number of test cities, the test duration, and the amount of data the company wants to collect.

Management faces several questions :

1. *How many test cities ?* Most tests use between two and six cities. The greater the maximum possible loss, the greater the number of contending marketing strategies, *the* greater the regional differences, and the greater the chance *of* test-market interference by competitors, the greater the number of cities that should be used.

2. *Which cities ?* Each company must develop test-city selection criteria. One company looks for test cities that have diversified industry, good media coverage, cooperative chain stores, average competitive activity, and no evidence of being overtested.

3. *Length of test ?* Market tests last anywhere from a few months to a year. The longer the products average repurchase period, the longer the test period necessary to observe repeat-purchase rates. This period should be cut down if competitors are rushing to the market.

4. *What information ?* Warehouse shipment data will show gross inventory buying but will not indicate weekly sales at the retail level. *Store audits* will show retail sales and competitors' market shares but will not reveal buyer characteristics. *Consumer panels* will indicate which people are buying which brands and their loyalty and switching rates. *Buyer surveys* will yield in-depth information about consumer attitudes, usage, and satisfaction.

5. *What action to take?* If the test markets show high trial and repurchase rates, the product should be launched nationally. If the test markets show a high trial rate and a low repurchase rate, customers are not satisfied and the product should be redesigned or dropped. If the test markets show a low trial rate and a high repurchase rate, the product is satisfying but more people have to try it. This means increasing advertising and sales promotion. If trial and repurchase rates are both low, the product should be abandoned.

Test marketing permits testing the impact of alternative marketing plans. Colgate-Palmolive used a different marketing mix in each of four cities to market a new soap product : (1) an average amount of advertising coupled with free samples distributed door to door, (2) heavy advertising plus samples, (3) an average amount of advertising linked with mailed redeemable coupons, and (4) an average amount of advertising with no special introductory offer. The third alternative generated the best profit level, although not the highest sales level.

Business-Goods Market Testing

Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo *alpha testing* (within the company) and *beta testing* (with outside customers). During beta testing, the vendor's technical people observe how test customers use the product, a practice that often exposes unanticipated problems of safety and servicing and alerts the vendor to customer training and servicing requirements. The vendor can also observe how much value the equipment adds to the customer's operation as a clue to subsequent pricing. The vendor will ask the test customers to express their purchase intention and other reactions after the test.

The test customers benefit in several ways : They can influence product design, gain experience with the new product ahead of competitors, receive a price break in return for cooperation, and enhance their reputation as technological pioneers. Vendors must carefully interpret the beta test results because only a small number of test customers are used, they are not randomly drawn, and the tests are somewhat customized to each site. Another risk is that test customers who are unimpressed with the product may leak unfavourable reports about it.

A second common test method for business goods is to introduce the new product at trade shows. Trade shows draw a large number of buyers, who view many new products in a few concentrated days. The vendor can observe how much interest buyers show in the new product, how they react to various features and terms, and how many express purchase intentions or place orders. Book publishers, for instance, regularly launch their new titles at the International Book Fair at Pragati Maiden New Delhi. The disadvantage of trade shows is that they reveal the product to competitors; therefore, the vendor should be ready to launch the product soon after the trade show.

New industrial products can be tested in distributor and dealer display rooms, where they may stand next to the manufacturer's other products and possibly competitors' products. This method yields preference and pricing information in the product's normal selling atmosphere. The disadvantages are that the customers might want to place early orders that cannot be filled, and those customers who come in might not represent the target market.

Industrial manufacturers come close to using full test marketing when they give a limited supply of the product to the sales force to sell in a limited number of areas that receive promotion support and printed catalog sheets. In this way, management can make a more informed decision about commercializing the product.

Commercialization

If the company goes ahead with commercialization, it will face its largest costs to date. The company will have to contract for manufacture or build or rent a full-scale manufacturing facility. Plant size will be a critical decision. The company can build a smaller plant than called for by the sales forecast, to be on the safe side. That is what Quaker Oats did when it launched its 100 Percent Natural breakfast cereal. The demand so exceeded the company's sales forecast that for about a year it could not supply enough product to the stores. Although Quaker Oats was gratified with the response, the low forecast cost it a considerable amount of profit.

Another major cost is marketing. To introduce a major new consumer packaged good into the national market, the company may have to spend (huge amount in crores of rupees) in advertising and promotion in the first year. In the introduction of new food products, marketing expenditures typically represent 57 per cent of sales during the first year.

When (Timing)

In commercializing a new product, market-entry timing is critical. Suppose a company has almost completed the development work on its new product and learns that a competitor is nearing the end of its development work. The company faces three choices:

1. *First entry* : The first firm entering a market usually enjoys the "first mover advantages" of locking up key distributors and customers and gaining reputational leadership. But, if the product is rushed to market before it is thoroughly debugged, the product can acquire a flawed image.
2. *Parallel entry* : The firm might time its entry to coincide with the competitor's entry. The market may pay more attention when two companies are advertising the new product.
3. *Late entry* : The firm might delay its launch until after the competitor has entered. The competitor will have borne the cost of educating the market. The competitor's product may reveal faults the late entrant can avoid. The company can also learn the size of the market.

The timing decision involves additional considerations. If a new product replaces an older product, the company might delay the introduction until the old product's stock is drawn down. If the product is highly seasonal, it might be delayed until the right season arrives.

Where (Geographic Strategy)

The company must decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. Most will develop a planned market rollout over time. For instance, Coca-Cola launched its new soda, Citra, a caffeine-free, grapefruit-flavoured drink, in about half the United States. Company size is an important factor here. Small companies will select an attractive city and put on a blitz campaign. They will enter other cities one at a time. Large companies will introduce their product into a whole region and then move to the next region. Companies with national distribution networks, such as auto companies, will launch their new models in the national market.

Most companies design new products to sell primarily in the domestic market. If the product does well, the company considers exporting to neighbouring countries or the world market, redesigning if necessary. Cooper and Kleinschmidt, in their study of industrial products, found that domestic products designed solely for the domestic market tend to show a high failure rate, low market share, and low growth. In contrast, product designed for the world market—or at least to include neighbouring countries—achieve significantly' more profits, both at home and abroad. Yet only 17 per cent of the products in Cooper and Kleinschmidt's study were designed with an international orientation. The implication is that companies should adopt an international focus in designing and developing new products.

In choosing rollout markets, the candidate markets can be listed as rows, and rollout attractiveness criteria can be

listed as columns. The major rating criteria are market potential, company's local reputation, cost of filling the pipeline, cost of communication media, influence of area on other areas, and competitive penetration. The presence of strong competitors will influence rollout strategy.

To Whom (Target-Market Prospects)

Within the rollout markets, the company must target its initial distribution and promotion to the best prospect groups. Presumably, the company has already profiled the prime prospects, who would ideally have the following characteristics : They would be early adopters, heavy users, and opinion leaders, and they could be reached at a low cost. Few groups have all these characteristics. The company should rate the various prospect groups on these characteristics and target the best prospect group. The aim is to generate strong sales as soon as possible to motivate the sales force and attract further prospects.

Many companies are surprised to learn who really buys their product and why. Microwave ovens began to enjoy explosive growth only after microwave-oven popcorn was developed. Households dramatically increased their purchase of computers when the CD-ROM multimedia feature was introduced.

How (Introductory Market Strategy)

The company must develop an action plan for introducing the new product into the rollout markets. With its debut in 1998, the competitively priced iMac represented Apple Computer's reentry into the computer PC business after a hiatus of 14 years.

To coordinate the many activities involved in launching a new product, management can use network-planning techniques such as critical path scheduling. *Critical path scheduling (CPS)* calls for developing a master chart showing the simultaneous and sequential activities that must take place to launch the product. By estimating how much time each activity takes, the planners estimate completion time for the entire project. Any delay in any activity on the critical path will cause the project to be delayed. If the launch must be completed earlier, the planner searches for ways to reduce time along the critical path.

The Consumer-adoption Process

How do potential customers learn about new products, try them, and adopt or reject them ? (*Adoption* is an individual's decision to become a regular user of a product.) *The consumer-adoption process* is later followed by the *consumer-loyalty process,* which is the concern of the established producer.

Years ago, new-product marketers used a *mass-market approach* in launching products. They would distribute a product everywhere and advertise it to everyone on the assumption that most people are potential buyers. This approach had two main draw-backs : It called for heavy marketing expenditures, and it involved many wasted exposures to people who are not potential consumers. These drawbacks led to a second approach, *heavy-user target marketing,* where the product is initially aimed at heavy users.

This approach makes sense, provided that heavy users are identifiable and are early adopters. But even within the heavy-user group, consumers differ in interest in new products and brands; many heavy users are loyal to existing brands. Many new-product marketers now aim at consumers who are early adopters. According to *early-adopter theory* :

- Persons within a target market differ in the amount of elapsed time between their exposure to a new product and their trying it.
- Early adopters share some traits that differentiate them from late adopters.
- Efficient media exist for reaching early adopters.
- Early adopters tend to *be* opinion leaders and helpful in "advertising" the new product to other potential buyers.

The theory of innovation diffusion and consumer adoption helps marketers identify early adopters.

Stages in the Adoption Process

An *innovation* refers to any good, service, or idea that is *perceived* by someone as new. The idea may have a long history, but it is an innovation to the person who sees it as new. Innovations take time to spread through the social system. Rogers defines the *innovation diffusion process* as "the spread of a new idea from its source of invention or creation to its ultimate users or adopters." The consumer-adoption process focuses on the mental process through which an individual passes from first hearing about an innovation to final adoption.

Adopters of new products have been observed to move through five stages :

1. *Awareness*: The consumer becomes aware of the innovation but lacks information about it.
2. *Interest*: The consumer is stimulated to seek information about the innovation.
3. *Evaluation*: The consumer considers whether to try the innovation.
4. *Trial*: The consumer tries the innovation to improve his or her estimate of its value.
5. *Adoption*: The consumer decides to make full and regular use of the innovation.

The new-product marketer should facilitate consumer movement through these stages. A portable electric-dishwasher manufacturer might discover that many consumers are stuck in the interest stage; they do not buy because of their uncertainty and the large investment cost. But these same consumers would be willing to use an electric dishwasher on a trial basis for a small monthly fee. The manufacturer should consider offering a trial-use plan with option to buy. Developers of most general-interest interactive CD-ROM titles found that consumers were stuck in the interest or trial stage and moved less rapidly to adoption.

Factors Influencing the Adoption Process

Marketers recognize the following characteristics of the adoption process: differences in individual readiness to try new products; the effect of personal influence; differing rates of adoption; and differences in organizations' readiness to try new products.

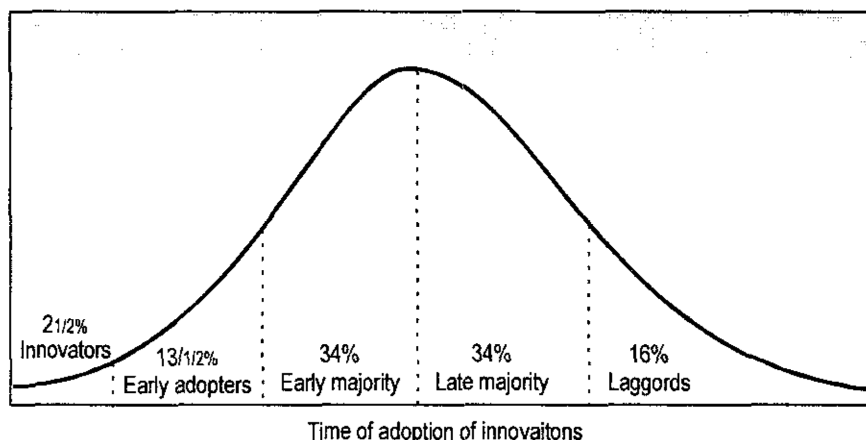


Figure 9.8: Adopter Categorization on the Basis of Relative Time of Adoption of Innovations

People Differ in Readiness to Try New Products

Rogers defines a person's innovativeness as "the degree to which an individual is relatively earlier in adopting new ideas than the other members of his social system." In each product area, there are consumption pioneers and early

adopters. Some people are the first to adopt new clothing fashions or new appliances; some doctors are the first to prescribe new medicines; and some farmers are the first to adopt new farming methods. Other individuals adopt new products much later. People can be classified into the adopter categories shown in Fig. 9.8. After a slow start, an increasing number of people adopt the innovation, the number reaches a peak, and then it diminishes as fewer nonadopters remain.

Rogers sees the five adopter groups as differing in their value orientations. Innovators are venturesome; they are willing to try new ideas. Early adopters are guided by respect; they are opinion leaders in their community and adopt new ideas early but carefully. The early majority are deliberate; they adopt new ideas before the average person, although they rarely are leaders. The late majority are skeptical; they adopt an innovation only after a majority of people have tried it. Finally, laggards are tradition bound; they are suspicious of change, mix with other tradition-bound people, and adopt the innovation only when it takes on a measure of tradition itself.

This classification suggests that an innovating firm should research the demographic, psychographic, and media characteristics of innovators and early adopters and direct communications specifically to them. For example, innovative farmers are likely to be better educated and more efficient. Innovative homemakers are more gregarious and usually higher in social status. Certain communities have a high share of early adopters. According to Rogers, earlier adopters tend to be younger in age, have higher social status, and a more favourable financial position. They utilize a greater number of more cosmopolitan information sources than do later adopters.

Personal Influence Plays a Large Role

Personal influence is the effect one person has on another's attitude or purchase probability. Although personal influence is an important factor, its significance is greater in some situations and for some individuals than for others. Personal influence is more important in the evaluation stage of the adoption process than in the other stages. It has more influence on late adopters than early adopters. It is also more important in risky situations.

Characteristics of the Innovation Affect Rate of Adoption

Some products catch on immediately (*e.g.*, rollerblades), whereas others take a long time to gain acceptance (*e.g.*, diesel-engine autos). Five characteristics influence the rate of adoption of an innovation. We will consider them in relation to the adoption of personal computers for home use.

The first is *relative advantage*—the degree to which the innovation appears superior to existing products. The greater the perceived relative advantage of using a personal computer, say, in preparing income taxes and keeping financial records, the more quickly personal computers will be adopted.

The second is *compatibility*—the degree to which the innovation matches the values and experiences of tyre ndividuals. Personal computers, for example, are highly compatible with upper-middle-class lifestyles.

Third is *complexity*—the degree to which the innovation is relatively difficult to understand or use. Personal computers are complex and will therefore take a longer time to penetrate into home use.

Fourth is *divisibility*—the degree to which the innovation can be tried on a limited basis. The availability of rentals of personal computers with an option to buy increases their rate of adoption.

Fifth is *communicability*—the degree to which the beneficial results of use are observable or describable to others. The fact that personal computers lend themselves to demonstration and description helps them diffuse faster in the social system.

Other characteristics that influence the rate of adoption are cost, risk and uncertainty, scientific credibility, and social approval. The new-product marketer has to research all these factors and give the *key* ones maximum attention in

designing the new-product and marketing program.

Organizations Also Vary in Readiness to Adopt Innovations

The creator of a new teaching method would want to identify innovative schools. The producer of a new piece of medical equipment would want to identify innovative hospitals. Adoption is associated with variables in the organization's environment (community progressiveness, community income), the organization itself (size, profits pressure to change), and the administrators (education level, age, sophistication). Other forces come into play when trying to get a product adopted into organizations that receive the bulk of their funding from the government, such as public schools. A controversial or innovative product can be squelched by negative public opinion.

Consumer Classification on the Basis of Product Adoption

Innovators—Being Venturesome

Innovators : A member of the first group of consumers to buy a new product.

Innovators — the consumers most likely to try something new—are the first to try a new product. These people are venturesome, willing to be daring and different. They are the customers most confident about thinking for themselves and more likely to deviate from their local community's established way of doing things. Innovators, because they are eager to try new ideas, are extremely important in getting a new product accepted in the market. As Fig. 9.9, shows, this venturesome group is small in number. As might be expected, members of this group are likely to be younger and better educated than the average consumer. They are generally higher-income buyers or financially stable individuals, who can afford to take a chance on something new.

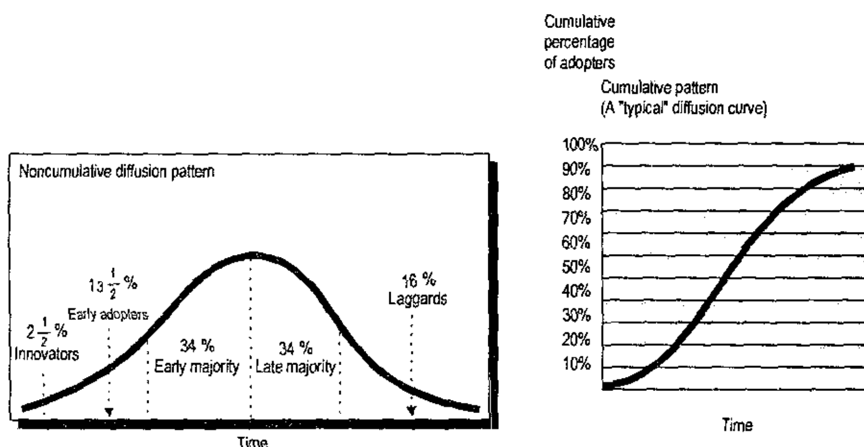


Figure 9.9

Early Adopters–Following the Lead

Early adopter : A member of the group of consumers who purchase a product soon after it has been introduced, but after the innovators have purchased it.

A larger group than the innovators, but a somewhat less adventurous one, is the early adopter group. Many characteristics of the innovator group are also found among the early adopters, since to be an **early adopter** often requires the income, self-confidence, and education to use a product that has still not gained wide acceptance. A major difference, however, is that unlike innovators, who adopt the product during the introduction stage of the product life cycle, most early adopters buy the product during the growth stage.

Early adopters read more magazines than the average person and have high usage rates in the product category in which the innovation falls. Although members of this group follow the lead of the innovators, they are more integrated into their local communities. Early adopters are conceived of as opinion leaders, who help to determine

which new products later adopters will find acceptable. Early adopters can be expected to influence their friends and coworkers and thus the contribute greatly to a new product's progress. Developers of new products therefore spend considerable time and resources in identifying and reaching this group. They are a significant target for advertisement and other promotions aimed at creating a market where none existed before.

Early and Late Majorities—Riding the Bandwagon

The early and late majorities, taken together, constitute approximately 68 per cent of the overall group that adopts a new product. They make up the mass market on which many products depend. The two halves of this market are seen as having similar characteristics in differing degrees.

Early majority : A group of consumers, usually solid, middle-class people, who purchase more deliberately and cautiously than early adopters.

The **early majority** is usually made up of solid, middle-class consumers who are more deliberate and cautions in making purchasing decision than are early adopters. Once this group adopts a new product, late in the growth stage, the product's acceptance and its diffusion throughout the social system are well established. In general, members of the early majority are of average socio-economic status.

Late majority : A group of consumers who purchase a product after the early majority, when the product is no longer perceived as risky.

As time goes by and more and more consumers adopt an innovation, it is perceived to be less risky. At this time, the product has reached maturity, and the late majority adopts the innovation. Members of the **late majority** are slightly less educated and financially stable than members of the early majority. They are also older, more conservative, and more traditional. They tend to be skeptical about new product ideas and reluctantly adopt innovations only when the product no longer carry the risk associated with newness. Social pressure also may force late adopters to purchase a product.

Laggards—Bringing Up the Rear

Laggard : A member of the group of final adopters in the diffusion process.

Leggards, or final adopters, make up the last group to adopt a product. These people see a need for the product but for economic, social, or educational reasons have been slow to accept it. Innovations are not welcome to this older group which is lowest in socio-economic status. Laggards resist challenges to past fashion and traditions. The laggard group is especially easily identified when the product in question is clothing. Frequently, a new clothing design is adopted by innovators, early adopters, and members of the majority groups, who then drop it as the laggard group begins to wear the style.

Nonadopters—Holding Out

Nonadopter : A member of the group of consumers who never buy a particular new product or adopt a particular new style.

No matter what the innovation, there are always some individuals who never buy the new product or adopt the new style. These people are known as **nonadopters.**

Use of the Adopter Categories

Planners about to introduce a new product should give close consideration to the diffusion process and the various adopter categories. Characteristics of the various adopter groups may provide the basis for market segmentation efforts. As you have seen, youth, economic resources, adventurousness, and other possible segmenting variables are usually not spread evenly among the adopter groups. Research and analysis of the characteristics of adopters can help the new product on its way and will surely pay off for marketing managers. As the target marketing and positioning focus shifts from early adopters to the early majority and late majority, promotional and other marketing plans, including pricing and distribution strategies, should be altered. Indeed, even the product strategy should be modified.

Chapter 10
Distribution Channel Management

What Is a Channel of Distribution ?

A channel of distribution may be referred to by other names, and terms vary from industry to industry. But whether *channel, trade channel,* or some other variant of the term is used, the functions performed remain the same. The term *channel of distribution* has its origins in the French word for canal, suggesting a path that goods take as they flow from producers to consumers. In this sense, a channel of distribution is defined by the organizations or individuals along the route from producer to consumer. Because the beginning and ending points of the route must be included, both producer and consumer are always members of a channel of distribution. However, there may be intermediate stops along the way. Several marketing institutions have developed to facilitate the flow of the physical product or the transfer of ownership (title) to the product from the producer to the consumer. Organizations that serve as marketing intermediaries (middlemen) specializing in distribution rather than production are external to the producing organization. When these intermediaries join with a manufacturer in a loose coalition aimed at exploiting joint opportunities, a channel of distribution is formed.

Channel of distribution : The complete sequence of marketing organizations involved in bringing a product from the producer to the ultimate consumer or organizational user.

A **channel of distribution**, then, consists of producer, consumer and any intermediary organizations that are aligned to provide a means of transferring ownership (title) or possession of a product from producer to consumer. The channel of distribution can also be seen as a system of interdependent relationships among a set of organizations—a system that facilitates the exchange process.

All discussions of distribution channels assume that the product in question has taken on its final form. The channel of distribution for an automobile begins with a finished automobile. It does not include the paths of raw materials (such as steel) or component parts (such as tires) to the automobile manufacturer, which is an industrial user in these other channels. It should be emphasized that the channel's purpose in moving products to people is more than a simple matter of transportation. The channel of distribution must accomplish the task of transferring the title to the product as well as facilitating the physical movement of the goods to their ultimate destination. Although title transfer and the exchange of physical possession (transportation) generally follow the same channel of distribution, they do not necessarily need to follow the same path.

Merchant intermediary : A channel intermediary, such as a wholesaler or a retailer, that takes title to the product.

Agent intermediary : A channel intermediary that does not take title to the product. Agent intermediaries bring buyers and sellers together or otherwise help complete a transaction.

All but the shortest of channels include one or more intermediaries—individuals or organizations specializing in distribution rather than production. (In the past, intermediarires were called *middlemen*). A distinction may be made between **merchant intermediaries**, which take title to the product, and **agent intermediaries**, which do not take title to the product. Although agent intermediaries never own the goods, they perform a number of marketing functions, such as selling, that facilitate further transactions in the exchange process.

Most intermediaries are independent organizations tied to the producers they deal with only by mutual agreement; they are not owned by the producers. Some intermediaries are owned by producers, such as the company-owned sales branches and sales offices that sell NCR point-of-sale systems. However, these company-owned sales branches and offices are clearly separate from the production facilities operated by the company.

In service marketing, it sometimes appears that there is no channel of distribution. When a beautician delivers a product, such as a haircut or make-up advice, he or she deals directly with the customer. But even in these shortest

of distribution channels, involving no intermediaries, marketing functions are being performed. The required activities are simply performed by the provider of the service (or, in a self-service environment, by the ultimate consumer.)

When identifiable intermediaries are present, the channel members form a coalition intended to act on joint opportunities in the marketplace. Each channel member, from producer to retailer, must be rewarded or see some opportunity for continued participation in the channel. Ultimately, for the channel to work properly, the consumer, who is not an institutional member of the channel but is the final link in the process, must also perceive a likely reward. Thus, the large merchandise selection and low retail prices offered by a Target store must be seen as compensation for driving an extra mile or two to the store. The coalition between channel members may be a loose one resulting from negotiation or a formal set of contractual arrangements identifying each party's role in the distribution process. The conventional channel of distribution is characterized by loosely aligned, relatively autonomous marketing organizations that have developed a system to carry out a trade relationship. In contrast, formal vertical marketing systems are more tightly organized system in which the channel members are either owned by a manufacturer or a distributor, linked by contracts or other legal agreements such as franchises, to informally managed and coordinated as an integrated system through strategic alliances.

Not included in the channel of distribution are transporation companies, financial institutions, and other functional specialists selling services that assist the flow of products. They are *collaborators*, playing a specialized role by providing a limited facilitating service to channel members.

Marketing Functions Performed by Intermediaries

Perhaps the most neglected, most misunderstood, and most maligned segment of the economy is the distribution segment. Retailers are seen by some as the principal cause of high consumer prices, simply because retailers are the marketers with whom consumers most frequently come into contact. Retailers collect money from consumers, so even though much of that money is passed to other distributors or manufacturers, retailers often bear the burnt of customers' complaints. Wholesalers are also seen as causing high prices, perhaps because much of what they do is done outside the view of consumers. In either case, many suggest "cutting out the middleman" as a means of lowering the prices of consumer goods. For thousands of years, the activities of those who perform the distribution function have been misunderstood, and this viewpoint persists today.

A company can eliminate intermediaries, but it cannot eliminate the functions they perform.

Students of marketing should understand that an efficient distribution system must somehow be financed. Most of the time, "eliminating the middleman" will not reduce prices, because the dollars that go to intermediaries to compensate them for the performance of tasks that must be accomplished regardless of whether or not an intermediary is present. In other words, a company can eliminate intermediaries, but it cannot eliminate the functions they perform.

How Intermediaries Fit into Distribution Channels

In the previous section we outlined a conventional channel of distribution consisting of a manufacturer, a wholesaler, a retailer, and the ultimate consumer. Not all channels include all of these marketing institutions. In some cases, a unit of product may pass directly from manufacturer to consumer. In others it may be handled by not just one but two or more wholesalers. To show why these many variations exist, we will examine the role of intermediaries in marketing channels.

Consider this conventional channel of distribution :

Manufacturer → Retailer → Ultimate consumer

It is possible, as shown here, to have a channel of distribution that does not include a separate wholesaler. A manufacturer can choose to sell directly to retailers, in effect eliminating the wholesaler. However, the marketing functions performed by the wholesaler must then be shifted to one of the other parties in the channel—the retailer or the manufacturer. For instance, with the wholesaler out of the picture, the manufacturer may have to create a sales force to call on the numerous retailers. If the manufacturer assumes some or all of the marketing functions,

they are said to have been shifted back ward in the channel. If the retailer assumes them, they are said to have been shifted forward in the channel. For example, the manufacturer may decide to perform the function of breaking bulk by sending comparatively small orders to individual retail customers. On the other hand, the retailer may be willing to accept truckload lots of a product, store large quantities of it, and perform the activity of breaking down these larger quantities into smaller quantities.

In any case, the functions performed by the eliminated wholesaler do not disappear; they are simply shifted to another channel member. The channel member that assumes these functions expects to be compensated in some way. The retailer may expect lower prices and higher margins for the extra work performed. The manufacturer may expect larger purchase orders, more aggressive retail promotion, or more control over the distribution process.

The key to setting the structure of a channel of distribution is to determine how the necessary marketing functions can be carried out most efficiently and effectively. Certain variables, such as price, the complexity of the product, and the number of customers to be served, can serve as guides to the appropriate channel structure. However, the functions to be performed should be the primary consideration in marketing manager's distribution plans. Let us consider some of the major functions performed by intermediaries: physical distribution, communication, and facilitating functions.

Physical Distribution Functions

Physical distribution functions include breaking bulk, accumulating bulk, creating assortments, reducing transactions, and transporting and storing.

Bulk-breaking function : *An activity, performed by marketing intermediaries, consisting of buying products in relatively large quantities and selling in smaller quantities.*

Breaking Bulk. With few exceptions, intermediaries perform a bulk-breaking function. The **bulk-breaking function** consists of buying in relatively large quantities, such as truckloads, and then selling in smaller quantities, passing the lesser amounts of merchandise on to retailers, organizational buyers, wholesalers, and other customers. By accumulating large quantities of goods and then breaking them into smaller amounts suitable for many buyers, intermediaries can reduce the cost of distribution for both manufacturers and consumers. Consumers, do not buy and store great amounts of merchandise, which would increase their storage costs and the risks of spoilage, fire and theft. Manufacturers are spare the necessity of dividing their outputs into the small order sizes retailers or consumers might prefer. Bulk breaking is sometimes termed "resolution of economic discrepancies," because manufacturers, as a rule, turn out amounts of merchandise that are vast compared with the quantity that an individual buyer might be able to purchase. Breaking bulk resolves this discrepancy.

Bulk-accumulating function : *An activity, performed by marketing intermediaries, consisting of buying small quantities of a particular product from many small producers and then selling the assembled larger qantities.*

Assembler : *A marketing intermediary that performs a bulk-accumulating function.*

Accumulating Bulk. In the majority of cases, it is the task of the intermediary to break bulk. However, an intermediary may also create bulk, buying units of the same product from many small producers and offering the larger amount to those who prefer to purchase in large quantities. These intermediaries are performing **bulk-accumulating function.** An intermediary performing this function is called surprisingly, an **assembler**. The classic examples of assemblers are in agriculture and fishing businesses. A maker of tamato sauce, such as Maggie, would probably not want to have to deal with many small farms. Assemblers gather large quantities of apples or tuna or other products attractive to large buyers Figure 10.1. contrast the operation of assemblers with that of bulk-breaking intermediaries.

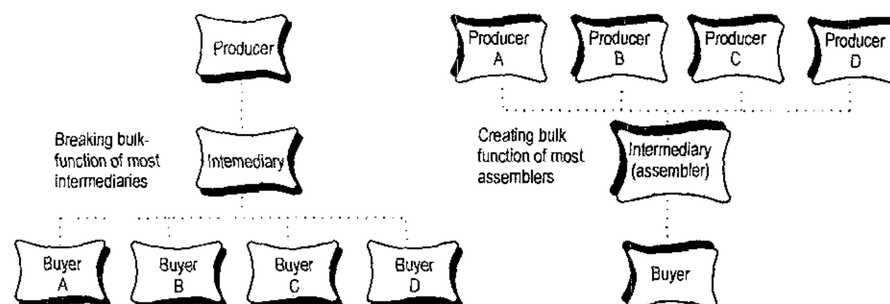


Figure 10.1: The Bulk-Breaking and Bulk-Accumulating Functions

***Sorting function :** An activity, performed by marketing intermediaries, consisting of classifying accumulated products as to grade and size, and then grouping them accordingly.*

After accumulating bulk, marketers of agricultural products and raw materials typically perform a **sorting function**, which involves identifying differences in quality and breaking down the product into grade or size categories. For example, eggs are sorted into jumbo grade AA, large grade AA, and so on.

***Assorting function :** An activity, performed by marketing intermediaries, consisting of combining products purchased from several manufacturers to create assortments.*

Creating Assortments : Another function that intermediaries perform is the creation of assortments of merchandise that would otherwise not be available. This **assorting function** resolves the economic discrepancy resulting from the factory operator's natural inclination to produce a large quantity of a single product or a line of similar products and the consumer's desire to select from a wide variety of choices. Wholesalers that purchase many different products from different manufacturers can offer retailers a greater assortment of items than an individual manufacturer is able to provide.

Consider how magazine publishers and retailers use intermediaries to solve a very big assorting problem. There are hundreds of magazine titles available from Indian publishers. No newsstand operator or other retailer carries anything like that number; a series of intermediaries is used to sort these many titles into appropriate groupings for individual stores. National wholesalers, move the hundreds of titles to hundreds of local wholesalers. Their reward for fulfilling this huge task is about 6 percent of the magazines' retail prices, out of which they must pay all expenses involved. The local distributors continue the task of breaking bulk, moving the magazines to countless supermarkets, new stands, and other retail spots. But there is more to the local wholesaler's task than simply breaking bulk and making delivery. The local wholesaler must select, from among the hundreds of available titles the ones that are appropriate for the individual retailers' operations. Then, this assortment of titles must be assembled in the proper numbers for each retailer. The local wholesaler is paid about 20 percent of the cover prices. Complicated as this sounds, the system is so efficient that, less than 36 hours after a new Business Today is printed, it has arrived at all the retail establishments that carry the business magazine. Although the influence of wholesalers has declined in certain industries, it is obvious why wholesalers remain very important in the magazine distribution business

Reducing Transactions. There is one underlying reason why intermediaries can economically accumulate bulk and create assortments. The presence of intermediaries in the distribution system actually reduces the number of transactions necessary to accomplish the exchanges that keep the economy moving and consumers satisfied.

As Figure 10.2, indicates, even if only four suppliers of grocery items attempt to transact business with just four retail buying headquarters, the number of interrelationships necessary is far greater than the number needed once an intermediary, such as a wholesaler, is added to the system. Channel intermediaries, in their dual roles as buying agents for their customers and selling agents for the manufacturers with which they deal, simplify the necessary transaction process considerably. (Of course, channels of distribution can become too long. Such channels are common in Japan). Intermediaries not only reduce the number of transactions but also reduce the geographic distances that buyers and sellers must travel to complete exchanges and spare manufacturers the trouble of locating and contacting individual potential customers. These are some of the ways wholesalers and retailers can reduce costs. If manufacturers and consumers had to perform all these activities themselves, they would have to bear the costs involved.

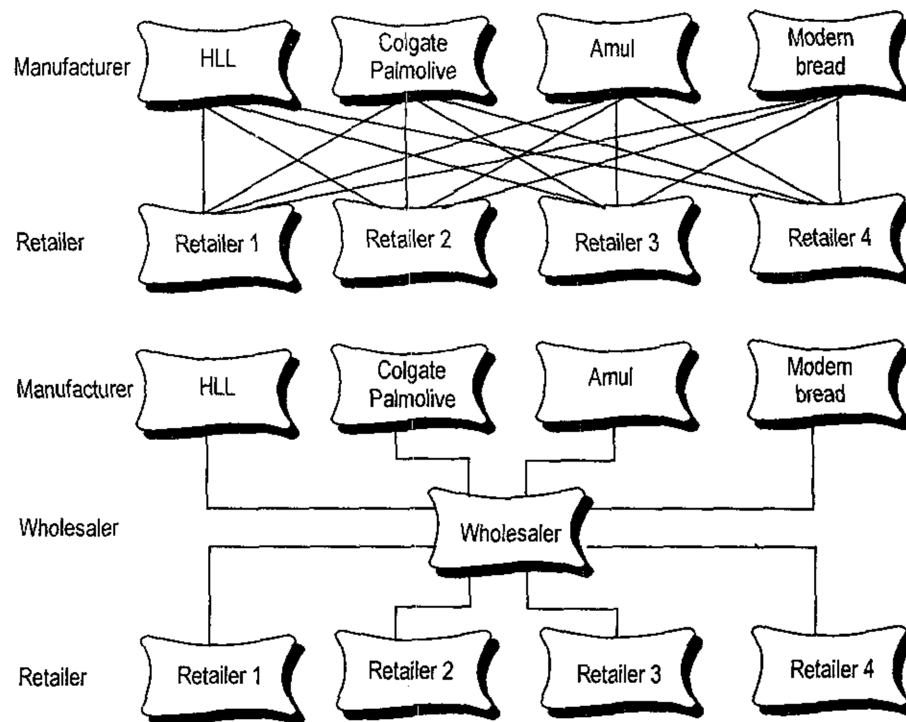


Figure 10.2: Reduction of Transactions by an Intermediary

Transporting and Storing. Intermediaries, in most cases, perform or manage two other marketing functions : transporting and storing. Merchandise must be physically moved from points of production to points of consumption. This process often involves storing, or holding, the product at various spots along the way. Intermediaries of all types, including retailers, frequently store goods until they are demanded by customers further along in the channel of distribution.

Consider Haldiram namkeen—a very popular namkeen in the Rohtak market. If each person who wanted to buy (Haldiram namkeen) had to travel from Rohtak to the Haldiram namkeen manufacturing unit at New Delhi to make a purchase, those hundreds of thousands of customers—or Haldiram's employees, if the company chose to make home deliveries—would travel an incredible total distance. Wholesalers and retailers provide storage in the Rohtak market and enable Haldiram to send relatively few truckloads of namkeen to that city, greatly reducing the total distance traveled. It is clear that transportation and storage functions are necessary to satisfy the Rohtak area's demand for Haldiram namkeen. Although this example may seem far-fetched, it illustrates that one of the most important functions of intermediaries is to provide regional and local storage. The local Haldiram wholesaler, the neighborhood sweet shop, and the corner retailer all carry an inventory, and thus each performs the storage function.

We should mention that some types of intermediaries do not take possession of the goods whose distribution they facilitate. In such cases, the intermediary does not actually transport or store the merchandise. Instead, the intermediary coordinates transportation and storage or contributes in some other way to the creation of time and place utility. Thus, you should think of transportation and storage in a broad sense that includes the contribution of wholesalers that, for example, arrange for shipment of goods from a producer-owned place of storage to an organizational buyer's place of business.

Communication and Transaction Functions

Intermediaries perform a communication function, which includes buying, selling, and other activities involving gathering or disseminating information. The ultimate purpose of the communication link between the manufacturer and the retailer or between the wholesaler and the retailer is to transfer ownership—that is, to complete a transaction that

results in an exchange of title.

Selling function : *Activities, performed by intermediaries, that are associated with communicating ideas and making a sale and thus effecting the transfer of ownership of a product.*

Buying function : *Activities, performed by intermediaries, that are associated with making a purchase and thus effecting the transfer of ownership of a product.*

Wholesalers and retailers may perform an important promotional function for manufacturers when they provide product information and price quotes. Most frequently, this communication is carried out by a sales force. However, intermediaries also use advertising and such sales promotion tools as retail displays. In other words, intermediaries perform a **selling function** for the manufacturer, often providing a sales force or other promotional efforts that they can supply more efficiently than the manufacturer can. The wholesaler provides a **buying function** for retailers, organizational users, and other customers. A wholesaler's contact with numerous manufacturers allows it to evaluate the quality of a wide assortment of goods from competing manufacturers. thus, retailers and other customers are freed of the burden of evaluating every manufacturer's product assortments. This allows them more time to specialize in the retailing and merchandising of products.

Intermediaries further serve as channels of communication by informing buyers how products are to be sold, used, repaired, or guaranteed. They can even explain new product developments. (In fact, retailers should pass along more of this information to their customers : unfortunately many retail salespeople are not trained to provide information of this sort). Because intermediaries typically deal with a number of manufacturers or other suppliers of goods, they are in a unique position to serve as conduits of information.

Intermediaries, being "in the middle", are well placed not only to pass information from producers to other channel members but also to collect information from channel members or retail shoppers and return it to producers. For example, suppose a retailer receives serious consumer complaints about a product or some product-related matter such as repair service. The retailer should pass this information backward in the channel to the wholesaler, who can bring the matter to the attention of the producer. *Should* is the key word here. Too often, whether because of apathy or the fear of somehow being blamed for a problem, intermediaries fail to perform this potentially valuable service. Marketers at all levels should encourage communication throughout channels of distribution, because the satisfaction of all channel members and consumers is at stake.

Facilitating Functions

The transportation and storage functions of channel intermediaries are their most obvious contributions to the operation of the marketing system. However, intermediaries perform additional, so-called facilitating functions, which are not quite so apparent to observers of a channel in operation. Because the tasks of a channel intermediary can be so varied, it is nearly impossible to list all the facilitating functions a channel member might perform. However three major categories of facilitating functions should be mentioned specifically : providing extra services, offering credit, and taking risks.

Service function : *Activities, performed by intermediaries, that increase the efficiency and effectiveness of [illegible]. Repair services and management services provided by intermediaries are examples.*

Extra Services. Channel member, particularly intermediaries, can and do provide [illegible] range of extra s[illegible] that increase the efficiency and effectiveness of the channel; intermediatires thus perform a **serv[illegible] fu[illegible]**. For many products, the availability of a post-sale repair service is an absolute necessity. Office [illegible], for

examples, always seem to need either routine maintenance or minor or major overhauls. Wholesalers and retailers of such machines usually offer repair services on either a contract or an emergency basis. They also carry necessary supplies like paper. Other products—such as personal computers and cellular phones—are not so prone to breakdowns, yet buyers like to know that repair service is available should it ever be needed. Technical support is critical for many Internet and software companies. Honouring manufacturers' guarantees can be another responsibility of intermediaries.

Channel intermediaries can also provide a variety of management services. In the food industry, for example, wholesalers offer such services as computerized accounting systems, inventory planning, store site selection, store layout planning and management training programs. The extra services offered are good business for the wholesalers in that (1) they attract customers and (2) they help their food retailer customers to stay in business and to remain successful. The services, if not offered by every competing wholesaler, can also provide a competitive advantage to the food wholesaler willing to invest in them. Wholesalers may offer other services, too. They may provide help in preparing advertisements, and they may offer a line of private brand goods or a wholesaler-owned label that smaller retailers can use to create an image similar to those of larger chains.

Credit function : *Provision of credit to another member of a distribution channel.*

Credit Services : Most intermediaries perform a **credit function** by offering credit service of one kind or another. Although some wholesalers and retailers operate exclusively on a cash-and-carry basis, promising to pass related savings on to the customers, they make up a relatively small proportion of the millions of intermediaries operating in India.

Some credit services provided by channel members may not be immediately obvious. A retailer that accepts Master Card or Visa provides a credit service that in fact, costs the retailer a percent of the sales fee, which it must pay to the credit card company. Many small/medium retailers offer their own credit plans, which involve a more clear-cut provision of service than accepting "outside" card.

Wholesalers and other nonretailer channel members may provide credit in a number of ways. Although a supplier may have a credit system so unique that buyer pay particular notice, supplier credit systems are generally so widespread throughout a trade that buyers scarcely see the credit system as a true service Intermediaries in many fields routinely offer 30, 60 or more days to pay for merchandise ordered. Often, the days do not start "counting" until the goods are delivered to the buyer's place of business. In effect, such a service permits the buyer to make some money on a product before having to pay for it.

Risk-taking function : *Assumption of the responsibility for losses when the future is uncertain.*

Risk Taking. In almost everything they do, channel intermediaries perform a **risk-taking function.** When purchasing a product from a manufacturer or supplier of any type, intermediaries run the risk of getting stuck with an item that has fallen out of favour with the buying public because of a shift in fashion or the death of a fad. It is also possible for a product to spoil while it is in storage or lost through fire or some other disaster. Intermediaries bear these risks in addition to market risk.

MARKETING FUNCTION	PERFORMED FOR SUPPLIERS	PERFORMED FOR CUSTOMERS
Physical distribution functions	Breaking bulk Accumulating bulk Creating assortments Transporation Storage	Sorting products into desired quantities Assorting items into desired variety Delivery (transportation), Storage
Communication functions	Promotion, especially selling and communication of product information Gathering customer information	Buying based on interpretations of customer needs Dissemination of information
Facilitating functions	Financing customer purchases Providing management services Taking risks	Credit financing Repair services Technical support

Figure 10.3: What a Channel Intermediary Does for Its Suppliers and Its Customers

Intermediaries run obvious risks in offering credit to the individuals and organizations to which they sell. They take legal risks in that intermediaries, not manufacturers, can be held responsible for problems caused by faulty products or misleading claims.

When intermediaries, for whatever reason, seek to avoid the service of risk taking, the distribution system becomes less effective. In hard economic times, for example, retailers and wholesalers are tempted to engage in "hand to mouth" buying, ordering small quantities of products and attempting to sell them before placing yet another small order. Such behaviour defeats the whole purpose of the marketing channel by eliminating the "buy in large quantities—sell in smaller quantities" premise on which most channels are based. Figure 10.3. summarizes the basic functions that channel intermediaries perform.

Typical Channels of Distribution

We have already suggested that not all channels of distribution are alike. In fact, the variety of distribution channels is extensive indeed. That is because marketers are constantly seeking new ways to perform the distribution function. Both manufacturers and intermediaries have developed all sorts of variations on the basic theme of distribution. Each variation was developed in an effort to perform the distribution function better and thereby attract business.

Channels may be distinguished by the number of intermediaries they include; the more intermediaries, the longer the channel. Some organizations choose to sell their products directly to the consumer or organizational user; others use long channels that include numbers of wholesalers, agents, and retailers to reach buyers.

This discussion focuses on the most common of the numerous channels of distribution available. Figure 10.4 shows the primary channels for consumers and business-to-business products.

Channels of Distribution for Consumer Goods and Services

Figure 10.4, gives examples of typical channels for the distribution of consumer goods and services.

The Direct Channel for Consumer Goods and Services. A good example of the direct channel is supplied by the neighbourhood bakery, which converts flour, water, and other raw materials into baked goods and then retails these products, providing any other functions that might be necessary to complete the transaction. The direct channel is also familiar as the distribution method used by many marketers of services and not-for-profit groups that solicit donations.

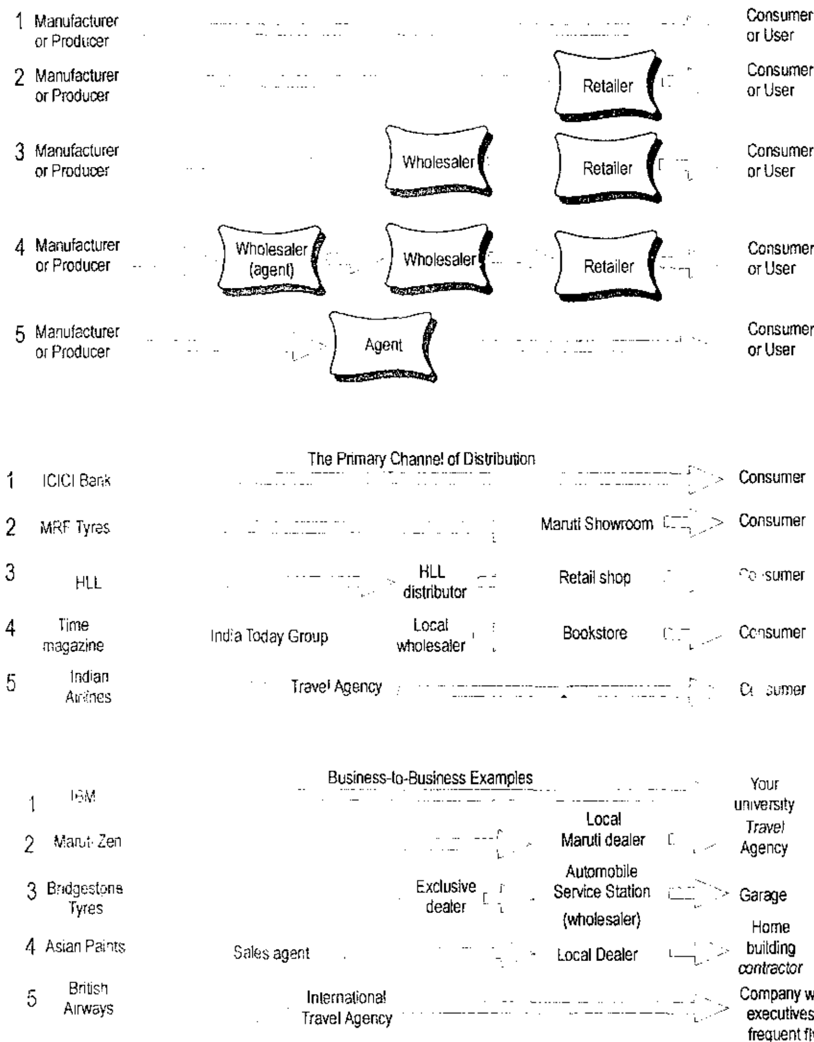


Figure 10.4: Typical Channels of Distribution

Marketers of consumer goods and services that promote their products through mail-order catalogs, telemarketing (telephone sales), and toll-free numbers listed in advertisements and that distribute directly to consumers through the mail or a delivery service are also using direct channels. The strategies of these direct marketers, which do not use retail outlets or contact customers in person, rely largely on data-based management and certain direct-response promotional strategies.

The Manufactirer (Producer)—Retailer—Consumer Channel. The *manufacturer—retailer—consumers channel* is commonly employed when the retailer involved is a sizable organization, such as a discount chain like Wal-Mart. This type of retail marketing organization may prefer to deal directly with manufacturers to be able to order specially made merchandise or obtain discounts or other benefits.

Generally, the benefits must be important enough to make the retailer willing to perform many wholesaling functions. However, in an effort to please large retail customers, the manufactuerer may agree to perform wholesaler functions. The efficiencies a manufacturer gains from the large orders placed by Sears or Wal-Mart can more than offset the wholesaling costs the manufacturer may have to absorb.

Most of the private mobile phone service provides like Air Tel, Hutch, IDEA use service provider → Retailer → Consumer channel to provide various pre-paid and post paid service facilities to the consumers. This type of intensive distribution helps in catering the customer requirements anywhere, anytime.

The Manufacturer—Wholesaler—Retailer—Consumer Channel. The *manufacturer—wholesaler—*

retailer—consumer channel of distribution is the most commonly used structure for consumer goods. This is because most consumer goods are so widely used. It would be virtually impossible for the ITC, for example, to deal individually with every retailer stocking cigarettes, let alone every consumer of cigarettes. Thus, a long channel, with at least two intermediaries, is needed to distribute the product. Wholesalers can also be used in the distribution of services.

Channels That Include Agents. A familiar type of agent is the real estate agent. Consumers marketing their homes or unconstructed plots often lack time and marketing skills, so they hire agents. Manufacturers, especially those lacking expertise in marketing a particular product line, may choose to permit manufacturer's agents or selling agents to handle the marketing of their products. Such agents do not take title to the goods they sell and usually earn commissions rather than a salary.

In marketing channels for consumer goods, agents may, depending on the circumstances and the product they offer, sell to retailers or wholesalers. The *manufacturer-agent-wholesaler-retailer-consumer channel* is widely used in the marketing of consumer products, especially convenience goods.

It might seem that travel agents used by airlines function as retailers. Technically, however, they are part of a channel involving an agent. The service producer-agent channel is common in marketing of consumer services like insurance, tours travel, postal saving scheme etc.

Channels of Distribution for Business-to-business Marketing

Business-to-business marketers use channels that are similar to those used by the marketers of consumer products. The primary channels are illustrated in Figure 10.4.

The Direct Channel in Business-to-Business Marketing. The name "business-to-business" suggests the importance of the direct channel in the marketing of organizational products. Indeed, the direct channel is the one most commonly used in the marketing of organizational goods. Direct organizational sales of industrial machinery such as escalators, power-generating machinery such as turbine engines, metals such as titanium, and many other products require well-informed salespersons, and perhaps engineers, who can help the buyer fit the product into its organizational facility or manufacturing process. Otis Elevator, for example, it a business-to-business marketer that uses a direct channel to reach multistorey construction companies.

Many business-to-business marketers now use the Internet for electronic commerce. This constitutes a direct channel.

The Manufacturer—Wholesaler—Organizational User Channel: Because, by definition, retailers deal with consumers, there is no distribution channel for organizational goods that directly parallels the manufacturer—retailer channel. However, there is a trade channel for organizational goods that relies on just one wholesale intermediary, which performs a function much like that of a retailer. This is the *manufacturer-distribution-organizational user channel*. The names for this type of wholesaler vary from industry to industry; among the most common terms used are *jobber* and *distributor*.

Jindal Steel, maker of not rolled & cold rolled steel, uses distributors who, working out in a given area sell directly to small customers, like utensil makers. Distributors selling to organizational users may also operate store-like facilities that buyers such as electricians or plumbers may patronize. In either format, organizational distributors peform storage and communication functions. They may, as in the Jindal steel example, provide delivery, and they may also supply credit or perform other functions. The organizational distributor is classified as a merchant intermediary, because this distributor takes title to the goods. Channels of distribution for organizational goods sometimes include more than one merchant wholesaler. This arrangement is most common in international marketing.

Business-to-Business Marketers Also Use Agents. The *manufacturer-agent-organizational user channel* is commonly used in business-to-business marketing by small manufacturers that market only one product to many users. The wide range of customers to which agents sell suggests the main attraction of agents for manufacturers: flexibility. One type of agent intermediary, the broker, can be used on an occasional basis, as needed. No continuing

relationship—and therefore no continuing financial remuneration or other obligation—is necessary. Similarly, manufacturers' agents operate on a commission basis within fixed geographic territories. Therefore, they appeal to small organizations whose limited financial resources make it difficult for them to fund their own sales forces. Manufacturers' agents are also attractive because they can be employed in "thin" market areas or in foreign countries where potential sales do not seem to justify a manufacturer's forming its own sales force.

Disintermediation

Disintermediation : *The compression, or 'shortening' of marketing channels because one or more intermediaries have been eliminated.*

A shift in many channels of distribution is currently under way because of the dramatic impact of e-commerce on business-to-consumer and business-to-business distribution. Because the Internet allows direct communication with customers and online selling, many channels are being disintermediated. **Disintermediation** refers to the compression, or "shortening", of marketing channels because one or more intermediaries have been eliminated. When IBM decided that it would market its Aptiva computers directly, on the Internet, and no longer sell them in stores, it disintermediated a portion of its distribution system.

Remember, however, that eliminating a "middleman" does not eliminate the need for that intermediary's function. When a manufacturer decides to disintermediate, it must itself perform those distribution functions previously performed by the intermediary. Alternatively, it may choose to outsource some distribution functions. For example, it may contract with UPS or FedEx to provide transporation and storage services.

One of the most revolutionary changes resulting from disintermediation is the growth of *infomediaries,* providing a new form of intermediation.

Infomediaries and Vertical Exchanges

Informediaries can offer sophisticated and highly specific information searches at a very low cost.

The communication function of intermediaries has always been important, because buyers and sellers need information to make decisions. In some situations, buyers also need to search out organizations or individuals that are marketing the product they desire. In the past, a consumer might read a copy of *Consumer Report* to reduce the time spent searching for information and to learn experts' evaluations of products. The consumer would then go to a store to purchase the desired item.

Infomediary : *An intermediary that services as an electronic information broker.*

In today's digital world, a new form of intermediary has emerged. An **infomediary** serves as an electronic information broker, providing shopping services or information buying assistance to help buyers and sellers find each other. Infomediaries can offer sophisticated and highly specific information searches at a very low cost. Auto-By-Tel, for example, supplies its customers with the names of local automobile dealers that will provide the exact car the buyer wants at a rock-bottom, no-negotiation price. Auto-By-Tel's role as an intermediary is to provide information. The physical transaction takes place elsewhere.

In addition, another new breed of intermediaries is emerging to facilitate business-to-business e-commerce. These new intermediaries are online trading communities that specialize in vertical markets. (*Vertical markets* focus on specific industries, such as chemicals, or specific business processes, such as food processing.

Vertical exchange : *A business-to-business intermediary that specilizes in using the internet to connect and asist numerous buyers and numerous sellers in a vertical market.*

Horizontal markets offer products, such as office supplies, that a wide range of companies across industries use.) Such [illegible]erce intermediaries have been called *aggregators, vertical market makers, vertical marketplaces,*

vortals, and several other names; however, we prefer the term *vertical exchanges.* A **vertical exchange** specializes in using the Internet to connect and assist numerous buyers and numerous sellers in a vertical market. Vertical exchanges provide portals or electronic hubs that function as electronic marketplaces; administer Web-based procurement systems that allow for the transfer of title; and provide customized services such as online tracking of shipments.

Most of the vertical exchanges operating these Web-based marketplaces do not take title to the products or physically handle them. They are just pure information and Web-service intermediaries. They create value several ways. The greatest benefit is created by bringing together a critical mass of buyers and sellers and *aggregating* information from buyers and sellers. By aggregating information for vertical market, the vertical exchange allows a buyer to compare many suppliers simultaneously. Buyers benefit because they have more choices. Sellers benefit because they have access to more buyers. Geographical barriers and the need for extensive travel are minimized. Overall, a vertical exchange improves matching for both buyers and sellers. In addition, operating a standardized system, perhaps business-to-business online auction, redcues search and information transfer costs. Vertical exchanges create value because the costs related to doing business on the Internet are "shared" by all participants and thus reduced for any particular member of the vertical exchange's trading community.

Consider an example. Chemdex is a vertical exchange for the life sciences research industry. Through its Chemdex Marketplace, it exhibits 250,000 products from more than 120 suppliers, including biological chemicals and reagents like antibodies, enzymes, and organic and inorganic chemicals. Buyers are biotech and pharmaceutical companies, as well as academic and research institutions. Buyers can access the market place via the Chemdex Web site and search for specific products. Chemdex's primary function as an intermediary is to provide information and e-commerce solutions. Supplier companies, such as SmithKline Beecham and Genetech, are connected to potential buyers through the Chemdex portal, which contains an electronic catalog, a search engine, and an easy-to-use ordering system. Once a transaction occurs between trading partners, Chemdex provides services that support order fulfillment and other after-the-sale activities.

Vertical Marketing Systems

In many industries, such as the fast-food restaurant industry, the dominant distribution structure is the vertical marketing system. The concept of a vertical marketing system emerged with the need to manage or administer the functions performed by intermediaries at two or more levels of the channel of distribution.

> ***Vertical marketing system :*** *A network of vertically aligned establishments that are managed professionally as centrally administered distribution systems.*

Vertical marketing systems, or vertically integrated marketing systems, are networks of vertically aligned establishments that are professionally managed as centrally administered distribution systems. Central adminsitration is intended to provide technological, managerial, and promotional economies of scale through the integration, coordination, and synchronization of transactions and marketing activities necessary to the distribution function. There are three types of vertial marketing systems : corporate systems, contructural systems, and adminsitered strategic alliances.

Corporate Systems—Total Ownership

> ***Corporate vertical marketing system :*** *A vertical marketing system in which two or more channel members are connected through ownership.*

The **corporate vertical marketing system** connects two or more channel members through ownership. It is exemplified by a retailer, such as Sears, that integrates backward into manufacturing to assure quality control over production and corporate control over the distribution system. A manufacturer may obtain complete control of the successive stages of distribution by vertically integrating through ownership. Raymond's exclusive retail outlets. Arvind Mills is also doing the same through Newport outlets.

Contractual Systems—Legal Relationships

Contractual vertical marketing system : *A vertical marketing system in which channel coordination and leadership are specified in a contractual agreement.*

In a **contractual vertical marketing system,** channel leadership is assigned not by ownership but by a contractual agreement. In such a channel, relationships are spelled out so that there is no questions about distribution coordination. The relationship between McDonald's franchise holders and McDonald's headquarters is a contractual one wherein the rights and responsibilities of both parties are clearly identified. The idea behind such an approach to distribution is that if all parties live up to the agreement, the system will work smoothly and well. In the main, this has certainly been the case for McDonald's, although the secret of McDonald's success is not merely the employment of a contractual vertical marketing system but also the hard work required to make it succeed.

Retailer cooperative organization : *A group of independent retailers that combine resources and expertise to control their wholesaling needs through use of a centralized wholesale buying center.*

There are three subtypes of contractual systems; retailer cooperative organizations, wholesaler-sponsored voluntary chains, and franchises. A **retailer cooperative organization** is a group of independent retailers, that maintains a centralized buying center to perform a wholesaling function. These retailers have combined their financial resources and their expertise to more effectively control their wholesaling needs. By capitalizing on economies of scale they lower wholesaling costs with their cooperative effort. At the same time, they retain independence.

Wholesaler-sponsored voluntary chain : *A vertical marketing system, initiated by a wholesaler, that links a group of independent retailers in a relationship with the wholesale supplier.*

The **wholesaler-sponsored voluntary chain** is similar to a cooperative organisation except that the wholesaler initiates and manages the collaborative effort so that it has a strong network or loyal retailers. The independent retailers served agree to use only this one wholesaler, while the wholesaler agrees to service all organized retailers. Ace Hardware is a voluntary chain. Each of the stores uses common name and receives marketing support that helps the independent retailer compete with chain stores.

Franchise : *A contractual agreement between a franchisor and a franchisee by which the franchisee distributes the franchisor's product.*

A **franchise** is a contractual agreement between a fracnchisor, typically a manufacturer or a wholesaler, and a number of independent retailers, or franchisee. The franchise agreement often gives the franchisor much discretion in controlling the operations of the small retailers. in exchange for fees, royalties and a share of the profits, the frachisor offers assistance and, often, supplies. Franchise assistance may take the form of marketing research information or strategic marketing planning aids (for example, new product planning) from franchisor experts. The franchisee is usually responsible for paying for insurance, property taxes, labour and supplies.

The franchise has been popular and successful in the fast-food industry. McDonald's Wimpy's, Nirula's and many other familiar fast-food restaurant are franchises. Subway is one of the fastest-growing fast-food franchise opeation. Franchising is prominent in the service industry as well. Consider computer education institutes and universities distance education centers.

One of the main advantages of the franchise system, as well as some other contractual marketing systems, is that it offers brand identity and a nationally recognizable storefront for a retail outlet. McDonald's, Burger Kings, and other franchise operations have strong identities. The person driving down the highway has a very clear conception of what products or services will be found at the franchise outlet.

Administered Strategic Alliances—Strong Leadership

Adminsitrated strategic alliance : *A vertical marketing system in which a strong channel leader coordinates marketing activities at all levels in the channel through planning and management of a mutually beneficial program.*

The third major type of vertical system is the **administered strategic alliance.** Here, a strong position of leadership, rather than outright ownership, may be source of influence over channel activities. The "administrator" may be any

channel member larger enough market clout to dominate the others. Alternatively, a strategic alliance may be built on a commitment to establish long-term relationship based on collaborative efforts.

Caterpillar's dealerships are all independently owned, but the heavy equipment manufacturer considers its dealers as vital partners. Caterpillar is as concerned about dealers' performance as the dealers are, because the company's enormous and loyal dealer network is one of its major competititve advantages. According to Caterpillar's president, "We have a tremendous regard for our dealers. We cannot bypass or undercut them. Some of our competitors do and their dealers quit Caterpillar's dealers don't quit : they die rich." Caterpillar's strong focus on administering the strategic alliances leads the company to offer a range of supplier and consulting services aimed at helping dealers boost their profitability. Often Caterpillar service ensures that dealers' inventories are at the right level. An intranet connects all dealers to the Caterpillar ordering system so that they can order any part they need for next-day delivery. "When you buy the iron, you own the company," Caterpillar literature says.

Administered systems generally are constructed around a line of merchandise rather than the complete manufacturing, wholesaling, or retailing operations example, a manufacturer wishing to ensure that wholesalers and retailers in its comprehensive program of marketing activities might use an administered strategic alliance to coordinate marketing activities and make them attractive to all parties (perhaps by offering discounts or financial assistance). Adminsitered strategic alliances may include arrangemnets to share or pool inventory information or exchange other databases so that purchase orders are executed automatically by computers.

Channel-design Decisions

A new firm typically starts as a local operation selling in a limited market. It usually uses existing intermediaries. The number of intermediaries in any local market is apt to be limited; a few manufacturers' sales agents, a few wholesalers, several established retailers, a few trucking companies, and a few warehouses. Deciding on the best channels might not be a problem. The problem might be to convince the available intermediaries to handle the firm's line

If the firm is successful, it might branch into new markets. It might have to use different channels in different markets. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In rural areas, it might work with general-goods merchants; in urban areas, with limited-line merchants. In one part of the country, it might grant exclusive franchises; in another, it might sell through all outlets willing to handle the merchandise. In one country it might use international sales agents; in another, it might partner with a local firm. In short the channel system evolves in response to local opportunities and conditions.

Designing a channel system calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major channel alternatives.

Analyzing Customer's Desired Service Output Levels

In designing the marketing channel, the marketer must understand the *service output levels* desired by the target customers. Channels produce five service outputs :

1. *Lot size:* The number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, a travel agency prefers a channel from which it can buy a large lot size; a household wants a channel that permits buying a lot size of one.
2. *Waiting time:* The average time customers of that channel wait for receipt of the goods. Customers normally prefer fast delivery channels. Customers are willing to wait only for made-to-order goods or those whose early delivery is very expansive.
3. *Spatial convenience:* The degree of which the marketing channel makes it easy for customers to purchase the product. Maruti Suzuki, for example, offers greater spatial convenience than Ford, because there are more Maruti dealers. Maruti's greater market decentralization helps customers save on transportation and search costs in buying and repairing an automobile. Maruti even clain in one of its advertisement. Wherever you are you are not far from Maruti Service Station.

4. *Product variety:* The assortment breadth provided by the marketing channel. Normally customers prefer a greater assortment because more choices increase the chance of finding what they need. So we find the shops that deal exclusively in readymade garments or shoes.
5. *Service backup:* The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel. For example computers, commercial xerox machine etc. require frequent backup service.

The marketing-channel designer knows that providing greater service outputs means increased channel costs and higher prices for customers. The success of discount stores indicates that many consumers are willing to accept lower-service outputs if they can save money.

Establishing Objectives and Constraints

Channel objectives should be stated in terms of targeted service output levels. According to Bucklin, under competititve conditions, channel institutions should arrange their functional tasks to minimize total channel costs with respect to desired levels of service outputs. Usually, several market segments that desire differing service output levels can be identified. Effective planning requires determining which market segments to serve and the best channels to use in each case.

Channel objectives vary with product characteristics. Perishable products require more direct marketing. Bulky products, such as building materials, require channels that minimize the shipping distance and the amount of handling in the movement from producer to consumers. Non-standardized products, such as custom-built machinery and specialized business forms, are sold directly by company sales representatives. Products requiring installation or maintenance services such as heating and cooling systems are usually sold and maintained by the company or exclusively franchised dealers. High-unit-value products such as generators and turbines are often sold through a company sales force rather than intermediaries.

Channel design must take into account the strengths and weaknesses of different types of intermediaries. For example, manufacturer's reps are able to contact customers at a low cost per customer because the total cost is shared by several clients. But the selling effort per customer is less intense than if company sales reps did the selling. Channel design is also influenced by competitors' channels.

Channel design must adapt to the larger environment. When economic conditions are depressed, producers want to move their goods to market using shorter channels and without nonessential services that added to the final price of the goods. Legal regulations and restrictions also affect channel design.

Chart 10.1: Linkage between channel objectives and channel design

Channel objectives	*Channel design*
Castrol India	
Provide locational convenience to customers; make the products available everywhere (strong reach).	Go for vast network of outlets.
Provide choice in products to customers.	Make available all products/all varieties/all pack sizes (1,800 Stock keeping units) in all outlets and allow the customer to pick what he wants. This means the outlets have to be backed by an extensive network of CFAs/stockists/warehouses/delivery facilities.
Provide speedy delivery; fulfill orders from outlets within 24 hours.	This again means extensive back-up and a multi-tier design.
Reliance Textiles (Vimal)	
Use channel to project the exclusive image of Vimal fabrics.	Go for exclusive showrooms (Vimal has a chain of over 2,000 showrooms).
	Ensure that the outlet in itself serves as a communication device.
Concentrate on urban market to fall in line with the segmentation/positioning strategy.	Have showrooms in all cities/class 1 towns of the country. Have jumbo showrooms in the metros/big cities.

Philip (Appliances/Personal care products)	
Cover the market intensively and extensively.	Have a three-tier channel, with C&F agents distributors, and retailers. Philips has set up a large base of 2,200 retailers.
Make after-sales service an integral part of channel function.	Establish APSCs (athorised Philips service centres) Philips now has 110 APSCs four CRCs (consumer response centres), and a team of 60 engineers liaising with the APSCs.
	Motivate the channel for attending to service requirements. Philips gives a guaranteed 30 per cent return on investment to the APSC.
Build barriers to competitors through channel strength.	Pre-empt the march of competitors by embracing practically all strong dealers in the market as Philip dealers.
Archie's Gifts and Greetings	
Proximity to customers.	Establish outlets close to the target buyers—the upper echelons of society.
	Go for exclusive shops/shop-in-shops.
Convert low involvement purchase into high involvement purchase.	Go for trendy interior design and peppy ambience.
Make purchase of greeting cards/gifts an enjoyable experience.	Stock a wide range of highly appealing merchandise
BBLIL (Pre merger with HLL)	
Make the products available everywhere (strong reach).	Embrace all types of shops, supermarkets grocery stores and kirana shops, as part of the company's channel.
	BBLIL has adopted a three-tier channel with C&F agents, redistribution stockists and retailers.
Provide choice of brand; ensure different brands are available at the right place, right time.	Provide for proper inventory/delivery back-up
Always give fresh stocks to consumers.	At each level, minimise the distance between issuing and receiving points.
Louis Phillippe	
Promote Louis Philippe as a complete and premium wardrobe line, with shirts, trousers, ties, socks, blazers belts, etc.	Go for exclusive showrooms; ensure availability of the *whole line* at these outlets.
Cover the target market (the well-to-do gents) adequately.	Showrooms alone will not be enough
	Go for dress circles (Similar to showrooms, but stocks are bought and resold by the retailers).
	Go for multi-brand outlets too.
Maintain an edge over competition by competing on quality, service, image and value.	Go for Shop-in-Shop in super stores like Akbar Allis Mumbai, where special areas (*Shops within shops*) are available for exclusive marketing of specific brands.
ITC-Tobacco Division	
Ensure easy availability of ITC cigarates.	Go for CFAs as well as wholesalers, who will distribute/resell to retailers (ITC has more than 8,000 retailers)
	Go for different types of retailers Branded traditional and Non-traditional
Build brands through merchandising.	Have branded retailers/franchisee retailers who sell only ITC cigarettes and not other brands.

Table 10.1: Selected Distribution Goals by Party.

Party	Distribution Goals
Suppliers/Manufacturers	To gain access to the distribution channel. To ensure that all distribution functions are performed by one party or another To hold down distribution and inventory costs To foster relationship marketing with distribution intermediaries and customers To obtain feedback from distribution intermediaries and customers. To have some control over the distribution strategy To optimize production runs and achieve economies of scale. To secure some exclusivity with distribution intermediaries To resist the payment of slotting allowances (the fees charged by some distribution intermediaries to secure shelf space) To receive a fair share of profits.
Distribution Intermediaries	To have on-time deliveries and quick turnaround time for orders To ensure that all distribution functions are performed by one party or another. To service multiple suppliers/manufacturers in order to present a choice for customers To meet customer needs To foster relationship marketing with manufacturers/suppliers and customers To obtain feedback from distribution manufacturers/suppliers and customers. To have some control over the distribution strategy. To be as efficient as possible in shipping and inventory management. To secure some exclusivity with suppliers/manufactuers To reveive a fair share of profits
Customers	To have an assortment of products from which to choose To have a variety of resellers from which to choose To purchase in small quantities To shop at convenient locations To find items in-stock, including those on sale To have a number of payment options To be able to easily return products that are unsatisfactory To be treated in a respectful manner To have enough information to make informed decisions To pay fair prices.

Identifying Major Channel Alternatives

After a company has defined its target market and desired positioning, it should identify its channel alternatives. A channel alternative is described by three elements : the types of available business intermediaries, the number of intermediaries needed, and the terms and responsibilities of each channel member.

Types of Intermediaries

The firm needs to identify the types of intermediaries available to carry on its channel work. Here are two examples :

A test-equipment manufacturer developed an audio device for detecting poor mechanical connections in machines with moving parts. Company executives felt this product would sell in all industries where electric, combustion, or steam engines were used, usch as aviation, automobiles, reailroads, food canning, construction, and oil. The sales force was small. The problem was how to reach these diverse industries effectively. The following alternatives were identified :

- *Company sales force:* Expand the company's direct sales force. Assign sales representatives to territories to contact all prospects in the area. Or develop separate sales forces for the different industries. The first option of assigning sales force to territories is better because in the second option much higher number of sales persons will be needed and it'll increase marketing costs.
- *Manufacturers' agency:* Hire manufacturer's agents in different regions or end-use industries to sell the new

equipment. These agents know well about the various companies and they also know whom to contact and how to sell the product to different companies.

- *Industrial distributors*: Find distributors in the different regions or end-use industries who will buy and carry the device. Give them exclusive distribution, adequate margins, product training, and promotional support. They will get the job done through their own sales force.

A consumer electronic company produces cellular car phones. It identified the following channel alternatives:

- *OEM market*: The company could sell its car phones to automobile manufacturers to be installed as original equipment. *OEM* stands for *original equipment manufacture*. For *e.g.*, NOKIA can sell car phones to Hindustan Motors to install them in Ambassador cars.
- *Auto-dealer market*: The company could sell its car phones to auto dealers. The dealers can promote them as add-ons if the customer desires.
- *Retail automotive-equipment dealers*: The company could sell its car phones to retail automotive-equipment dealers through a direct sales force or through distributors.
- *Car phone specialist dealers*: The company could sell its car phones to car phone specialist dealers through a direct sales force or dealers.
- *Mail-order market*: The company could sell its car phones through mail-order catalogs.

Companies should search for innovative marketing channels. The Conn Organ Company merchandises organs through department stores and discount stores, thus drawing more attention than it ever enjoyed in small music stores. The Book-of-the-Month Club merchandises books through the mail. Other sellers have followed with record-of-the-month clubs, candy-of-the-month clubs, flower-of-the-month clubs, fruit-of-the-month clubs, and dozens of others.

Sometimes a company chooses an unconventional channel because of the difficulty or cost of working with the dominant channel. The advantage is that the company will encounter less competition during the initial move into this channel. After trying to sell its inexpensive Timex watches through regular jewellry stores, the U.S. Time Company placed its watches in fast-growing mass-merchandise outlets. Avon chose door-to-door selling because it was not able to break into regular department stores. The company made more money than most firms selling through department stores.

Number of Intermediaries

Companies have to decide on the number of intermediaries to use at each channel level. Three strategies are avilable; exclusive distribution, selective distribution and intensive distribution.

Exclusive distribution means severely limiting the number of intermediaries. It is used when the producer wants to maintain control over the service level and service outputs offered by the resellers. often it involves *exclusive dealing* arrangements, in which the resellers agree not to carry competing brands. By granting exclusive distribution, the producer hopes to obtain more dedicated and knowledgeable selling. It requires greater partnership between seller and reseller and is used in the distribution of new automobiles, some major appliances, and some women's apparel brands.

Selective distribution involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. It is used by established companies and by new companies seeking distributors. The company does not have to dissipate its efforts over too many outlets; it enables the producer to gain adequate market coverage with more control and less cost than intensive distribution. Nike, the world's largest athletic shoe maker, is a good example of selective distribution:

Nike Inc. Nike sells its atheletic shoes and apparel through six different kinds of stores : (1) specialized sports stores, such as golfers' proshops, where Nike has announced plans for a new line of athletic shoes; (2) general sporting goods stores, which carry a broad range of styles; (3) department stores, which carry only the newest styles; (4) mass-merchandise stores, which focus on discounted styles; (5) Nike retail stores, including Niketowns in major cities, which feature the complete line, with an emphasis on the newest styles; (6) factory outlet stores, which stock mostly seconds and closeouts. Nike also limits the number of stores that can carry its products.

Intensive distribution consists of the manufacturer placing the goods or services in as many outlets as possible. This strategy is generally used for items such as tobacco products, soap, snake foods, and gum, products for which the consumer requires a great deal of location convenience.

Manufacturers are constantly tempted to move from exclusive or selective distribution to more intensive distribution to increase coverage and sales. This strategy may help in the short term but often hurts long-term performance. If colorplus expanded from its current high-end retailers to mass merchandisers, it would loss some control over the display arrangements, the accompanying service levels, and the pricing. As the product entered lower-cost retail outlets, they would undercut other retailers, resulting in a price war. Buyers would attach less prestige to colorplus apparel, and the manufacturer's ability to command premium prices would be reduced.

Table 10.2: Intensity of Chennel Covereage

Features	*Exclusive Distribution*	*Selective Distribution*	*Intensive Distribution*
Objectives	Prestige image, channel control and loyalty, price stability and high profit margins.	Moderate market coverage, solid image, some channel control and loyalty, good sales and profits.	Widespread market coverage, channel acceptance, high volume sales and total profits.
ResellersF	ew in number, well-established, reputable firms (outlets)	Moderate in number, well-established, better firm (outlets)	Many in number, all types of firms (outlets)
Customers	*Final consumers :* fewer in number, trend setters, willing to travel to store, brand loyal *Organizational consumers* focus on major accounts, service expected from manufacturer.	*Final consumers :* moderate in number, brand conscious, somewhat willing to travel to store *Organizational consumers* focus on many types of accounts, services expected from manufacturer or intermediary	*Final consumers :* many in number, convenience oriented *Organizational consumers* focus on all types of service expected from intermediary.
Marketing Mix	*Final consumers* personal selling, pleasant shopping conditions, good service *Organizational consumers* availability, regular communications, superior service	*Final consumers* promotional mix, pleasant shopping conditions, good service *Organizational consumers* availability, regular communications, superior service	*Final consumers* mass advertising, nearby location, items in stock. *Organizational consumers* availability, regular communications, superior services
Major Weakness	Limited sales potential	May be difficult to carve out a niche	Limited channel control
ExamplesAut	os, designer clothes, capital equipment, complex services service	Furniture, clothing, mechanis' tools, industrialized services.	Household products, groceries, office supplies, routine

Exhibit 10.2: Wrong Choice of Chennel Intensity : P&G and Nestle

P&G, Nestle and HLL are FMCG companies operating in India. P&G and Nestle thought that it would be appropriate for them to follow the HLL channel model. It was only after losing some precious money and time that they realised that they neither needed nor could afford channel intensity on the HLL pattern.

HLL maintains a channel consisting of over a million retail points and 7,500 distributors, the largest in the country, The arrangement has suited HLL very well.

HLL has a large basket of products and brands covering every possible price/demographic/geographic segment. At the last count, it has over 110 actively selling brands. HLL's marketing channel has to naturally cover every income group and every geographical segment in the country. And HLL has an annual sales turnover of over Rs. 10,000 crore.

P&G and Nestle were different from HLL in all these respects.

Moreover, the HLL model comes with its associated costs. Setting up marketing networks in rural areas and small towns takes extra time and money. HLL had incurred the associated investment and had absorbed a dent on its bottomline on this account over the past several years, and it is not affected currently by this strategy.

After learning the lessons the hard way, P&G decided to forget the HLL model and drastically downsized its distribution.

It now confined itself to Class I and Class II towns, and exited practically all rural areas. Only for some select products like Vicks Action-500, it continued its distribution in rural areas.

It also reduced the number of pack sizes in which it offered its products as another measure towards reducing distribution costs.

Nestle too decided to move away from the HLL model. Earlier, embracing the HLL model, it had gone in for high channel-intensity. For example, between 1993 and 1996, Nestle had added on 350,000 retail points to its distribution network in India, the bulk of them in smaller towns and rural areas.

As its sales were nowhere near the HLL level, it could not sustain the channel intensity. It reduced it considerably. It also compressed its product mix and product line. It now concentrated on products in which it was traditionally strong—milk products and beverages—and weeded out the low-profit products from the portfolio.

It also went in for tighter market targeting and limited its attention to urban population. In fact, it limited its focus to roughly half of the urban population.

With these moves, it could reduce the cost of servicing the channel. Its new policy was to be on perpetual guard in the matter of channel intensity, limiting it to the level warranted by its sales and pofits—present and planned.

Terms and Responsibilities of Channel Members

The producer must determine the rights and responsibilities of participating channel members. Each channel member must be treated respectfully and given the opportunity to be profitable. The main elements in the "trade-relation mix" are price policies, conditions of sale, territorial rights, and specific services to be performed by each party.

Price policy calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.

Conditions of sale refers to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. Producers might also guarantee distributors against defective merchandise or price declines. A guarantee against price declines gives distributors an incentive to buy large quantities.

Distributors' territorial rights define the distributor's territories and the terms under which the producer will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.

Mutual services and responsibilities are conditions that must be carefully spelled out, especially in francised and exclusive-agency channels. McDonald's provides franchisees with a building, promotional support, a record-keeping system, training, and general administrative and technical assistance. In turn, franchisees are expected to satisfy company standards regarding physical facilities, cooperate with new promotional programs, furnish requested information, and buy supplies from specified vendors.

Evaluating the Major Alternatives

Each channel alternative needs to be evaluated against *economic, control* and *adaptive* criteria. Consider the following situation :

Godrej furniture wants to sell its line to retailers in Western India. The manufacturer is trying to decide between two alternatives :

1. One calls for hiring 10 new sales representatives who would operate out of a sales office in Pune. They would receive a base salary plus commissions.

2. The other alternative would use a Pune's sales agency that has extensive contacts with retailers. The agency has 30 sales representatives, who would receive a commission based on their sales.

Economic Criteria

Each alternative will produce a different level of sales and costs. The first step is to determine whether a company sales force or a sales agency will produce more sales. Most marketing managers believe that a company sales force will sell more. They concentrate on the company's products; they are better trained to sell those products; they are more aggressie because their future depends on the company's success; and they are more successful because many customers prefer to deal directly with the company.

However, the sales agency could conceivably sell more. First, the sales agent has 30 representatives, not just 10. Second, the agency's sales force might be just as aggressive as a direct sales force, depending on the commission level. Third, some customers prefer dealing with agents who represent several manufacturers rather than with sales persons from one company. Fourth, the agency has extensive contacts and market place knowledge, whereas a company sales force would need to build these from scratch.

The next step is to estimate the costs of selling different volumes through each channel. The cost schedules are shown in Figure 10.5. The fixed costs of engaging a sales agency are lower than those of establishing a company sales office. But costs rise faster through a sales agency because sales agents get a larger commission than company salespeople.

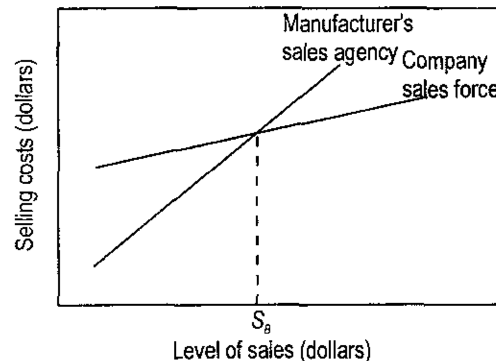


Figure 10.5: Break-Even Cost Chart for the Choice between a Company Sales Force and a Manufacturer's Sales Agency

The final step is comparing sales and costs. As Figure 10.5 shows, there is one sales level (S_B) at which selling costs are the same for the two channels. The sales agency is thus the better channel for any sales volume below S_B, and the company sales branch is better at any volume above S_B. Given this information, it is not surprising that sales agents tend to be used by smaller firms, or by large firms in their smaller territories where the sales volume is too low to support company sales people.

Control Criteria

Using a sales agency poses a control problem. A sales agency is an independent firm seeking to maximize its profits. Agents may concentrate on the customers who buy the most, not necessarily of the manufacturer's goods. Furthermore, agents might not master the technical details of the company's product or handle its promotion materials effectively.

Adaptive Criteria

To develop a channel, members must make some degree of commitment to each other for a specified period of time. Yet these commitments invariably lead to a decrease in the producer's ability to respond to a changing marketplace. In rapidly changing, volatile, or uncertain product markets, the producer needs channel structures and policies that provide high adaptability.

Channel-management Decisions

After a company has chosen a channel alternative, individual intermediaries must be selected, trained, motivated, and evaluated. Channel arrangements must be modified over time.

Selecting Channel Members

Producers vary in their ability to attract qualified intermediaries. Toyota was able to attract many new dealers for its new Lexus. However, when Polaroid started, it could not get photographic-equipment stores to carry its new cameras and was forced to use mass-merchandising outlets. Consider what happened at Epson :

- **Epson** Japan's Epson Corporation, a leading manufacturer of computer printers, decided to add computers to its product line. Not happy with its current distributors nor trusting their ability to sell to new types of retail outlets. Epson quietly recruited new distributors. Epson gave Hergenrather, a recruiting company, the following instructions :
- Search for applicants who have two-step distribution experience (factory to distributor to dealer) in either brown goods (TVs) or white goods (refrigerators).
- Applicants have to be CEO types who would be willing and able to set up their own distributorships.
- They will be offered $80,000 yearly salary plus bonus and $375,000 to help them set up in business; each will add $25,000 of his or her own money, and each will get equity in the business.
- They will handle only Epson products but may stock other companies' software. Each distributor will hire a training manager and run a fully equipped service center.

The recruiting firm placed want ads in the *Wall Street Journal*, which pulled almost 1,700 letters, mostly from unqualified people. Then the firm used the Yellow Pages to get the names of existing distributors and phoned the second-in-command managers. It arranged interviews and, after much work, produced a list of highly qualified individuals. It chose the 12 most qualified candidates.

The final step called for terminating Epson's existing distributors. They were given a 90-day termination notice. Yet in spite of all these steps, Epson never succeeded as a computer manufacturer.

Whether producers find it easy or difficult to recruit intermediaties, they should at least determine what characteristics distinguish the better intermediaries. They will want to evaluate number of years in business, other lines carried, growth and profit record, solvency, cooperativeness, and reputation. If the intermediaries are sales agent, producers will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediaries are department stores that want exclusive distribution, the producer will want to evaluate locations, future growth potential, and type of clientele.

Training Channel Members

Companies need to plan and implement careful training programs for their distributors and dealers, beacause the intermediaries will be viewed as the company by end users. Here are some examples of reseller training programs :

- Microsoft requires third-party service engineers to complete a set of courses and take certification exams. Those who pass are formally recognized as *Microsoft Certified Professions*, and they can use this designation to promote business.
- Ford Motor Company beams training programs and technical information via satellite-based *Fordstar Network* to more than 6,000 dealer sites. Service engineers at each dealership sit around a conference table and view a monitor on which an instructor explains procedures such as repairing on-board electronics and asks and answers questions.

Motivating Channel Members

A company needs to view its intermediaries in the same way that it views its end users. The company needs to determine intermediaries' needs and construct a *channel positioning* such that its *channel offering* is tailored to provide superior value to these intermediaries. The company should provide training programs, market research programs, and other *capability-building programs* to improve intermediaries' performance. The company must constantly communicate its view that the intermediaries are partners in the joint effort to satisfy end-using consumers.

Stimulating channel members to top performance must start with understanding their needs and wants. Mcvey listed the following propositions to help understand intermediaries :

> *[The intermediary often acts] as a purchasing agent for his customers and only secondarily as a selling agent for his suppliers..... He is interested in selling any product which these customers desire to buy from him ....*
>
> *The [intermediary] attempt to weld all of this offerings into a family of items which he can sell in combination, as a packaged assortment, to individual customers. His selling efforts are directed primarily at obtaining order for the assortment, rather than for individual items. ....*
>
> *Unless given incentive to do so [intermediaries] will not maintain separate sales records by brands sold...... Information that could be used in product development, pricing packaging, or promotion planning is buried in non-standard records of [intermediaries], and sometimes purposely secreted from suppliers.*

Producers vary greatly in skill in managing distributors. They can draw on the following types of power to elicit cooperation :

- *Coercive power* occurs when a manufactuer threatens to withdraw a resource or terminate a realtionship if intermediaries fail to cooperate. This power can be quite effective if the intermediaries are highly dependent upon the manufactuer. But the exercise of coercive power produces resentment and can lead the intermediaries to organize countervailing power. In India HLL can use this power very effectively.
- *Reward power* occurs when the manufactuer offers intermediaries an extra benefit for performing specific acts or functions. Reward power typically produces better result than coercive power but can be overrated. The intermediaries are conforming to the manufacturer's wishes not out of conviction but because of an external benefit. They may come to expect a reward every time the manufacturer wants a certain behavior to occur. If the reward is later withdrawn, the intermediaries feel resentment. Some financial or non-financial reward can be offered to the channel members if they achieve specific target in a given time period.
- *Legitimate power* is wielded when the manufacturer requests a behaviour that is warranted under the contract. Thus Tata Motors may insist that its dealers carry certain inventory levels as part of the franchise agreement. The manufacturer feels it has this right and the intermediaries have this obligation. As long as the intermediaries view the manufactuer as a legitimate leader, legitimate power works.
- *Expert power* can be applied when the manufactuer has special knowledge that the itnermediaries value. For example, a manufactuer may have a sophisticated system for sales-lead generation or for distributor sales training. This is an effective form of power, if intermediaries would perform poorly without this help. Once the expertise is passed on to the intermediaries, however, this basis of power weakens. The manufacturer must continue to develop new expertise so that the intermediaries will want to continue cooperating.
- *Referent power* occurs when the manufacturer is so highly respected that intermediaries are proud to be associated. Companies such as (HLL, Ranbaxy, Cipla and Maruti-Suzuki) have high referent power. Manufacturers will gain cooperation best if they would resort to referent power, expert power, legitimate power, and reward power, in that order, and generally avoid using coercive power.

Intermediaries can aim for a relationship based on cooperation, partnership, or distribution programming. Most producers

see the main challenge as gaining intermediaries' *cooperation.* They often use positive motivators, such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances, and sales contests. At times they will apply negative sanctions, such as threatening to reduce margins, slow down delivery, or terminate the relationship. The weakness of this approach is that the producer is using crude stimulus-response thinking.

More sophisticated companies try to forge a long-term *partnership* with distributors. The manufacturer clearly communicates what it wants from its distributors in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services, and marketing information. The manufacturer seeks distributor agreement with these policies and may introduce a compensation plan for adhering to the policies.

The most advanced supply—distributor arrangement is *distribution programming,* which can be defined as building a planned, professionally managed, vertical marketing system that meets the needs of both manufactuer and distributors. The manufacturer establishes a department within the company called *distributor-relations planning.* Its job is to identify distributor needs and build up merchandising programme to help each distributor operate as efficiently as possible. This department and the distributors jointly plan merchandising goals, inventory level, space and visual merchandising plans, sales-training requirements, and advertising and promotion plans. The aim is to convert the distributors from thinking that they make their money primarily on the buying side (through tough negotiation with the manufacturer) to seeing that they make their money on the selling side (by being part of a sophisticated vertical marketing system). Kraft and Procter & Gamble are two companies with excellent distributor-relations planning.

Evaluating Channel Members

Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs.

A producer will occasionally discover that it is paying too much to particualr intermediaries for what they are actually doing. One manufacturer was compensating a distributor for holding inventories but found that the inventories were actually held in a public warehouse at the manufacturer's expense. Producers should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed-upon service. Underperformers need to be counseled, retrained, remotivated, or terminated.

Modifying Channel Arrangements

A producer must periodically review and modify its channel arrangements. Modification becomes necessary when the distribution channel is not working as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channels emerge, and the product moves into later stages in the product life cycle.

No marketing channel will remain effective over the whole product life cycle. Early buyers might be willing to pay for high value-added channels, but later buyers will switch to lower-cost channels. Small office copiers were first sold by manufacturers' direct sales forces, later through office-equipment dealers, still later through mass merchandisers, and now by mail-order firms and Internet marketers.

Miland Lele developed the grid in Figure 10.6 to show how marketing channels have changed for PCs and designer apparel at different stages in the product life cycle :

- *Introductory stage* : Radically new products or fashion tend to enter the market through specialist ch (such as hobbyist shops, boutiques) that spot trends and attract early adopters.
- *Rapid growth stage :* As interest grows, higher-volume channels appear (dedicated chains, department stores) that offer services but not as many as the previous channels.
- *Maturity stage :* As growth slows, some competitors move their product into lower-cost channels (mass merchandisers).

- *Decline stage :* As decline begins, even lower-cost channels emerge (mail-order houses, off-price discounters).

In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time. The current structure will necessarily change in the direction of the optimal structure. The change could involve adding or dropping individual channel members, adding or dropping particular market channels, or developing a totally new way to sell goods.

Adding or dropping individual channel members requires an incremental analysis. What would the firm's profits look like with and without this intermediary ? An automobile manufacturer's decision to drop a dealer requires subtracting the dealer's sales and estimating the possible sales loss or gain to the manufacturer's other dealers.

Sometimes a producer considers dropping all intermediaries whose sales are below a certain amount. Consider the following :

- **Navistar.** Navistar noted at one time that 5 percent of its dealers were selling fewer than three or four trucks a year. It cost the company more to service these dealers than their sales were worth. But dropping these dealers could have repercussions on the system as a whole. The unit costs of producing trucks would be higher, because the overhead would be spread over fewer trucks; some employees and equipment would be idled; some business in these markets would go to competitors; and other dealers might become insecure. All these factors would have to be taken into account.

The most difficult decision involves revising the overall channel strategy. Distribution channels clearly become outmoded with the passage of time. A gap arises between a seller's existing distribution system and the ideal system that would satisfy target customers' needs and desires. Examples abound : Avon's door-to-door system for selling cosmetics had to be modified as more women entered the workforce, and IBM's exclusive reliance on a field sales force had to be modifed with the introduction of low-priced personal computers.

Stern and Sturdivant have outlined an excellent framework, called *Customer-Driven Distribution System Design*, for moving a poorly functioning distribution system closer to target customers' ideal system. Essentially, companies have to reduce the gaps between the services outputs that target customers desire, those that the existing channel system delivers, and those that management thinks are feasible within the existing contraints. Six steps are involved:

Market Growth Rate	Value Added by the Channel: High	Value Added by the Channel: Low
Low	1. Introductory - PC's : hobbyist stores - Designer apparel : boutiques	4. Declining - PC's : mail order - Designer apparel off price stores
High	2. Growing - PC's : specialty retailers - Designer apparel : better department stores	3. Mature - PC's : mass merchandisers - Designer apparel ; mass merchandisers

Figure 10.6: Channel Value Added and Market Growth Rate.

1. Research target customers' value perceptions, needs, and desires regarding channel service outputs.
2. Examine the performance of the company's and competitors' existing distribution systems in relation to customer desires. Whether customers are able to find what they desire or not ? Whether the customers receive quick

service, courteous behaviour, friendly behaviour from the channel members etc. or not ?

3. Find service output gaps that need corrective action. How much satisfied is the customer ? Time taken to locate the desired products, total time spent in the store and in the queue, ability of the channel member's employees to solve the customers problems etc. can help in identifying the service gaps. After identifying the gaps, steps must be taken to eliminate them.

4. Identify major constraints that will limit possible corrective actions. For *e.g.*, the store might attract large number of customers during evening time and this results in the foremation of queue.

5. Design a "management-bounded" channel solution. In order to minimize customer's waiting time additional cashiers must be stationed at the check out.

6. Implement the reconfigured distribution system. Single cashier during daytime and 2 or 3 cashiers during peak time (evening).

Issues Surrounding Channel Relationships

Because the actions of one channel member may greatly influence the performance of another channel member, the relations among channel members are of considerable interest. The retailer relies on the manufacturer to create an adequate sales potential through advertising, product development, and other marketing strategies. An exclusive dealer's welfare is in jeopardy if a manufacturer's marketing strategy is not successful. A manufacturer may depend on the successful performance of a small number of wholesalers, which cannot be left to sink or swim on their own merits. In the following sections, we examine several issues related to relationship among interdependent channel members.

Channel Cooperation

Channel cooperation : *Coordinated effort by distribution channel members whose marketing objectives and strategies complement each other.*

Channel conflict : *Antagonism between distribution channel members.*

The objectives and marketing strategies of two channel members—for example, a manufacturer and a retailer—may be in total harmony. Both parties may recognize that their tasks are linked and that by working together they can jointly exploit a marketing opportunity. the manufacturer promptly delivers a high-quality product with a good reputation; the retailer prices the product as expected and carries an inventory of the full product line. **Channel cooperation** exists when the marketing objectives and strategies of two channel members are harmonious.

Table 10.3: Methods of Channel Cooperation

Factors	*Manufacturer's/Service Provider's Actions*	*Dsitribution Intermediary's Actions*
New-product introduction	Thorough testing, adequate promotional support.	Good shelf location and space, enthusiasm for product, assistance in test marketing
Delivery	Prompt filling of orders, adherence to scheduled dates	Proper time allowed for delivery, shipment immediately checked for accuracy
Marketing research	Data provided to resellers	Data provided to manufacturers/service providers.
Pricing	Prices such that intermediaries can gainreasonable profits, intermediary flexibility encouraged.	Infrequent sales from regular prices, maintaining proper image

Promotion	Training reseller's salespeople, sales force incentives, developing appropriate ad campaign, cooperative ad programs	Attractive stores displays, knowledgeable salespeople, participation in cooperative programs.
Financing	Liberal financial terms	Adherence to financial terms.
Product quality	Product guarantees	Proper isntallation and servicing of products for customers
Channel control	Shared and specified decision making	Shared and specified decision making.

Channel Conflict

Channel conflict exists when channel members have disagreements and their relationship is antagonistic. Channel conflict often results from the absence of a clearly identified locus of formal channel power. Channel members may disagree about the channel's common purpose or the responsibility for certain activities. The behavior of one channel member may be seen as inhibiting another channel member from attaining its goals. (Channel conflict describes vertical conflicts among members of the same channel of distribution. It should not be confused with economic competition between two like intermediaries at the same level in a channel, such as between two retailers, which is sometimes referred to as *horizontal conflict*).

Consider the following instance of channel conflict. In 1992, Goodyear began selling its products to Sears—something it had not done before. In fact, for more than 60 years, Goodyear tires could be purchased only on new cars or from the company's exclusive network of independent dealers. Then in 1993, Goodyear started selling replacement tires to Discount Tire Company, a big independent tire retailer. The alignments with Sears and Discount caused considerable channel conflict. Goodyear's independent dealers expressed anger and feelings of betrayal. They prostested that Goodyear's actions had eroded their competititve positions. Many dealers retaliated by taking on competing brands, especially private brands.

Vertical conflict can also arise when a wholesaler is frustrated because the manufacturer bypasses it and sells directly to larger accounts. Another typical source of conflict is a situation in which a dealer wishes to minimize its investment in inventory but cannot do so because the distributor does not maintain the proper inventory level and thus cannot be relied on to guarantee speedy delivery. Vertical conflict may occur when sales are down and, consequently, manufacturers accuse dealers or distributors of failing to promote aggressively. Conflict can also arise if manufacturers, wholesalers, or retailers believe that they are not making enough money on the product line.

In some cases, the causes of conflict are overt and readily identifiable; they arise from differences in channel members' opinions, goals, or attitudes. For example, when Levi Strauss started marketing its five-pocket jeans through Sears and the JCPenney Company, there was no question about why managers of store that had carried Levi's for years were upset. Department store chains interpreted the new Levi's channel strategy as damaging to the brand's fashion credibility and a threat to their mark-ups. So they made the conflict more identifable and more intense by ordering replacement brands such as Lee. In other instances, however the cause of conflict may be latent frustration or slowly smoldering antagonism between parties. Disagreements may arise and cooperation break down when each party's objectives, strategies, and procedures are not adequately communicated or fully appreciated by other channel members.

Early theorists on channel conflict suggested that a channel system's goal should be to minimize conflict and maximize cooperation. Excessive conflict is likely to be detrimental to efficient performance in the channel of distribution; however, at times a certain level of conflict may be desirable. Conflict may be regarded as potentially beneficial to the system when it brings about a more equitable allocation of decision-making authority and economic resource and greater balance and stability within the system. Conflict is destructive when a lack of recognition of mutual objectives results.

Although there is some question about the most efficient level of the conflict, it is generally agreed that conflict should not go unmanaged. Unfortunately, Mark Twain's comment about the weather ("Everybody talks about the weather, but nobody does anything about it) to some extent applies to discussion of conflict within channels of distribution. Once they recognize conflicts, channel members should discuss or negotiate the issues to try to resolve the problems before they lead to major confrontations.

Table 10.4: Potential Causes of Channel Conflict

Factors	*Manufacturer's/Service Provider's Goal*	*Dsitribution Intermediary's Goal*
Pricing	To establish final price consistent with product image	To establish final price consistent with the intermediary's image.
Purchase terms	To ensure prompt, accurate payments and minimize discounts	To defer payments as long as possible and secure discounts.
Shelf space	To obtain plentiful shelf space with good visibility so as to maximize brand sales	To allocate shelf space among multiple brands so as to maximize total product sales
Exclusivity	To hold down the number of compe-ting brands each intermediary stocks while selling via many intermediaries	To hold down the number of competing inter mediaries carrying the same brands while selling different brands itself.
Delivery	To receive adequate notice before deliveries are required	To obtain quick service
Advertising support	To secure ad support from inter-mediaries	To secure ad support from manufacturers/ service providers
Profitability	To have adequate profit margins	To have adequate profit margins.
Continuity	To receive orders on a regular basis	To receive shipments on a regular basis
Order size	To maximize order size	To have order size conform with consumer demand to minimize inventory investment
Assortment	To offer a limited variety	To secure a full variety
Risk	To have intermediaries assume risks	To have manufacturers/service provides assume risks
Branding	To sell products under the manufac-turer's/service provider's name	To sell products under private brands as well as manufacturer's/service provider's brands.
Channel access	To distribute products wherever desired by the manufacturer/service provider	To carry only those items desired by intermediaries. (Say retailers)
Importance of account	To not allow any one intermediary to dominate	To not allow any one manufacturer/service provider to dominate
Consumer loyalty	To have consumers loyal to the manu-facturer/service provider	To have consumers loyal to the intermediary
Channel control	To make key channel decisions	To make key channel decisions.

Channel Power

Channel power : *The extent to which a channel member is able to influence the behaviour of another channel member*

Channel leader : *A distribution channel member that is able to exert power and influence over other channel members, also known as a* channel captain.

An organization that is able to exert its **channel power** and influence over other channel members is referred to as the **channel leader** or channel captain. A channel leader has mutually agreed-on authority to reward, punish, plan, coordinate, or otherwise dictate the activities of channel members. For instance, Home Box Office is the channel leader for the distribution of movies on pay TV. HBO virtually dictates how much it will pay for a film. Furthermore, HBO finances film production; in recent years, it has become a major source of financing for independent movie producers.

There are several sources of channel power. Because of the size of its purchases, a large retailer such as Wal-Mart may be able to dictate marketing strategy to less powerful channel members. In placing an order for a private-label brand, Wal-Mart may insist on certain product specifications, prices, or delivery dates. A small manufacturer may be so dependent on the Wal-Mart order that it changes the specifications of its own brand so that it can economically produce a product that meets Wal-Mart's specifications. Wal-Mart thus has channel power. More specifically, it has *coercive power*, the ability to force compliance from other channel members by threatening to take its business elsewhere and *reward power, the ability to offer an economic reward, such as a large, profitable order.*

An organization such as a manufacturer of technical instruments may be able to wield channel power because of its expertise and ability to introduce technological innovations. It has *expert power* based on knowledge. Hindustan Lever Limited (HLL) is a channel leader because of its marketing expertise. To support its wholesalers, HLL offers extensive training seminars on topics such as financial management and warehousing. It has developed a computerized shelf-space management program for retailers that audits sales, margins, and turnover by brand and package.

In addition to benefiting from HLL expertise, channel members respect the company because they believe it is trustworthy and has other admirable characteristics. HLL thus has *referent power,* which stems from other channel members' respect, admiration, and identification with the channel leader.

When a SSI Computers franchise contractually agrees to perform specific activities, such as placing a common logo on all promotional materials, it grants legitimate power to SSI computers franchisor, *Legitimate power* results from formal agreements.

Reverse Distribution

In recent decades, the recycling of waste has become an important ecological goal. The major problem in recycling is determining who is responsible for the "reverse distribution" process it involves. The macromarketing task is to establish a **backward channel** of distribution, one in which the ultimate consumer who seeks to recycle waste materials must undergo a role change.

By recycling your old newspapers or metal cans, you become a "producer" of a usuable product that has some economic utility. Thus, in this backward channel, the consumer is the first link in the process rather than the last. The backward channel in this case is likely to be run by traditional manufacturers of paper or cans. Yet the flow of goods is the reverse of what most descriptions of marketing operations suggest. Backward channels of distribution have historically been very primitive, although some recycling has always existed. For example, ecologically concerned civic groups have sponsored paper drives and community clean-up days. Such groups are, in essence, performing channel intermediary functions. In some cases, traditional intermediaries have long practiced as a sideline what have come to be recognized as recycling activities. Soft drinks bottlers have accepted returnable glass bottles for years, but this practice was not seen as either a major part of their business or a contribution to the economy.

In recent years, however, a growing sophistication has been brought to the operation of reverse channels of distribution. *For example, brokers are often employed to negotiate the sale of used packaging cardboard to paper mills that can* reprocess the product. Larger supermarkets ships the "waste" directly to the mills with the broker taking neither title nor possession but simply arranging the transfer. Such an operation reflects considerable thought in its development and requires a sizable management effort to succeed. Some soda vending machines have been modified or designed from scratch to accept empty aluminum cans for recycling and to reimburse the recycling patron with a small reward. This is clearly a step or two beyond having ragpickers scour roadsides for old containers.

Ethical, Political, and Legal Forces in Distribution Management

You might think of recycling as involving certain ethical issues as well as issues of distribution. Indeed, several ethical issues arise in connection with distribution and its macromarketing role. One such issue, already touched on

earlier, is the supposed cost of distribution. Other issues have been dealt with institutionally and are now regulated by law.

Does Distribution Cost Too Much?

As mentioned earlier, a commonly heard cry is "eliminate the middleman !" Previous discussions explored the reasons for specialization in the distribution channel. An intermediary may provide storage, selling, or other marketing functions more efficiently than either a manufacturer or a retailer. Eliminating the intermediary does not eliminate the functions intermediaries perform. Thus, a manufacturer that eliminates wholeslaers will have to perform the wholesaling function itself. This may cost more than using independent wholesalers if the wholesalers were better at their job than the manufacturer can be. Or, performing intermediary functions itself may radically alter a company's marketing strategy. For example, a company that sells on the Internet has no intermediary to communicate persuasive information, so it must do this via other means.

A critic might note that some individual aspects of the distribution system are nonessential. Yet it has been shown repeatedly that "nonessentials" such as convenience are important to consumers. The success of 7-Eleven, Quick-Trip, and similar stores proves that consumers want—and will pay for—convenient location and quick service. The customers decide the trade-offs in this case, agreeing to pay a little more money to avoid paying with their time. People can quickly and profoundly influence the distribution system simply by where they shop. It is arguable that distribution is the aspect of marketing that is most responsive to consumer demands. The high rate of business failure, especially among retailers, is strong proof that intermediaries must perform valuable functions if they are to survive.

Legal Regulation of Distribution in the United States

In the United States, in many other countries, and in international trade agreements, dealings in the area of distribution may be subject to numerous restrictions. For example, a manufacturer's ability to exercise power over channels is often regulated in an attempt to preserve the independence of intermediaries and to assure that unfair competition does not result from the structure of the channel.

The Sherman Antitrust Act, the Clayton Act, the Federal Trade Commission Act, and other laws dealing with antitrust policy are the bases for much U.S. legislation influencing distribution. In the United States, the three main legal issues surrounding distribution are exclusive dealing, exclusive territories, and tying agreements.

Exclusive dealing : *A situation in which a distributor carries the products of one manufacturer and not those of competing manufacturers.*

Exclusive Dealing. Exclusive dealing refers to a restrictive arrangement by which a supplier prohibits intermediaries that handle its product from selling the products of competing suppliers. A manufacturer may wish to deal only with those distributors that will agree to market its brand exclusively. Is such an arrangement legal? The answer to this question depends on whether the arrangement abuses the intermediary's right to act independently or the rights of other business competitors to succeed.

It is illegal for a manufacturer to prevent an intermediary from selling products that compete with that manufacturer's products if the activity tends to restrict competition. A new brand of refrigerator would never reach the marketplace if all makers of refrigerators already in the market enforced exclusive dealing agreements with their wholesalers and retailers. Such arrangemnets, in blocking entry of a new product, would appear to be restricting competition.

An exclusive dealing arrangemnet is likely to lessen competition if (1) it encompasses a substantial share of the market; (2) the rupee amount involved is substantial; or (3) it involves a large supplier and a smaller distributor, in which case the supplier's disparate economic power can be inherently coercive. Exclusive dealing arrangements are generally legal if the parties to the arrangements can show that the exclusivity is necessary for strategic reasons, such as a franchisor's need to protect a product's image. Exclusive dealing may also be legal if the supplier's own sales are restricted because of limited production capacity.

Exclusive territory: *An area defined by geographical boundaries or population and assigned to a retailer, wholesaler, or other dealer, with the understanding that no other distributors will be assigned to operate in that area.*

Exclusive Territories A manufacturer that grants a wholesaler or retailer an **exclusive territory** may be acting

illegally. The key point, as in so many legal matters relating to business, is restriction of competition. If the granting of exclusive territories does not violate the statutes relating to restriction of competition, then limiting the number of outlets within an area of assigning exclusive territories may be considered proper. Again, in many cases, this evaluation must be made by the legal system.

What about Cadillac? This organization attracts dealers in part by promising that no other dealers will be set up within the same areas. A number of defenses might be offered by organizations engaged in this sort of practice. They might argue that the investment expected from new dealers is so great that dealers could not be recruited unless they were offered some sort of exclusive territory. In this case, the defense is that the nature of the business demands such exclusivity. They might also agrue that the image of the product offered demands some exclusivity. Cadillac, for example, is portrayed as a luxury product. Thus, excellent sales and service people are necessary; Cadillac dealers and mechanics are carefully selected and trained. If Cadillac dealerships were allowed to open on every other street corner, this might destroy the elite image Cadillac Motor Division is trying to create.

Tying contract : *An agreement tying the purchase of one product to the purchase of another. The buyer who wishes to purchase a certain product is required by the seller to purchase additional products, whether the buyer wants to purchase those products or not.*

Tying Contracts. Tying contracts require a channel intermediary or a buyer to purchase lines of merchandise that the seller sees as supplementary to the merchandise the purchaser actually wants to buy. The seller tells the buyer, in effect, "If you want to have this product [say, a printing press], you must also buy my other product [paper]." Thus, two or more products are tied togehter. The Clayton Act makes tying contracts illegal, but whether a particular agreement is, in fact, a tying contract can be open to debate. Certain tying agreemnets can be legal—for example, in the case of a printing press, the seller could require a certain kind of paper if using other brands of paper would cause the press to break down.

Legalities of International Distribution

The many restraints on and problems associated with domestic distribution are compounded in the international marketplace. Domestic laws, the laws of the country to which goods are being shipped, the laws of the nations through which goods are being shipped, and the general conventions associated with international trade must all be obeyed. A full discussion of the many aspects of international constraints on distribution is beyond the scope of this chapter, but the immense problems that flow from them should be recognized by all students of marketing.

Chapter 11

Retailing and Wholesaling

(A) Retailing and Its Importance

Retailing consists of all business activities associated with the sale of goods and services to ultimate consumers. Retailing involves a retailer—traditionally a store or a service establishment—that deals with consumers who are acquiring goods or services for their own use rather than for resale. Of course, Shopper's stop, Ebony, Parnami Jaipur and other familiar organizations offering products for sale to consumers are retailers. However, the definition of retailing includes some less-than-obvious service marketers, such as hotels, movie theaters, restaurants, and ice-cream trolly operators. And even if an intermediary calls itself a "factory outlet," a "wholesale club," or a "shopping channel," it is a retailer if its purpose is to sell to the ultimate consumer. Furthermore, Amazon.com and many other new "dot-com" companies that sell on the Internet are retailers. Because these retailers are e-commerce firms, they are often called **e-tailers.**

Retailing : *All business activities concerned with the sale of products to the ultimate users of those product.*

e-tailers : *e-commerce firms with retailing operations on the Internet.*

Viewed in the context of the channel of distribution, retailers are the important final link in the process that brings goods or services from producers to consumer. Poor marketing on the part of retailers can negate all the planning and preparation that have gone into other marketing activities.

In the United States, there are more than 15 lac retailing institutions accounting for about Rs. 9600 crore in sales. About 15 percent of U.S. workers are employed in retailing.

Retailing Institutions—
Toward a System of Classifications

Retailers are a diverse group of businesses. In the distribution of food there are supermarkets, convenience stores, restaurants, and various specialty outlets. Merchandise retailers may be department stores, apparel stores, consumer electomics stores, home shopping. Service retailers, such as movie theaters and banks, are as diverse as the types of services offered for sale.

Retailing is dynamic, and retail institutions evolve constantly. For example, institutions such as "mom and pop" grocery stores are at the end of their life cycle. Individual companies like Sears, which began in the late 1880s as a mail-order retailer of watches and jewelry, are continually transforming themselves into new types of retailers. Warehouse clubs and interactive shopping on the Internet are but two retailing innouvations that have developed in recent decades. In the next 20 years, retailers will inevitably adjust to their changing environments by transforming themselves further.

In light of this constant change, and of the very large number of retailers in the United States, how can retail institutions be sorted into more easily analyzed groups ? Two commonly used methods classify retailers on the basis of ownership and prominent strategy.

Retailing is dynamic, and retail institutions evolve constantly.

Classifying Retailers by Ownership

Independent retailer : *A retail establishment that is not owned or controlled by any other organization.*

One popular method of categorizing retailers is by ownership. Most retailers are **independent retailers**, operating as single-unit entities. Independent operations may be proprietorships, partnership, or corporations, but they are usually owned by one operator, a family, or a small number of individuals. They are not generally

integrated into a larger corporation. These retailers are often thought of as small, but some are quite sizable. Taken together, they are the most important part of the Indian retailing scene.

Leased department retailer : *An independent retailer that owns the merchandise stocked but leases floor space from another retailer, usually operating under that retailer's name.*

An independent retailer that owns the merchandise stocked but leases floor space from another retailer is a **leased department retailer.** A leased department—for example, a branch bank, a jewelry department, or a watch repairer—operates independently from the lessor retailer (the retailer that rents out the floor space), although it often operates under the lessor's name. The lessor grants leased department retailers this degree of independence because they have special expertise in handling the particular product line, will increase total store traffic, or are necessary to the lessor because consumer expected to find the department's merchandise in the store.

If a retail establishment is not independent, it is classified as either a chain or an ownership group. The more familiar of these classifications is the chain store— one of a group of shops bearing the same name and having roughly the same merchandise assortment and store image. Chain-store systems consist of two or more stores of a similar type that are centrally owned and operated.

Chains have been successful for a number of reasons, but one of the most important is the opportunity they have to take advantage of economies of scale in buying and selling goods. Conducting certralized buying for several stores permits chains to obtain the lower prices associated with large purchases. They can then maintain their prices, thus increasing their margins, or they can cut prices, attracting greater sales volume. Unlike small independents with lesser financial means, chains can also take advantage of promotional tools, such as television advertising, by spreading the expense among many member stores, thus stretching their promotional budget. Other expenses, such as costs for computerized inventory control systems, may also be shared by all stores.

According to the U.S. Department of Commerce, the term corporate chain is used for chains with 11 or more stores. Typically, as the number of units in a chain increases, management becomes more centralized, and each store manager has less autonomy in determining the overall marketing strategy. Although corporate chains possess many advantages over independents, some analysts say independents and smaller chains are more flexible. They may be better able to apply such marketing techniques as segmentation than are bigger operations, whose appeal must be more general.

Retail franchise operations are a special type of chain. Although the broad marketing strategy in such chains is centrally planned, the retail outlets are independently owned and operated. Franchises provide an excellent example of the evolution of retail institutions to fit the American culture. As the country's mobile citizenry moves from place to place, a familiar retail outlet is "waiting" for them when they arrive. Each new franchise benefits from the company's experience, reputation, and shared resources.

Chain store : *One of a group of two or more stores of a similar type, centrally owned and operated.*

Corporate chain : *A chain consisting of 11 or more stores.*

Ownership group : *An organization made up of stores or small chains, each with a separate name, identity, and image but all operating under the control of a central owner.*

The other type of retailing organization is the **ownership group**—an organization made up of various stores or small chains, each having a separate name, identity, and image but all operating under the ultimate control of a central owner. Typically, the members of such groups are former corporate chains bought out by much larger ownership groups.

Classifying Retailers by Prominent Strategy

Retailers can also be classified based on their most prominent retail strategies. The decision as to whether to market products and services with an in-store retailing strategy (also called a bricks-and-mortar strategy) or a direct marketing (nonstore) retailing strategy is such an important discriminating factor that these two major groupings will be discussed separately. Figure 11.1 shows these groupings and their subcategories.

In-Store Retailing Many fundamental strategies differentiate in-store retailers. The variety of products they sell, store size, price level relative to competitors, degree of self-service, location, and other variables can be used to categorize retailers. Each strategy has its particular advantage and disadvantages, and each fits particular markets and situations. Try to envision the following store classes as responses to pariticular marketing opportunities.

***Specialty store :** A retail establisment that sells a single product or a few related lines.*

Specialty Stores **Specialty stores,** also called *single-line retailers or limited-line retailers,* are differentiated from other retailers by their degree of specialization—that is, the narrowness of their product mixes and the depth of their product lines. These traditional retailers specialize within a particular product category, selling only items targeted to narrow market segments or items requiring a particular selling expertise, such as children's shoes, contact lens, swimming costumes, or wall clocks. Service establishments, such as restaurants and banks, are often classified as specialty retailers. These retailers do not try to be all things to all people. In fact one can never be all things to all peoples.

General stores dominated Indian retailing and they are likely to dominate because, except in large cities, too few people could be found to justify specialty retailers. The remarkable success enjoyed by specialty stores in recent years, however, illustrates the importance of effective market segmentation and target marketing. The major reason for their success is the development of considerable expertise in their particular product lines.

MAJOR GROUP	RETAILER CLASSIFICATION	BRIEF DESCRIPTION
IN-STORE RETAILING	Specialty Store	Narrow variety, deep selection within a product class, Personalized service; makes up large bulk of all retailing operations
	Department store	Generally chain operations, wide variety, full range of services
	Supermarket	Wide variety of food and nonfood products, large departmentalized operation featuring self-service aisles and centralized checkouts
	Convenience store	Little variety, shallow selection, fast service
	General mass merchandiser	Wide variety, shallow selection of high-turnover products, low prices, few customer services
	Catalog showroom	General mass merchandiser that uses a catalog to promote items
	Warehouse club	General mass merchandiser that requires memberships if customers wish to shop; store goods warehouse-style
	Specialty mass merchandiser	Less variety but greater depth than general mass merchandiser, low prices, few customer services
	Off-price retailer	Specialty mass merchandiser that sells a limited line of nationally known brand names
	Category superstore	Specialty mass merchandiser that offers deep discounts and extensive assortment and depth in a specific product category
DIRECT MARKETING	Mail-order/direct response	Generally low operating costs, emphasis on convenience; often retailing uses computerized databases; includes mail order, television home shopping, and telephone sales
	Door-to-door selling	High labour cost, image problems; popularity is decreasing in developed countries, increasing in less-developed countries
	e-tailing	Consumer initiates contact with retailer via computer and the Internet
	Vending machines	High-turnover products, low prices

Figure 11.1: Some Retailers Classified by Prominent Strategy.

***Department store :** A departmentalized retail outlet, often large, offering a wide variety of products and generally providing a full rang of customer services.*

Department Stores **Department stores** are typically large compared with specialty stores. They carry a wide selection of products, including clothing, furniture, home appliances, housewares, and—depending on the size of the operation—good many other products as well. These stores are "departmentalized" both physically and organizationally. Each department is operated largely as a separate entity headed by a buyer, who has considerable independence and authority in buying and selling products and who is responsible for the department's profits. Independent department stores do exist, but most department stores are members of chains or ownership groups.

Most department stores are characterized by a full range of services, including credit plans, delivery, generous return policies, restaurants, and a host of other extras such as fashion clinics, closed-door sales for established customers only and even etiquette classes for customers' children. Such services, as well as the need to carry a wide variety of merchandise and maintain a large building, increase store operating costs and necessitate higher prices than those at discount stores. Some consumer seek the service and atmosphere of the department store but then make actual purchases at a discount store. In short, discounters and other types of store operators are formidable competitors for traditional department stores.

Supermarkets and Convenience Stores The supermarket of today differs greatly from the "grocery store" from which it evolved. The grocery operator of the early part of last century knew most customers, personally filled customers' orders and was likely to offer both delivery service and credit. With the advent of the telephone, the grocer accepted phone orders and dispatched a delivery boy to the customer's home.

***Supermarket :** Any large, self-service, departmentalized retail establishment, but especially one that sells primarily food items.*

Today's **supermarket** is a large departmentalized retail establishment selling a variety of products, mostly food items but also health and beauty aids, housewares, magazines, and much more. The dominant features of a supermarket marketing strategy are large in-store inventories on self-service aisles and centralized checkout lines. Often, supermarkets stress the low prices resulting from self-service. The inclusion of nonfood items on supermarket shelves was once novel, in that it represented the stocking of items that did not traditionally belong in the supermarket's group of offerings. The name given to this practice is scrambled merchandising Scrambled merchandising permits supermarkets (as well as other types of retailing institutions) to sell items that carry a higher margin than most food items; thus it provides a means to increase profitability. Across the board, however, supermarket profit margins are slim—only 1 to 2 percent of total sales. Supermarkets rely on high levels of inventory turnover to attain their return on investment goals.

***Scrambled merchandising :** The offering by retail establishment of products not traditionally associated with that establishment.*

Supermarkets were among the first retailers to stress discount strategies. Using such strategies, large self-service retail establishments sell a variety of highturnover products at low prices. A good part of a retailer's ability to hold process down stems from the practice of offering few services. Other than the costs of the goods they sell, most retailers find that personnel costs are their largest financial outlay. Thus, by eliminating most of the sales help, having no delivery staff, and hiring stock clerks and cash-register operators rather than true salespeople, discounters are able to take a big step toward reducing their prices. Buying in large volume also reduces the cost of goods sold.

***Convenience store :** A small grocery store stressing convenient location and quick service and typically charging higher prices than other retailers selling similar products.*

Convenience stores are, in essence, small supermarkets. They have rapidly developed as a major threat to their larger cousins. 7-Elevens, Quick-Trips, and other imitative convenience store have sprung up and multiplied across the United States. These stores carry a carefully selected variety of high-turnover consumer products. As their names generally imply, the major benefit these stores provide to consumers is convenience—convenience of location and convenience of time. By choosing handy locations and staying open 15, 18, or 24 hours a day, 7 days a week, convenience stores offer extra time and place utility. Consumers must pay for these conveniences and seem quite

willing to do so. Managers of these stores price most of their "convenience goods" at levels higher than supermarkets to provide high profit margins. Convenience stores are unusual among retailers because they have both a high margin and a high inventory turnover.

Mass merchandise retailer : *A retailer that sells products at discount prices to achieve high sales volume, also called* mass merchandise discount store. *There are two basic types of mass merchandise retailers: general mass merchandesers and specialty mass merchandisers.*

Mass Merchandisers **Mass merchandise retailers,** sometimes called mass merchandise discount stores or superstores, sell at discount prices to achieve high sales volume. Mass merchandisers cut back on their stores' interior design and on customer service in their efforts to reduce costs and maintain low prices. Supermarkets were the forerunners of mass merchandisers. In fact, the term *supermarket retailing* has been used to describe Target, Wal-Mart, and many other stores that have adopted the supermarket strategy, incorporating large inventories, self-service, centralized checkouts, and discount. Using supermarket-style discount strategies helps mass merchandisers to offer prices lower than those at traditional stores.

Mass merchandisers can be classified as general or specialty. General mass merchandisers, such as Wal-Mart, carry a wide variety of merchandise that cuts across product categories. They may sell everything from drug and cosmetic items to electrical appliances to clothing, toys, and novelty items. The wide variety of goods general mass merchandisers offer at low prices means that they usually cannot afford to carry a deep selection of goods in any product line. Retailers usually carry either a wide variety or a deep selection, but not both. The expense associated with having many kinds of goods and many choices of each kind makes the two possibilities largely mutually exclusive. (Indeed, small retailers can often compete with giant mass merchandisers on the basis of selection.

In contrast with general mass merchandisers, *specialty mass merchandisers* carry a product selection that is limited to one or a few product categories. For example, some specialty mass merchandisers sell only clothing

We will discuss two types of gerneral mass merchandisers, catalog showrooms and warehouse clubs, and two types of specialty mass merchandisers, category superstores and off-price retailers.

Catalog showroom : *A gerneral mass merchandise outlet where customers select goods from a catalog and store employees retrieve the selected items from storage.*

Catalog showrooms, like Service Merchandise, publish large catalogs identifying products for sale in the store. Typically, these are high-margin items. The catalog—or an accompanying price list—shows the "normal" retail price of the item and the catalog discounter's much lower price. Often, the discounter's price is printed without a dollar sign in the form of an easily decipherable "code" to let the buyer know that a special deal—not available to just anyone—is being offered. Catalog discounters, like other discounters, do not offer customer conveniences or salesperson assistance. Service is slowed by the need to wait for purchased products to be delivered from a storage place. However, this successful formula permits lower prices.

Warehouse club : *A general mass merchandise oulet at which only "members" are allowed to shop; also called a* closed-door house.

Some discounters operate a special sort of store called a ware house club or a *closed -door house*. At Sam's Wholesale Club and Price Club, customers are asked to become "members" and are issued cards that permit entry to the store. Some closed-door houses require that customers already be members of some specific group, such as a labour union or the civil service. While these operations run the risk of being seen as discriminating against persons not in the target customer group, the membership idea has been found by some retailers to be an effective way build store loyalty. Moreover, if in building its membersship base the club develop an actual list of customers, direct mail advertisements can be sent to these people, eliminating, to a large extent, other forms of advertising with their large proportions of waste circulation. Warehouse clubs combine wholesaling and retailing functions. For these marketers, the showroom facility doubles as a storage place, or warehouse, allowing the retailer to hold far greater amounts of stock than traditional retailers retain. Furthermore, when they sell to service organizations or business members, such as schools, restaurants, and day-care centers, the clubs are actually wholesalers. However, many members who purchase as small-business customers also use these stores for personal shopping, and these are retail sales.

Warehouse clubs focus on sales volume and often sell in bulk. This requires that manufacturers change their

packaging strategy. For example, Kellogg's which initially refused to package in bulk, now provides dual packages of its cereals and Pop-Tarts for warehouse clubs.

Off-price retailer *A specialty mass merchandise outlet offering a limited line of nationally known brand names.*

Off-price retailers are specialty mass merchandisers that aggressively promote nationally known brand names of clothing at low prices. Off-price retailers can purchase brand name goods such as apparel or footwear at below-wholesale prices (even below prices paid by traditional mass merchandisers) because they typically do not ask for promotional allownces, return privileges, extended payment terms, or the highest-quality merchandise. They also keep their costs low by offering few services. Off-price stores have evolved because many name-brand manufacturers that once sold exclusively to retailers such as Saks Fifth Avenue, Neiman-Marcus, and Bloomingdale's are now more willing to sell seconds, overruns, discontinued items, or out-of-season merchandise to large-volume retailers, even when retail prices are below suggested level. When a manufacturer owns and operates an offprice store, the store is called a *factory outlet.*

Category superstore *A specialty mass merchandise outlet offering extensive assortment and depth in a specific product category; also called a category killer.*

Direct marketing *Marketing in which advertising, telephone sales, or other communications are used to elicit a direct response, such as an order by mail or phone, also called direct-response retailing.*

Toys "R" Us, Petsmart, and Sportmart are specialty mass merchandisers that apply the supermarket format to the marketing of toys, pet food and supplies, and sporting goods. A mass merchandise discounter specializing in a certain product category is called a category superstore or category killer. Sportsmart, which sells 100,000 different items, provides an example. It is radically different from the typical independent sports store because it stocks virtually all competing brands of soccer balls, base ball gloves, sports team jackets, and the like, rather than carrying a single brand, as most sports stores do. Category superstores apply a deep discount strategy, setting prices even lower than those of general mass merchandisers, and offer the most extensive assortment and greatest depth in the product lines they carry. This retailing strategy is designed to attract most of the local business for the product category and to eliminate ("kill") the competition.

Direct Marketing : Retailing without a Bricks-and-Mortar Store Direct marketing involves the use of advertising, telephone sales, catalogs, the Internet, or other communications to elicit a direct response consumers. Direct marketing in a retailing context has also been called *nonstore retailing and direct response retailing.* The many means of direct marketing include mailorder sales, door-to-door selling, vending machines, and e-tailing on the Internet. Whether direct marketing uses the telephone, catalogs, letters, other print media, television, or the Internet to reach consumer, it always calls for a direct response, generally an order by mail, telephone, or the Internet.

Mail-order retailing through catalogs is one of the oldest forms of direct marketing. Sears, Roebuck and Company began in the mail-order business and moved on to other types of marketing. Today, the famous Sears "wish book" catalog no longer exists. However, companies such as Banana Republic and Sharper Image still combine catalog advertising with both mail-order and in-store retailing. Others, like Sundance, are exclusively committed to direct marketing operatons. Consumers perceive mail order buying as more risky than in-store shopping. In fact, catalog buying is among the shopping methods perceived as riskiet by consumers. Those who have had a favorable experience with this nonstore shopping method are more favorably inclined toward it.

Catalog retailers and some other mail-order marketers make extensive use of data-based marketing. They buy computer-generated mailing lists from companies that specialize in developing them, or they compile lists themselves. The lists can be narrowly focused on selected groups—teens, homeowners, newlyweds, and so on.

Advertising in magazines and other print media may call for a direct response and thus may constitute direct marketing. Certain target customer may be reached effectively by such marketing efforts. Purveyors of vitamins and other health aids for senior citizens, for example, conduct a brisk business through advertisements placed in such magazines a *Modern Maturity.*

Direct marketers that advertise on television and fill orders by mail or express delivery services have multiplied rapidly. They now hawk everything from cutlery to Elvis Presley memorabilia. The familiar television campaigns that urge viewers to write or call a toll-free number are good illustrations of this approach to retailing.

Television home shopping is a direct marketing innovation developed with the advent of cable TV. Viewers tuning in to a cable shopping channel see a "show" where products are demonstrated by a "host." Consumers can call the host while the show is on the air to ask questions about the product or to purchase it.

Telemarketing, the selling of retail merchandise by telephone, is a growing aspect of direct marketing. It involves both database management and personal selling.

What most attracts consumers to the various forms of direct marketing is convenience. Shopping at home, especially at such hectic times of the year as the Christmas holidays, provides an undeniable attraction. So does the fact the many direct marketers will ship gift-wrapped orders directly to the person for whom the merchandise was bought, thus freeing the customer from wrapping and delivery chores. Direct marketing may attract retailers because it offers many opportunities to reduce operating costs. No in-store salespeople need to be hired, trained, or paid. Often businesses may be headquartered in rural areas or unattractive industrial parks that ordinary retailers would avoid. *Indeed, the retailer that conducts business out of the consumer's view can cut many corners.*

On the other hand, direct marketing retailers face certain special expenses. The catalog retailer incurs considerable expense in the preparation and mailing of catalog, for example. Effective direct marketing retailers concentrate on fulfillment operations to make sure that goods are shipped promptly so that customers receive their orders quickly and in good condition. In part to overcome the sense of unease some feel about buying merchandise they cannot examine, many direct retailers offer liberal return policies.

Door-to-Door Selling Cutlery, vacuum cleaners, magazines, and cosmetics are among the many products successfully sold door-to-door. This kind of retailing is an expensive method of distribution. Labor costs, mostly in the form of commissions, are quite high. Yet many consumers enjoy the personal in-home service provided by established companies like Cutco, Fuller Brush, and Avon. In general, products sold door-to-door are of the type that particularly benefit from demonstration and a personal sales approach. Vacuums and carving knives are among the many products that lend themselves to such demonstrations.

In-home retailing is often performed by organizations with outstanding reputations. Unfortunately for the many legitimate companies practicing this form of retailing, the image of the door-to-door approach has been tarnished by some unethical salespeople. A number of laws make door-to-door selling difficult. For example, Green River ordinances, in effect in many local areas, put constraints on the activities of door-to-door salespeople by limiting the hours or neighborhoods in which they may call or by requiring stringently controlled licenses.

It is interecting to observe that while door-to-door retailing is decreasing in importance in the United States, it is growing in some less-develop countries. Avon, for example, has a major door-to-door organization in China, and Tupperware parties are popular in many countries.

Vending Machines *The coin-operated vending machine is an old retailing tool that has become increasingly* sophisticated in recent years. For the most part, items dispensed through vending machines are relatively low-priced convenience goods.

There is a vending machine for about every 40 people in the United States. Vending machines can be found almost everywhere—and this is a big part of their appeal to the marketers that use them. Cigarettes, gum, and other items can be sold in hotels, college dormitories, and church basements without an investment in a store or in personnel.

Items sold through vending machines are generally small, easily preserved, high-turnover goods such as candy and soft drinks. Technological improvements in vending machines have allowed machines to dispense airline tickets, travelers insurance, customized greeting cards, and breathalyzer tests.

Table 11.1: Key Characteristics of Retail Ownership Forms

		Characteristics	
Ownership Form	*Distinguishing Features*	*Major Advantages*	*Major Disadvantages*
Independent	Operates one outlet, easy entry	Personal service, convenient location, customer contact	Much competition, poor management skills, limited resources
Retail chain	Common ownership of multiple units tasks, larger market	Central purchasing, strong managment, specialization of	Inflexibility, high investment costs, less enterpreneurial
Retail franchising	Contractual arrangement between central management (franchisor) and independent businesspersons (franchisees) to operate a specified form of business	*To franchisor* investment from franchisees, faster growth, entrepreneurial spirit of franchisees *To franchisee :* established name, training, experience of franchisor,	*To franchisor:* some loss of control, franchisees not employees, harder to maintain uniformity *To franchisee :* strict rules, limited decision ability, payments to store cooperative ads
Leased department	Space in a store leased to on outside operator	*To lessor :* expertise of lessee, little risk, diversification *To lessee :* lower investment	*To lessor :* some loss of control, poor performance reflects on instore fixtures, customer store *To lessee :* strict rules, traffic, store image limited decision-making ability, payments to store

Table 11.2: Comparing Retail Strategy Mixes : A Discount Store Versus a Traditional Department Store

Discount Store Strategy	*Department Store Strategy*
1. Less expensive rental location—lower level of pedestrian traffic. (Note : Some discount stores are using more expensive locations.)	1. More expensive rental location in shopping center or district—higher level of pedestrian traffic.
2. Simpler fixtures, linoleum floor, certral dressing room, fewer interior and window displays.	2. More elaborate fixtures, carpeted floor, individual dressing rooms, many interior and exterior displays.
3. Promotional emphasis on price. Some discounters do not advertise brand names, but say "famous brands."	3. Promotional emphasis on full service, quality brands, and store image.
4. Fewer alterations, limited phone orders, delivery, and gift wrapping; less availability of credit.	4. Many alterations included in prices, phone orders accepted, and home delivery at little or no fee; credit widely available.
5. More reliance on self-service, plain displays with piles of merchandise; most merchandise visible.	5. Extensive sales assistance, attractive mer-chandise displays, a lot of storage in back room.
6. Emphasis on branded product; selection may not be complete (not all models and colors). Some discounters feature "seconds," remove labels from goods if asked by manufacturers, and stock low-price, little-known items.	6. Emphasis on a full selection of branded and privately branded firstquality products; does not stock closeouts, discontinued lines, or seconds.
7. Year-round use of low prices.	7. Sales limited to end-of-season clearance and special events.

e-tailing on the Internet

The newest development in nonstore retailing is e-tailing, or computer-interactive retailing on the Internet. Consumers can shop from their homes or offices by using personal computers to interact with retailers via the Internet. For example, Egghead.com sells consumer eletronics products and computer software. PreviewTravel.com allow owners of personal computers to book airline flight and hotel reservations on-line. E*Trade makes it possible for investors to buy and sell stocks via the Net. The number of Internet Web sites, or "store fronts," where products can be ordered has been growing very rapidly. And the operations of e-tailers are expected to continue expanding dramatically. Two years ago, Amazon.com was only an Internet bookstore. but today shoppers can find thousands of items ranging from toys to sporting goods to consumer electronics products at the Amazon.com site. Its slogan, "Earth's Biggest Selection," communicates the message that no physical store could possibly offer the variety and depth of merchandise available at Amazon.com.

> An Internet retailing strategy is not limited by the geographical location or a physical store.

An Internet retailing strategy is not limited by the geographical store. An e-tailer can market to customers every where. An e-tailer must maintain a web site, which requires high-speed computers and sophisticated software, but it does not have to maintain physical stores or employ sales clerks and other store personnel. In some cases, e-tailers do not even hold any inventory. Hence, marketing costs can be relatively low. Savings from operations may be passed on to customers.

Interactivity is a fundamental and vital aspect of an Internet retail strategy. Shoppers visiting an internet store use hyperlinks to narrow their search efforts or to get additional details about a product. When consumers provide information about their unique needs, marketers can address their specific requirements on a one-to-one basis. For example, customers who return to a Web site can be greeted by name and offered product recommendations based on their past purchases and their specific tastes.

In addition to interactivity, e-tailing offers many other advantages for consumers. Internet shopping at home is convenient. No travel is required, and consumers have access to e-tailers 24 hours a day, 7 days a week (24/7). Prices are often lower than prices at bricks-and-mortar stores. Priceline.com, Buy.com, and numerous other e-tailers offer rockbottom prices—some even let you name you own price. The Internet allows many retailers to offer broader and deeper product lines than they could in bricks-and-mortar stores or through printed catalogs. Shelf space does not limit the number of items in a product line. For example, Amazon.com offers an assortment of 3,500 video games, three times the selection of a typical electronics store. Because going from one Web site to another is a simple task, comparison shopping can be done relatively easily.

Automated Shopping Tasks Performed by Shopbots

FUNCTION	*WHAT THE BOT DOES*
Search	Searches for products available for sale online
Alert	Alerts shopper to new releases or recommends new purchases based on past purchase behaviour
Compare	Acts as a comparison shopper, collecting information about price and availability from competing e-tailers
Negotiate	Buys, sells, and bargains with other bots based on price or other criteria set by the user

***Shopbot :** A smart agent software program that performs shopping tasks for online shoppers.*

Several companies provide automated shopping programs known as "shopbots" to make shopping easier for their customer. Shopbots are smart agent software programs designed to perform shopping tasks, as summarized in Exhibit 13.2. Search, Alert, Compare, and Negotiate. For example, Saleseeker.com and Bottomdollar.com provide lists of items and prices available at various Web site stores. MySimon.com locates goods and services based not only on price but also on certain policies (e.g., merchandise return and technical support policies), shipping time, and overall quality of the marketers. Respond.com connects buyers and sellers via email. Mercata.com uses a shopbot

to aggregate buyers and use the power of volume purchasing to drive down prices. The more people who want to buy the same item, the lower the price.

New Web site shopping malls and other innovative retailing approaches are being created as Internet shopping evolves. For example, The Della & James Web site contains an online gift registry, combining the convenience of the Internet, the opportunity to choose among brands that customers know and trust, and lists of local retailers' in-stock merchandise.

Shopping on the Internet is not without its disadvantage. The most obvious disadvantage is that a shopper cannot touch, pick up, or carefully examine a product. Although Furniture.com and other companies make furniture available online, consumers cannot sit on a couch without visiting a bricks-and-mortar store. Another disadvantage is that consumers who purchase goods online must wait for delivery. (However, there are exceptions. For example, software and digital music can be purchased and downloaded from the Internet extremely quickly). Finally, a major disadvantage of Internet shopping for many consumers is potential problems with privacy. Many are reluctant to provide credit card numbers online, even though credit card fraud on the Internet is no more likely than credit card fraud in other retail situations.

The Internet, with its worldwide "audience," is dramatically changing the nature of retailing. And because the Internet is a communication medium as well as a retail transaction medium, many aspects of Internet strategy and tactics are interrelated with the design of the organization's Web site.

Patterns of Retail Development

Many types of retailing institutions have been developed by marketers. Many more will be developed as retail marketing continues to respond to changes in its environment. If some pattern of retail institutional development could be identified, retailers would have a powerful management tool—a means of predicting what new forms of retailing will emerge. Unfortunately no hard-and-fast predictive method has yet been developed; but several theories have been formulated. Three such theories are discussed here.

THE WHEEL OF RETAILING

The best-known hypothesis relating to retail institutional development is called the wheel of retailing. This theory states that new retailing institutions enter the marketplace as low-status, low-margin, low-price operations and than move toward higher status margin, and price positions. The formulator of the theory viewed this process as the spinning of wheel, as shown in Figure 11.2 The emergence of discount stockbrokers like Charles Schwab illustrates the entry process. These brokers made an impact on the marketplace by charging low commission fees; however, they did not provide investment advice as traditonal "full-price" brokers do. And, with the emergence of Internet brokers such as E*Trade, the wheel continues to turn.

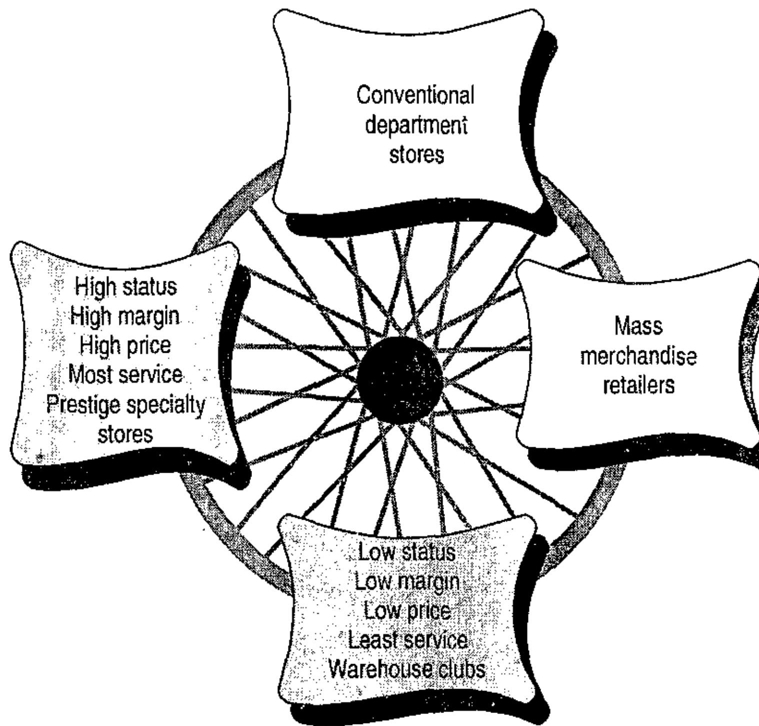


Figure 11.2: Some Positions on the "Wheel of Retailing" in Order of Decreasing Markups

Wheel of retailing: *The theory that new forms of retail institutions enter the marketplace as lowstatus, low-margin, low price operations and then gradually trade up, opening a market position for a new low-end retailer.*

Retailing scholars have observed that a pattern of "trading up" does exist. As time goes by, retailers that started out small with inexpensive facilities begin to operate businesses far larger and fancier than those with which they began. One cause of this trading up is the American tradition of competing, at the retail level, more on the basis of nonprice variables than on the basis of price variables. Americans do not have a tradition of haggling over prices. Instead, retailers tend to compete with one another by such nonprice means as offering free services, frequent-purchaser programs, and more attractive stores. These things tend to drive up margins and prices. Whatever the causes of trading up, the end result, with respect to the wheel of retailing theory, is the same : A low spot on the wheel, once occupied by a low-margin retailer that has traded up, is left open for an innovatives retailer that can operate at a margin lower than those earned by existing retailers. The lower margin should attract customers. The innovator is thus tempted to snatch that lower spot, and the evolutionary process continues. Many of the discounters of the 1930s and 1940s followed this pattern and eventually ended up much like the department stores from which they sought to differentiate themselves. The discounters then became vulnerable to the newer, low-margin, low-price retailers such as warehouse clubs and category superstores.

> With respect to the wheel of retailing theory, a low spot on the wheel, once occupied by a low margin retailer that has traded up, is left open for an innovative retailer that can operate at a margin lower than those earned by existing retailers.

The wheel hypothesis has much intuitive appeal and has been borne out in general by many studies of retail development, but it ever intended to describe the development of every individual retailer. There are many nonconforming examples of retail managers who, for whatever reasons, have not traded their stores up form the positions they originally occupied. Some abservers suggest that modern marketing methods, including research and positioning, will stop or slow the wheel of retailing as retail marketers resist abandoning market positions they have carefully selected.

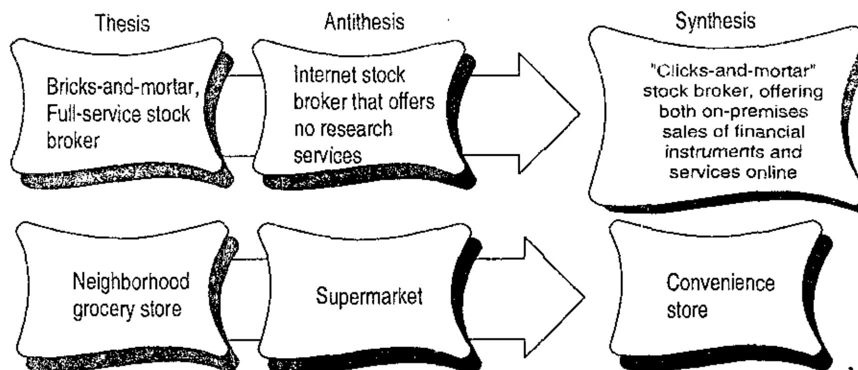


Figure 11.3: The Challenge-and-Response Behavior of Retailing Institutions

The Dialectic View of Retail Development

Dialectic theory *A theory describing the interaction of an existing retail institution (the thesis) with a challenging institution (the antithesis), to yield a new retail institution (the synthesis) that has some characteristics of both.*

In the early nineteenth century, the German philosopher G.W. Hegel proposed a Logical view of change, a pattern that fits nearly every situation. Briefly stated, the dialectic theory is this : If a given institution exists, it wil be challenged eventually by another. In Hegel's terminology, the original thesis will be opposed by an antithesis. Except in rare cases, both sides will have something to recommend them. As they interact, a new idea—some combination of the two—will develop. Hegel called this hybird the synthesis will be challenged by another antithesis, and so on.

Patterns like this can be discerned in retailing. As Exhibit 11.3 shows, one type of retailing institution is challenged by another. What evolves from this confrontation is a new kind of institution combining elements of both. For example, out of the historical confrontation between the full-service bricks-and-mortar stock broker (the thesis) and the discount Internet stock broker without research services (the antithesis) emerged the "clicks-and-mortar" stock broker (the synthesis).

The challenge-and-response concept inherent in the dialetic process appeals to many observers of retailing because it suggests the competitive battles that retailers wage. And the wheel of retailing hypothesis alone is insufficient to explain institutional change, because it lacks the elements of competition that are inherent in retailing. Some combination of the wheel and the dialectic may therefore best explain retailing's changing patterns.

A General-specific-general Explanation

General-specific-general theory *A theory describing the development of retailing as a cyclic process in which general merchandisers are replaced by specialty merchandisers, which in turn are replaced by general merchandisers, and so on.*

General stores once dominated the U.S. retailing scene. Then, as populations grew and became concentrated in cities, more and more stores specializing in just a few products began to appear. Recent years have seen the successful development of general mass merchandisers that sell enormous numbers of products under one roof. It is not too great a leap of the imagination to view these general mass merchandisers as giant general stores, Indeed, like the general stores of old, they are popular and successful in part because they offer one-stop shopping and something for everyone.

The general-specific-general theory suggest that retail change goes in cycles—from retailers offering general merchandise (that is, wide merchandise assortments) to retailers offering specific merchandise (narrow assortments) and back to stores offering general merchandise. This theory is also called the accordion theory, because merchandise offerings, like an accordion, expand and contract over time.

Marketing Decisions

Retailers today are anxious to find new marketing strategies to attract and hold customers. In the past they held customers by offering convenient location, special or unique assortments of goods, greater or better services than competitors, and store credit cards. All of this has changed. Today, national brands such as Calvin Klein, Izod, and Levi are found in most department stores, in their own shops, in merchandise outlets, and in off-price discount stores. In their drive for volume, national brand manufactures have placed their branded goods everywhere. The result is that retail-store assortments have grown more alike.

Service differentiation also has eroded. Many department stores have trimmed services, and many discounters have increased services. Customers have become smarter shoppers. They do not want to pay more for identical brands, especially when service differences have diminished. Nor do they need credit from a particular store, because bank credit cards have become almost universal.

In the face of increased competition from discount houses and specialty stores, department stores are waging a comeback war. Once located in the center of cities, many opened branches in suburban shopping centers, where parking is plentiful and family incomes are higher. Others run more frequent sales, remodel their stores, and experiment with mail-order and telemarketing. Facing competition from superstores, supermarkets have opened larger stores, carrying a larger number and variety of items, and upgraded their facilities. Supermarkets have also increased their promotional budgets and moved heavily into private brands to increase profit margins.

We will examine retailers' marketing decisions in the areas of target market, product assortment and store atmosphere, price, promotion, and place.

Target Market

A retailer's most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decisions on product assortment, store decor, advertising messages and media, price, and service levels.

Retailers need to conduct periodic marketing research to ensure that they are reaching and satisfying their target customers. At the same time, a retailer's positioning must be somewhat flexible, especially if it manages outlets in locations with different socioeconomic patterns.

Product Assortment and Procurement

The retailer's product assortment must match the target market's shopping expectations. The retailer has to decide on product-assortment breadth and depth. Thus a restaurant can offer a narrow and shallow assortment (small lunch counters), a narrow and deep assortment (delicatessen), a broad and shallow assortment (cafeteria), or a broad and deep assortment (large restaurant). The real challenge begins after defining the store's product assortment. The challenge is to develop a product-differentiation strategy. Here are some possibilities :

- *Feature exclusive national brands that are not available at competing retailers:* Thus a premium ready to-water garment store might get exclusive right to carry the dresses of a well-known international designer
- *Feature mostly private branded merchandise :* Benetton and Gap design most of the clothes carried in their stores. Many supermarket and drug chains carry private branded merchandise.
- *Feature blockbuster distinctive merchandise events :* Bloomingdale's will run monthlong shows featuring the goods of another country, such as India or China, throughout the store.
- *Feature surprise or ever-changing merchandise :* Benetton changes some portion of its merchandise every month so that customers will want to drop in frequently. Loehmann's offers surprise assortments of distress merchandise (goods that the owner must sell immediately because it needs cash), overstocks, and closeouts.

- *Feature the latest or newest merchandise first* : The Sharper Image leads other retailers in introducing electronic appliances from around the world.
- *Offer merchandise customizing services* : Harrod's of London will make custom-tailored suits, shirts, and ties for customers, in addition to ready-made menswear.
- *Offer a highly targeted assortment* : Lane Bryant carries goods for the larger woman. Broopstone offers unusual tools and gadgets for the person who wants to shop in an "adult toy store."

After deciding on the product-assortment strategy, the retailer must establish procurement sources, policies. In the corporate headquarters of a supermarket chain, specialist buyers (sometimes called *merchandise managers)* are responsible for developing brand assortments and listening to presentations by salespersons. In some chains, buyers have the authority to accept or reject new items. In other chains, they are limited to screening "obvious rejects" and "obvious accepts" they bring other items to the buying committee for approval.

Even when an items is accepted by a chain-store buying committee, individual stores in the chain may not carry it. About one-third of the items must be stocked and about two-thirds are stocked at the discretion of each strore manager.

Manufacturers face a major challenge trying to get new items onto store shelves. They offer the nation's supermarkets between 150 and 250 new items each week, of which store buyers over 70 percent. Manufacturers need to know the acceptance criteria used by buyers, buying committees, and store managers. A.C. Nielsen Company interviewed store managers and found that they are most influenced (in order of importance) by strong evidence of consumer acceptance, a well-designed advertising and sales-promotion plan, and geneous financial incentives to the trade.

Retailers are rapidly improving their skills in demand forecasting, merchandise selection, stock control, space allocation, and display. They are using computers to track inventory, compute economic order quantities, order goods, and analyze dollars spent on vendors and products. Supermarket chains are using scanner data to manage their merchandise mix on a store-by-store basis.

Clearly, vendors are facing increasingly sophisticated buyers. Table lists several vendor marketing tools for improving their attractiveness to retailers. Consider how GE initiated better policies to serve its dealers :

Table 11.3: Vendor Marketing Tools

1.	*Cooperative advertising* : The vendor pays a portion of the retailer's advertising costs for the vendor's product.
2.	*Preticketing* : The vendor places a tag on each product listing price, manufacturer, size, identification number, and color; these tags help the retailer reorder merchandise.
3.	*Stockless purchasing* ; The vendor carries the inventory and delivers goods to the retailer on short notice.
4.	*Automatic reordering systems* ; The vendor supplies forms and computer links for the automatic reordering of merchandise.
5.	*Advertising aids* : Glossy photos and broadcast scripts, for example.
6.	*Special prices* ; Storewide promotion
7.	*Return and exchange privileges.*
8.	*Allowances for merchandise markdowns.*
9.	*Sponsorship of in-store demonstrations.*

General Electric Before the late 1980s, GE operated a traditional system of trying to load its dealers with GE appliances. This approach created problems, especially for smaller independent dealers who could not afford to carry a large stock and who could not meet the price competition of the larger multibrand dealers. So GE dealers carry only display models and rely on a "virtual inventory" to fill orders. Dealers can access GE's order-processing system 24 hours a day, check on model availability, and place for nextday delivery. Dealers get GE's best price, GE financing, and no interest charge for the first 90 days. In exchange, dealers must

commit to selling 9 major GE product categories, generating 50 percent of their sales in GE products, opening their books to GE for review, and paying GE every month through electronic funds transfer. GE dealers profit margins have skyrocketed, and GE has dealers who are more committed to and dependent on GE. GE now knows the actual sales of its goods at the retail level, which helps it to schedule production more accurately.

Services and Store Atmosphere

Retailers must also decide on the *services mix* to offer customers :

- Prepurchase services include accepting telephone and mail orders, advertising, window and interior display, fitting rooms, shopping hours, fashion shows, trade-ins.
- Postpurchase services include shipping and delivery, gift wrapping, adjustments and returns, alterations and tailoring, installations, engraving.
- Ancillary services include general information, check cashing, parking, restaurants, repairs, interior decorating, credit, rest rooms, baby-attendant service.

The services mix is one of the key tools for differentiating one store from another.

Atmosphere is another element in the store arsenal. Every store has a physical layout that makes it hard or easy to move around. Every store has a "look." The store must embody a planned atmosphere that suits the target market and draws consumers toward purchase. A funeral parlor should be quiet, somber, and peaceful. A dance club should be bright, loud, and vibrating. Victoria's Secret stores work on the concept of "retail theater" : Customers feel they are in a romance novel, with lush music and faint floral scents in the background. Supermarkets have found that varying the tempo of music affects the average time spent in the store and the average expenditures. Some fine dapartment stores vaporize perfume fragrances in certain departments. Restaurants are also presenting "packaged environments" :

Price Decision

Prices are a key positioning factor and must be decided in relation to the target market, the product-and-service assortment mix, and competition. All retailers would like to achive high volumes and high grow margins. They would like high Turns x Earns, but the two usually do not go together . Most retailers fall into the high-markup, lower-volume group (fine specialty stores) or the low-markup, higher-volume group (mass merchandisers and discount stores). Within each of these groups are further gradations.

Retailers must also pay attention to pricing tactics. Most retailers will put low prices on some items to serve as traffic builders or loss leaders. They will run storewide sales. They will plan markdowns on slower-moving merchandise. For example, shoe retailers expect to sell 50 percent of their shoes at the normal markup, 25 percent at a 40 percent markup, and the remaining 25 percent at cost.

Some retailers have abandoned "sales pricing" in favour of everyday low pricing (EDLP). EDLP could lead to lower advertising costs, greater pricing stability, a stronger image of fairness and reliability, and higher retail profits. General Motors' Saturn division states a low list price for its cars and its dealers don't bargain. Wal-Mart also practices everyday low prices. Feather cites a study showing that supermarket chains practicing everyday low pricing are often more profitable than those practicing sales pricing.

Promotion Decision

Retailers use a wide range of promotion tools to gernerate traffic and purchases. They place ads, run special sales, issue money-saving coupons, and run frequent shopper reward programs, in-store food sampling, and coupons on shelves or at checkout points. Each retailer must use promotion tools that support and reinforce its image positioning. They will carefully train sales people to greet customers, interpret their needs, and handle complaints. Off-price

retailers will arrange their merchandise to promote the idea of bargains and large savings, while conserving on service and sales assistance.

Place Decision

Retailers are accustomed to saying that the three keys to success are "location, location, and location." Customers generally choose the nearest bank and gas station. Department-store chains, oil companies, and fast-food franchisers exercise great care in selecting locations. The problem breaks down into selecting regions of the country in which to open outlets, then particular cities, and then particular sites. A supermarket chain might decide to operate in the Haryana; within the Haryana, in the cities of Karnal, Ambala and Rohtak; and within the National Capital, in 14 locations, mostly suburban. Retailers whose product lines later the requirements of youngsters will put the majority of their new locations in areas with rapidly growing numbers of young families.

Retailers can locate their stores in the central business district, a regional shoping center, a community shopping center, a shopping strip, or within a larger store :

- *General business districts:* This is the oldest and most heavily trafficked city area for *e.g.,* Connaught Place in New Delhi often known as "downtown in USA" Store and office rents are normally high. Most downtown areas were hit by a flight to the suburbs in the 1960s, resulting in deteriorated retailing facilities. But in the 1990s, a minor renaissance of interest in downtown apartments, stores, and restaurants began in many cities.
- *Regional shopping centers:* These are large suburban malls containing 40 to 200 stores. They usually draw customers from a 5–to 20–mile radius. Typically, malls feature one or two nationally known anchor stores and great number of smaller stores, many under franchise operation. Malls are attractive because of generous parking, one-stop shopping, restaurants, and recreational facilities. Successful malls charge high rents and may get a share of stores' sales.
- *Community shopping centers:* These are smaller malls with one anchor store and between 20 and 40 smaller stores.
- *Strip malls* (also called *shopping strips*): These contain a cluster of stores, usually housed in one long building, serving a neighborhood's needs for groceries, hardware, laundry, shoe repair, and dry cleaning. They usually serve people within a five -to ten-minute driving range.
- *A location within a larger store* : Certain well-known retailers—McDonald's, Starbucks—locate new, smaller units as concession space within larger stores or operations, such as airports, schools, or department stores.

In view of the relationship between high traffic and high rents, retailers must decide on the most advantageous locations for their outlets. They can use a variety of methods to assess locations, including traffic counts, surveys of consumer shopping habits, and analysis of competitive locations. Several models for site location have also been formulated.

Retailers can assess a particular store's sales effectiveness by looking at four indicators (1) number of people passing by on an average day; (2) percentage who enter the store; (3) percentage of those entering who buy; and (4) average amount spent per sale.

(B) Wholesaling

Wholesaler *An organization or individual that serves as a marketing intermediary by facilitating transfer of products and title to them. Wholesalers do not produce the product, consume it, or sell it to ultimate consumers.*

A wholesaler neither produces nor consumes the finished product. A wholesaler is a marketing intermediary that buys products and resells those product to retailers, other wholesalers, or organizations that use the products in the production of other goods or services. A wholesaler's primary function is facilitating either the transportation of products or the transfer of title to them.

Wholesalers have much in common with retailers; both of these types of marketers act as selling agents for their suppliers and as buying agents for their customers. Both are creators of time and place utility. Both must carefully evaluate the needs of their customer and deliver an appropriate total package of goods and services if they are to succeed in business. And both have developed ways of performing marketing functions that specially suit market conditions.

Classifying Wholesalers

Intermediaries performing wholesaling functions are traditionally divided into two groups—merchants and agents. The only distinction between these categories lies in whether the intermediaries take title to the goods they sell. Merchant intermediaries take title; agent intermediaries do not. This has nothing at all to do with physical possession of goods. Some merchants take possession of merchandise and other do not; some agents take possession of the goods they sell, but most do not. Taking title to goods means that the merchant intermediary owns that merchandise and must be prepared to handle any risks associated with ownership—including getting stuck with merchandise that, for whatever reason, turns out to be unsellable.

A recent Census of Wholesale Trade reported that there were 453,470 wholesale trade establishments in the United States. Of these, 376,330 were merchant wholesalers, and they accounted for almost 60 percent of wholesale sales volume. There were 29,305 manufacturer's sales branches, and they accounted for slightly less than a third of the wholesale sales volume. The 47,835 agents and brokers accounted for approximately 11 percent of wholesale sales volume.

Merchant Wholesalers

Merchant wholesaler *An independently owned wholesaling concern that takes title to the goods it distributes.*

Merchant wholesalers are independently owned concerns that take title to the goods they distribute. Merchant wholsalers represent about 80 percent of all wholesaling concerns in the United States. Valley Media, for example is a top wholesale distributor of music and video products, such as CDs, DVDs, videocassettes, and video games. It distributes products to more than 6,000 bricks-and-mortar retailers, such as Best Buy, Wherehouse Entertainment, and Sears. However, its customer also include CDnow, Amazon.com, and more than 100 Internet retailers.

Not all merchant wholesalers operate on a national basis. Small merchant wholesalers often restrict their business to a limited geographical area. They may cover single cities or areas stretching only 100 or 200 miles from the main office. This allows them to replace retailers' inventory quickly. It also reduces or eliminates the need for overnight trips by trucks or sales personnel and so holds down expenses.

Merchant wholesalers may be clssified in terms of the number and types of services they provide to their customers. In this regard, they provide perfect examples of how marketing firm adjust their total product offering of goods and services to reflect the demands of particular situations and market segments.

Full-service merchant wholesaler *A merchant wholesaler that provides a complete array of services, such as delivery, credit, marketing informtion and advice, and managerial assistance; also called a full-function wholesaler.*

Full-Service Merchant Wholesalers As their name suggests, **full-service merchant wholesalers** provide their customers with a complete array of services in addition to the merchandise they offer. Such services include delivery, credit, marketing information and advice, and possibly even such managerial assistance as accounting aid or other nonmarketing aid. Full-service wholesalers are also called *fullfunction wholesalers.*

General merchandise wholesaler *A full-service merchant wholesaler that sells a large number of different product lines.*

General line wholesaler *A full-service merchant wholesaler that sells a full selection of products in one product line.*

Specialty wholesaler *A full service merchant wholesaler that sells a very narrow selection of products.*

Within this category, three subsets of wholesalers are identifiable by lines of goods offered : general merchandise

wholesalers, which sell a large number of different product types : general line wholesalers, which limit their offerings to a full array of products within one product line; and specialty wholesalers, which reduce their lines still further. A coffee and tea wholesaler or a spice wholesaler exemplifies this last class.

Wholesalers determine how wide or narrow a line to carry by carefully considering the customers they serve and the industry in which they operate. When the target customers are operators of general stores, the decision to be a general merchandise wholesaler is logical. In some industries, however, traditional marketing practices may require some digree of specialization.

Limited-service merchant wholesaler *A merchant wholesaler that offers less than full service and charges lower prices than a full-service merchant wholesaler; also called a* limited-function wholesaler.

Limited-Service Merchant Wholesalers : Regardless of the product line carried, full service merchant wholesalers provide an essentially complete line of extra services. However, some customers may not want—or may not want to pay for—some of those services. They may prefer to sacrifice services to get lower prices. Thus, a group of **limited-service merchant wholesalers**, or *limited-function wholesalers,* has developed.

Cash-and-carry wholesaler *A limited-service wholesaler that does not offer delivery or credit.*

Cash-and-Carry Wholesalers : Buyers who are not willing to pay for and who do not need certain wholesaler services, such as delivery and credit, may choose to patronize **cash-and-carry wholesalers.** Such intermediaries eliminate the delivery and credit functions associated with a full-service wholesaler and permit buyers to come to the warehouse or other point of distribution to pick up their merchandise and to pay cash. The resulting savings are passed on to buyer who are, after all, performing several functions normally associated with wholesalers.

Truck wholesaler *A limited-service wholesaler that sells a limited line of items (often perishable goods) from a truck, thus providing immediate delivery; also called a* truck jobber.

Truck Wholesalers : ***Truck wholesalers,*** also called truck jobbers, typically sell a limited line of items to comparatively small buyers. Most of these merchant wholesalers sell perishable items. Their mode of operation, selling from a truck full of merchandise, can be justified by the increased freshness immediate delivery offers. Some truck wholesalers sell items that are not particularly perishable but that face keen competition. Although truck jobbing is an expensive means of distributing relatively small amounts of merchandise, it is an aggressive form of sales provides instant delivery to buyers.

Direct-marketing wholesaler *A limited-service wholesaler that uses catalogs or the Internet, mail or telephone ordering, and parcel delivery.*

Direct Marketing Wholesalers : Direct-marketing wholesalers operate in much the same way as mail-order catalog retailers and othe direct marketers. Traditionally they used catalogs and direct mail, took phone and fax orders, and then forwarded merchandise to buyers via mail or a parcel delivery service. These wholesalers have been most important in reaching remote rural locations where market potential is low. However, in recent years, many types of wholesalers, such as office supply wholesalers, have made strategic decisions to focus on direct marketing via the Internet.

Drop shipper *A limited-service wholesaler often dealing in bulky products, that takes customer orders and arranges for shipment of merchandise from the producer directly to the customer; also called a* desk jobber.

Drop Shippers : Drop shippers are merchant wholesalers that take title to goods but do not take possession of the goods or handle them in any way. Drop shippers accept a buyer's order and pass it on to a producer or supplier of the desired commodity, which then ships the product directly to the buyer. (See Figure 11.4). The big advantage of this system is that the product need not be loaded and unloaded several times. Also, it goes directly to where it is needed, which lowers transportation costs, These advantage are especially important when the product is bulky, unwieldy, and comparatively inexpensive.Thus, drop shipping is most commonly used for products such as coal, cement, building blocks, and logs.

Because the drop shipper does not physically handle any productts, no investment in warehousing facilities or

equipment is requied. In fact, so little equipment of any sort is required that these wholesalers can often get by with little more than a small officer, a desk, and a telephone. For this reason, they are also called *desk jobbers*

Rack jobber *A limited-service wholesaler that contracts with a retailar to place display racks in a store and to stock those racks with merchandise.*

Rack Jobbers : Rack jobbers are a type of merchant wholesaler that came to prominence in the 1930s when supermarket operators began to practice scrambled merchandising and started selling cosmetics and other items they had not previously carried. To do this easily, they contracted with wholesalers willing to come to the store, set up a display rack, stock and replenish it, and give the super market operator a percentage of the sales. Now rack jobbers sell many different product lines, such work gloves, paper back books, magazines, toys, cosmetics, etc.

The attraction of this system for the store operator is the chance to stock and sell certain items at little risk. The great attraction for the rack jobber is the chance to place merchandise in a high-traffic supermarket location. Like most relationships between members of a channel of distribution, theirs is a mutually beneficial one.

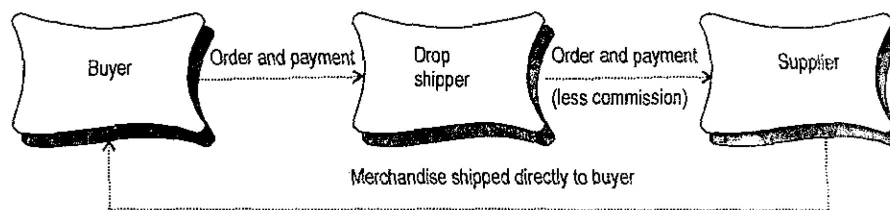


Figure 11.4: Operation of a Drop Shipper

AGENTS

Agent : *A wholesaler that does not take title to goods. Agents sometimes take possession of goods but function primarily to bring buyers and sellers together or otherwise help consummate a marketing transaction.*

Agents the second general category of wholesalers, may take possession of goods they deal in but do not take title to them. Agents, as a rule, do not carry an inventroy or extend credit, but they may provide physical facilities for conducting business. They may help to arrange for delivery or credit as part of their services, which can be generally described as bringing buyer and seller together. Agents typically receive commisions based on the selling prices of the products and the amount of products they help to sell. The commission percentage varies tremendously depending on the industry. Agents are expected to be familiar with their products and with who wants to sell and who wants to buy them. In short, they are expected to have on expert knowledge of the market in which they operate.

Broker *An agent intermediary whose major role is placing buyers and sellers in touch with one another and assisting in contractual arrangements.*

Brokers Brokers are agent intermediaries that receive a commission for putting sellers in touch with buyers and assisting with contractual negotiations. Brokers generally portray themselves as "neutral" in the selling process, working for both buyers and sellers. Brokers are found in many fields. Such commodities as coffee, tea, crude petroleum, and scrap metal are frequently brokered; so are the financial instruments handled by the familiar stock broker. Effective brokers are experts in the market for the products in which they deal. In effect, they sell their expertise. They have relatively low expenses. Their commissions are also likely to be small, generally 6 percent or less of the selling price.

Use of brokers holds particular appeal for sellers because brokers work strictly on commission and do not enter into long-term relationships with the companies that use them. A broker can be used only when needed and does not tie sellers to continuous expenses the way a full-time sales force does.

Because they are commonly used sporadically, brokers as a group do not constitute a major selling force in the day-to-day marketing activities of most organizations. A notable exception is the food broker, which represents a number of manufacturers of food products on a continual basis and actively attempts to sell their products to wholesalers or supermarkets. Such an operation really violates the standard description of a broker, because food brokers may be seen as working more for the seller than for the buyer. In many ways, food brokers better fit other categories of agents. By tradition as much as anything else, however, they continue to be referred to as brokers.

Commission merchant *An agent intermediary similar to a broker but having certain additional decision-making powers, such as the power to make price adjustments.*

Commission Merchants. The commission merchant is an agent intermediary similar to a broker. Unlike brokers, however, commission merchants are usually given certain power by sellers. They might be empowered, for example to atempt to bid up the selling price or to accept a selling price as long as it is above a previously agreed-on floor. Commission merchants thus perform a pricing function and more clearly work in league with the seller than do most brokers. They are most commonly found representing producers of agricultural products. Commission merchants, despite the name, are like other types of agents in that they do not take title to the goods they sell. However, they often take possession of those goods so that potential buyers can inspect them. Once a sales agreement has been reached, the commission merchant deducts a commission form the selling price and returns the balance to the producer.

Auction company *An agent intermediary that brings together buyers and sellers. Auction companies often assemble merchandise for sale in a central location and sell it by means of bidding process.*

Auction Companies Auction companies are agent intermediaries that perform valuable services in the buying and selling of livestock, tobacco, and other commodities, as well as artwork and used mechanincal equipment. In a sense, many of these companies take possession of the goods they deal in, because frequently they provide some special place in which the auction can be held. The auction company receives a commission based on the final, highest bid offered for an item or product, provided that this bid is above a minimum agreed-on figure.

The products sold through auction could be sold in some other manner, but auction companies offer a certain convenience in that they bring buyers together in one spot and expedite a bidding process that might otherwise take a long time. Some industries, such as the tobacco industry, have traditionally used auction companies and continue to do so for that reason.

The operation of the auction system provides some less-than-obvious advantages : (1) products can generally be examined by potential buyers; (2) sellers and buyers may, if they choose, remain anonymous; and (3) buyers may enjoy the thrill of the auction and savor their victory over other bidders. This last factor may not be important to a tobacco buyer, but it is to a patron of art autions.

Auction companies are beginning to appear on the Internet. For example, FastParts is an online auction site for overstocked electronic parts. An auction on the Internet has the advantage of appealing to a greatly expanded geographical market.

Manufacturers' agent *An independent agent intermediary that represents a limited number on non-competing suppliers in a limited geographical area; also called a* ***manufacturers' representative.***

Selling agent *An independent agent intermediary simlar to a manufacturers' agent but representing a given product in every area in which it is sold, rather than in a limited geographical area.*

Manufacturers' Agents and **Selling Agents** **Manufacturer's agents,** also called *manufacturers' representatives,* are independent intermediaries that specialize in selling and are available to producers that do not want to perform sales activities themselves. These agents operate in geographically limited areas, such as a few states or a portion of a state, representing two or more noncompeting producers and spreading selling costs among them. Suppose a maker of photocopying equipment wants to employ a sales force only in major markets, not in smaller cities or rural areas. It might decide to hire a series of manufacturers' agents to cover areas with low market potential and to let the company's own sales force take the more important markets. The existence of markets with low market potential is not the only good reason to use manufacturers' agents. Their familiarity with local markets is often an advantadge. Another reason is that the producer may lack the interest or expertise to perform sales and marketing functions. Still another is finance : A company that has relatively few financial resources is more likely to use an agent because the agent need not be paid until a sale is made.

Selling agents are also paid a commission and are expected to be familiar with the products they handle and the markets they serve. However, they differ from manufacturers' agents in one major respect. They sell the products manufactured by the producers they represent not in a single geographical area but in all the areas in which the products are sold. Because, in effect, they function as sales and marketing departments, they are often given more responsibility than manufacturers' agents. They may be permitted to handle the advertising and pricing of the products sold and determine any conditions of sale to be negotiated. The manufacturer that uses a selling agent obtains what might be called an external marketing department. Table 11.5 it gives an overview of the various wholesalers in the two basic classifications.

Manufacturers that do their Own Wholsaling

Throughout this section, we have been considering wholesaling as if it were performed entirely by independent organizations other than manufacturers. Actually although the various agent and merchant intermediaries are extremely important, especially in particular lines of trade, many manufacturers perform the wholesaling functions themselves. Some manufacturers have become disenchanted with wholesalers for a number of reasons. They believe that wholesalers handling the products of many manufacturers cannot promote any one manufacturer's product as that producer feels it should be promoted.

Sales office : *A wholesaling establishment that is maintained by a manufacturer for its own product and does not carry an inventory of the product.*

Sales branch : *A wholesaling establishment that is maintained by a manufacturer for its own product and carries an inventory of the product.*

When manufacturers do their own wholesailng, whether to retailers or to industrial users, they may use sales offices, sales branches, or both. (The U.S. Department of Commerce classifies sales branches and sales offices as wholesalers even though, according to our definition, they are not independent intermediareis.) Sales offices and sales branches are wholsaling establishments maintained by producers of the products sold, and both may serve as headquarters for "outside" salespeople or as offices for "inside" salespeople. The central difference between the two is that the sales branch carries an inventory of products whereas the sales office does not. The bulk of the product, the need for fast delivery, the technical aspects of the product, and the opportunity to sell a standardized product rather than a custom-made one all contribute to the decision to whether to use offices or branches.

The reason manufacturers choose to do their own wholesaling can be expressed in one word : control. The maintenance of sales offices and branches permits manufacturers to control more effecticely the flow of goods to their customer, the training and selling acitvities of their sales pepole, and the flow of information returned to headquarters by a staff that is actually out in the field.

Table 11.5

Merchant Wholesalers		*Agent Wholesalers*	
Merchant wholesalers take title to goods and earn		Agents do not take title, but some may take profits possession of products; they receive a commission based on the product selling price; they usually do not extend credit.	
Full-service merchant wholesalers	Take title; take possession; deliver goods; extend credit; provide marketing information; provide managerial assistance	Brokers	Assist in contractual negotiations; bring buyers and sellers together
Limited-service merchant wholesalers		Commission merchants	Perform pricing function for sellers
• Cash-and-carry wholesalers	Do not provide delivery or credit		
• Truck wholesalers	Have a limited product line; deliver goods sellers together	Auction companies	Offer convenience in bringing buyers and
• Direct-marketing whloesalers rural locations	Use catalogs and the Internet; are important in	Manufacturers' agents to sell products	Help manufacturers often in "thin markets,"
• Drop shippers	Don't physically handle product; generally deal in bulky products	Selling agents	Like manufacturers agents, specialize in selling but also act as an external marketing department
• Rack jobbers	Deal in a wide variety of small products; are responsible for stocking prodcts		

Factors	Manufactuere/Service Provider Wholesaling	Merchant Wholesaling	Agents and Brokers
Control/ Functions	• The manufacturer/service provider controls wholesaling and performs all function	• The wholesaler controls wholesaling and performs many or all functions.	• The manufacturer/ service provider and wholesaler each have some control and perform some functions.
Ownership	• The manufacturer/ service provider owns products until they are bought by retailers or other organizational consumers.	• The wholesaler buys products from the manufacturer/service provider and resells them.	• The manufacturer/ service provider owns the products and pays the wholesaler a fee/ commission.
Cash Flow	• The manufacturer/ service provider does not receive payment until the retailer or other customer buys products.	• The manufacturer/ service provider is paid when the wholesaler purchases products.	• The manufacturer/ service provider does not receive payment until products are sold.
Best Use (s)	• The manufacturer/ service provider deals with a small group of large and geographically concentrated customers; rapid expansion is not a goal.	• The manufacturer/ service provider has a large product line that is sold through many small and geographically dispersed customers; expansion is a goal.	• The manufacturer/service provider is small, has little marketing expertise, and is relatively unknown to potential customers; expansion is a goal.

Figure 11.5: The Broad Categories of Wholesaling

Table 11.6: Characteristics of Independent Wholesalers

Major Functions

Wholesaler Type	*Provides Credit*	*Stores and Delivers*	*Takes Title*	*Provides Merchandising and Promotion Assistance*	*Performs Personal Sales Force*	*Research and Planning*	*Special Features*
I. Merchant wholesaler							
A. Full service							
1. General merchandise	Yes	Yes	Yes	Yes	Yes	Yes	Carries nearly all items a customer usually needs
2. Specialty merchandise	Yes	Yes	Yes	Yes	Yes	Yes	Specializes in a narrow product range, extensive assortment
3. Rack jobber	Yes	Yes	Yes	Yes	Yes	Yes	Furnishes racks and shelves, consignment sales
4. Franchise	Yes	Yes	Yes	Yes	Yes	Yes	Use of common business format, extensive management services
5. Cooperative							
a. Producerowned	Yes	Yes	Yes	Yes	Yes	Yes	Farmer controlled, profits divided among member
b. Retailerowned	Yes	Yes	Yes	Yes	Yes	Yes	Wholesaler owned by several retailers
B. Limited service							
1. Cash and carry	No	Stores, no	Yes	No	No	No	No outside sales force, delivery wholesale store for business needs
2. Drop shipper	Yes	Delivers, no	Yes storage	No	Yes	Sometimes	Ships items without physically handing them
3. Truck/wagon	Rarely	Yes	Yes	Yes	Yes	Sometimes	Sales and delivery on same call

4.	Mail order	Sometimes	Yes	Yes	No	No	Sometimes	Catalogs used as sole promotion tool
II.Ag ents and brokers								
A.	***Agents***							
1.	Manufactures' (service providers')	No	Sometimes	No	Yes	Yes	Sometimes	Sells selected items for several firms
2.	Selling	Sometimes	Yes	No	Yes	Yes	Yes	Markets all the items of a firm
3.	Commission (factor) merchants	Sometimes	Yes	No	No	Yes	Yes	Handles items on a consignment basis
B.	***Brokers***							
1.	Food	No	Sometimes	No	Yes	Yes	Yes	Brings together buyers and sellers
2.	Strok	Sometimes	Sometimes	No	Yes	Yes	Yes	Brings together buyers and sellers

Wholesaler Marketing Decisions

Wholesaler-distributors have faced mounting pressures in recent years from new sources of competition, demanding customers, new technologies, and more directbuying programs by large industrial, institutional, and retail buyers. They have had to develop appropriate strategic responses. One major drive has been to increase asset productivity by managing their inventories and receivables better. They also have had to improve their strategic decisions on target markets, product assortment and services, price, promotion, and place.

Target Market

Wholesalers need to define target their target markets. They can choose a target group of customers by size (e.g., only large retailers), type of customer (e.g., convenience food stores only), need for service (e.g., customers who need credit), or other criteria. Within the target group, they can identify the most profitable customers and design stronger offers to build better relationships with them. They can propose automatic reordering systems, set up management-training and advisory systems, and even sponsor a voluntary chain. They can discourage less profitable customers by requiring larger orders or adding surcharges to smaller ones.

Product Assortment and services

The wholesalers' " product " is their assortment. Wholesalers are under great pressure to carry a full line and maintain sufficient stock for immediate delivery. But the costs of carrying huge inventories can kill profits. Wholesalers today are reexamining how many lines to carry and are choosing to carry only the more profitable ones. They are also examinig which services count most in building strong customer relationships and which ones should be dropped or charged for. The key is to find a distinct mix of services valued by their customers.

Promotion Decision

Wholesalers usually mark up the cost of goods by a conventional percentage, say 20 percent, to cover their expenses. Expenses may run 17 percent of the gross margin, leaving a profit margin of approximately 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are beginning to experiment with new approaches to pricing. They might cut their margin on some lines in order to win important new customers. They will ask suppliers for a special price break when they can turn it into an opportunity to increase the supplier's sales.

Promotion Decision

Wholesalers rely primarily on their sales force to achieve promotional objectives. Even here, most wholesalers see selling as a single salesperson talking to a single customer instead of a team effort to sell, build, and service major accounts. Wholesalers would benefit from adopting some of the image-making techniques used by retailers. They need to develop an overall promotion strategy involving trade advertising, sales promotion, and publicity. They also need to make geater use of supplier promotion materials and programs.

In the past, wholesalers typically located in low-rent, low-tax areas and put little money into their physical setting and offices. Often the materials-handling systems and order-processing systems lagged behind the available technologies. Today progressive wholesalers have been improving materials-handling procedures and costs by developing *automated warehouses* and improving their supply capabilities through advanced information system.

Chapter 12

Physical Distribution System

Importance of Physical Distribution/ Marketing Logistics

Physical distribution/marketing logistics forms a pivotal part of the marketing task.

1. **Confers Place and Time Utility on Products**

   It is physical distribution that confers place-utility and time-utility to a product by making it available to the user at the right place and at the right time. Thereby, it maximises the chance to sell the product and strengthen the company's competitive position. If any product made in any place could be consumed in its entirety at the very place of production and at the very time of production, there would be no need for physical distribution of that product. But such products are very rare. In practice, almost every product gets consumed at places and times that are different from those of their manufacture. They have to be carried to place of consumption; they have to be stored; and they have to be distributed.

2. **Where Production Locations and Markets are Distanced, Physical Distribution Becomes more Crucial**

   In some cases, production locations are totally dictated by considerations, like proximity to sources of raw material. As a result, the points of production might be far away from the markets for the product. In some cases, huge production capacities get established at a given location on considerations of technology and economies of scale. In all such cases, the product has to be marketed over an extended territory; it has to be transported over long distances, stored for a considerable length of time and sold. Then, there are products, which are impacted by the seasonality factor—either production is continuous but demand is seasonal or demand is continuous but production is seasonal. Here too, physical distribution becomes particularly crucial. It has to perform the balancing act between production and consumption.

3. **Helps Build Clientele**

   It is physical distribution that determines the customer service level to a large extent. As a result, it serves as a vital tool in building clientele/market for the product. And conversely, ineffective physical distribution leads to loss of customers and markets.

Chart 12.1: Importance of Physical Distribution/Marketing Logistics

- Ensures the physical flow of the product from the producer to the consumer. Without this flow, marketing cannot take place.
- Confers place and time utility on products.
- Helps build clientele.
- Where production locations and markets are distanced, physical distribution becomes all the more crucial.
- A promising area for cost reduction.

4. **A Promising Area for Cost Reduction**

   Physical distribution is a fertile area for cost savings. Over the years, in most businessess, physical distribution costs have grown into a sizeable chunk of the total costs and now ranks second among all cost elements, next only to material costs. And surprisingly, it has remained one of the neglected areas of cost control.

Supply Chain and Logistics Defined

Logistics : *The activities involved in moving raw materials and parts into a firm, moving inprocess inventory through the firm, and moving finished goods out of the firm.*

Logistics describes the entire process of moving raw materials and component parts into a firm, moving in-process inventory through the firm, and moving finished goods out of the firm. Effective marketers create and maintain long-term relationships with a chain of organizations to perform this logistics function. The term **supply chain** is used to describe all the organizations that regularly supply a marketing company and all members of the marketer's channel of distribution. The ideal supply chain is a collaborative arrangement in which all organizations see themselves as partners working together to increase logistical efficiency.

Supply chain : *All the collaborating organizations that help supply a marketing company and help distribute the marketer's products. The supply chain always includes the channel of distribution.*

Supply chain management, or *logistics management,* thus involves planning, implementing, and controlling a chain of organizational relationships to assure the efficient flow of both inbound materials and outbound finished products.

Clearly, the term supply chain management is broad in scope because it encompasses planning and coordinating the physical distribution of finished goods and managing the movement and storage of raw materials and supply parts needed during the procurement and production processes. **Materials management** is concerned with only part of this process : bringing raw materials and supplies to the point of production and moving in process inventory through the firm. General Motors Corporation wants to get to the point where every time a dealer sells a Cadillac, Firestone or Goodyear automatically sends another set of tires to one of GM's plants. This goal illustrates the importance of materials management and how a flexible company can coordinate logistical activities to react to the market faster.

Supply chain management deals with the "big picture" of an organization's distribution process. Physical distribution involves the flow of products from producers to consumers. Computerization, automation, and information technology assist with the management of physical distribution. These technologies, especially integrated information sharing on the Internet, have helped marketers to minimize costs.

Physical distribution is a term employed in manufacturing and commerce to describe the broad range of activities concerned with efficient movement of finished products from the end of the production line to the consumer. In short, physical distribution refers to the flow of products from producers to consumers. Its major focus is the physical aspects of that flow rather than the institutional activities within channels of distribution dealing with changing title, facilitating exchanges, and negotiating with intermediaries.

Physical distribution can have a dramatic influence on marketing success. For example, the physical distribution system for McDonald's Triple Ripple, a three flavored ice-cream product, was the major reason the product was dropped. Experiments indicated that the product would freeze, defrost, and refreeze in the course of distribution. Solving the problem would have required each McDonald's city to have an ice-cream plant with special equipment to roll the three flavors into one. As this example shows physical distribution has a dramatic influence on a product's success. As part of the "place" portion of the overall marketing mix, physical distribution activities contribute time and place utility.

Supply chain management : *The planning, implementing, and controlling of a chain of organizational relationships to assure the efficient flow of both inbound materials and outbound finished products.*

Materials management : *The activities involved in bringing raw materials and supplies to the point of production and moving inprocess inventory through the firm.*

Physical distribution : *The activities involved in the efficient movement of finished products from the end of the production line to the consumer.*

Figure 12.1, shows the supply chain and the logistical interrelationship of materials management and physical distribution. It is common, as the exhibit indicates, to think of materials management as consisting of the activities performed up to the point of production and to think of physical distribution

Logistical planning is market-oriented. It starts with the needs of the customers and works back to the plant.

(narrowly defined) as including the activities that occur after production. Logistics management encompasses these two functions, assuring coordination of their activities.

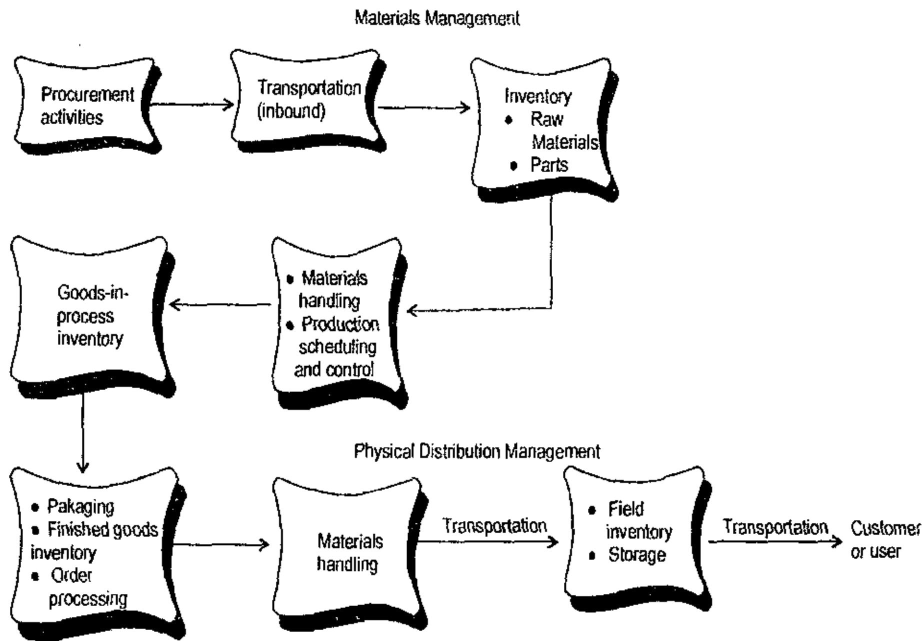


Figure 12.1: The Flow of Materials in the Supply Chain

Logistics, dealing as it does with the "big picture" of an organization's distribution process relies heavily on demand estimation (sales forecasting) to achieve its goal of smoothly controlling the physical flow of goods through an organization and its channels of distribution. Forecasting enables managers concerned with logistics to synchronize the activities that make up the distribution effort. With a properly constructed sales forecast at hand, indicating what sales totals are expected and when they are expected, the marketing manager can plan for the following events and needs (and many others):

- Handling and holding incoming inventories of raw materials, parts, and the like.
- Monitoring stocks, materials, and finished goods inventories.
- Handling finished goods and shipping them to points of storage or intermediaries.
- Disposing of waste, by-products and imperfectly manufactured output.
- Monitoring and coordinating the members of channels of distribution.

Note that logistical planning is market-oriented. It does not start at the production-related plant operations and work toward the customers. It starts with the needs of the customers and works back to the plant.

The Objectives of Physical Distribution

Physical distribution has many objectives. All of them can be condensed into one overall statement of purpose: to minimize cost while maximizing customer service. This goal is the statement of an ideal. Unfortunately, means of realizing the lowest total cost and the highest level of service almost always work at cross-purposes. For example, to achieve high-level customer service, an appliance marketer should operate many warehouses, each carrying a large inventory so that local customers' orders can be filled rapidly. If this isn't feasible, the marketer should have a fleet of jet transports ready at all times to fly merchandise to customer within a few hours of receiving their orders. Both of these approaches to maximizing customer service are likely to prove inconsistent with the other half of the physical distribution objective, which calls for minimizing cost. Minimizing cost generally requires few warehouses, low inventories, and slow, inexpensive means of transportation. The twin goals of maximum service and lowest cost, while not necessarily totally contradictory, can rarely be fully met. It is usually necessary to compromise on one or

both of them. Thus, physical distribution managers, while striving for the ideal, must work toward realistic objectives, performing a sort of balancing act in the process.

How does marketing management develop reasonable objectives for physical distribution ? A good place to start is with the marketing concept. The marketing concept dictates that marketing managers should strive for consumer satisfaction in all that they do, including physical distribution. Therefore, the distribution system should be designed to fit the wants and needs of the customer.

Just as in any other element of the distribution system, cost should be evaluated in terms of customer wants. Suppose an analysis of the market shows that customer are most concerned with rapid and on-time deliveries. If the marketing company determines that such service can be provided and guaranteed only at an increase in the product's price, does that mean customers cannot be served ? No, but it does mean that a further step—determining whether customers are willing to pay a premium price of that service—is in order. For example, Federal Express's customers seem to be willing to pay for quick service, as are the customers who use the U.S. Postal System's Express Mail. In many cases, however, customers may have some priority other than rapid delivery. Buyers of furniture and appliances, though eager to possess their new purchases, often prefer to have the retailer from whom the purchase was made deliver, set up, and install the product, even if this means waiting a week or two to take delivery. These buyers are willing to pay a premium of time, sacrificing quick delivery for the opportunity to have installation done properly by skilled workers. Other kinds of buyers, such as purchasers of repair parts for machinery, fall somewhere in the middle; they may seek both a steady flow of parts to maintain an in-shop inventory and access to parts on an emergency basis. Therefore, marketing managers must research and calculate how the customer sees the problem of balancing maximum service and minimum cost. An important consideration here is the competition's physical distribution policies. UPS, Emery Worldwide, Airborne, and other Federal Express competitors clearly have developed their distribution methods with Federal Express's market offering in mind. Each competitor is seeking a competitive advantage over the others.

Establishing a Competetive Advantage

In many cases, organizations can establishes competitive advantages over rivals through more effective physical distribution. This is especially true where the products of one organizations are essentially the same as those of competitors, as in the coal and the steel industries. Marketers in such industries experience difficulty in establishing competitive advantages through price differentials or product.

WHAT WENT RIGHT?

Wal-Mart. Despite its lofty status as the country's largest retailer, Wal-Mart Stores Inc. works hard to cultivate the high-touch image of a country store in each of its 2,450 retail outlets. Company policy calls for "people greeters" at every front door. Fund-raising bake sales for local charities are encouraged. All that's missing is a cat by the cash register and a checkerboard on the porch

Behind the scenes, however, in the mission-critical logistical systems for replenishing the goods on store shelves, things are becoming less high-touch and more high-tech. In fact, Wal-Mart is now piloting an extension to its mainframe-based replenishment system, which uses a sophisticated decision support system to quickly recognize market trends and give human merchandising experts highly structured advice on what the merchandise assortment should be. In addition, the system automatically initiates actions in the replenishment system.

"In the future, our [merchandising] associates will be managing exceptions rather than making every replenishment decision that comes up," says Rob Fusillo, Wal-Mart's director of replenishment information system. "In the end, we think we'll get better decisions."

Wal-Mart is just one of a growing number of companies attempting to get a jump on the competition by creating "closed-loop" decision support systems to improve their decisions decisions about merchandise assortment uperiority, but physical distribution offers an avenue to develop an advantage. Providing more reliable or faster delivery, avoiding errors in order processing and delivering undamaged goods are all potential sources of competitive advantage. Should competitors be weak in any of these areas, opportunities for competitive advantage are especially attractive.

Many salespeople emphasize rapid delivery as a selling appeal. They may say, 'We can provide you with the goods within 24 hours of the order, whereas competitors cannot guarantee delivery in under 3 days." Rapid delivery is especially important in certain industries. Pharmacists, for instance, may insist on 1-or 2-hour service from suppliers.

If its is not available, the pharmacist may lose a sale and possibly even a regular customer. Auto repair parts are likely to be available with 24-hour notice even in smaller towns. Produce marketers like sweet makers, vegetable and fruits sellers and baked goods marketers, whose products are perishable, may seek a competitive advantage by marketing products fresher than those of their rivals.

Innovative organizations may employ the most advanced technology to establish rapid delivery, which becomes the basis for a competitive advantage. In no other area of marketing can computerization, automation, and modern quantitative techniques be so extensively and profitably employed as in physical distribution. Many of the marketing applications of computerization and automation are in the areas of handling inventory, recording orders, billing, and other aspects of order processing.

A Cross-Section of the Physical Distribution System

1. *Inventory management.* For example, a retailer determines how many Newport Jeans is an adequate number to stock and when to order them.
2. *Order processing.* Sales office personnel receive customers' orders and then arrange for the requested merchandise to be shipped and for the customer to be billed.
3. *Warehousing and storage.* Producers of seasonal goods, such as air conditioners, air coolers, water and room heaters, hold products in storage for distribution as needed through the seasons.
4. *Materials handling.* Forklifts, cranes, conveyor belts, and other means are used to move merchandise into and within warehouses, retail stores, and wholesalers' facilities.
5. *Protective packaging and containerization.* For example, paper for photocopiers is bound into packs of 200 sheets, the packs are put into cardboard boxes containing 10 packs, and the cardboard boxes are placed on pallets.
6. *Transportation.* For example, coal is shipped by rail from Bihar and other coal producing states around India wherever it was needed.

Regular physical distribution activities (excluding selection of a warehouse location) are shown in Figure 12.2.

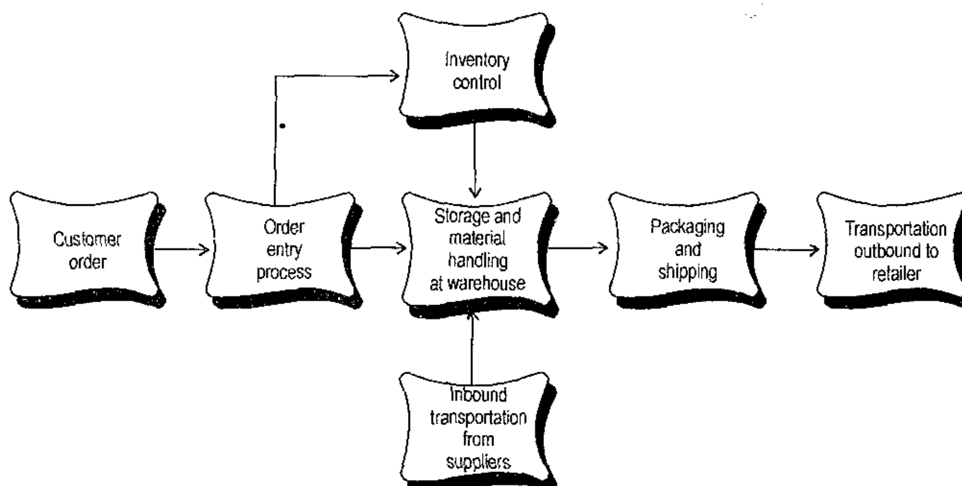


Figure 12.2: Physical Distribution Activities

Breaking physical distribution down into components permits us to concentrate on individual aspects of a complex subject. However, this approach is somewhat misleading, because it suggests that each component is carried out separately, without interacting with the others. It is important to understand that the components operate as a system.

Systems concept: *The idea that elements of a distribution system (or another system) are strongly interrelated and interact to achieve a goal.*

The **system concept**—the idea that elements may be strongly interrelated and may interact to achieve one goal—is of special value in considerations of distribution. Even the casual observer can see that a warehouse is of no meaningful use unless it fills and empties as part of a system intended to achieve some distribution goal. No shipment of merchandise via railroad or plane is of any real value unless it is taken from the carrier and moved to where it is actually needed. In seeking to satisfy customer service demands at reasonable cost, marketing managers can use each part of a distribution system to help attain that goal, but only within the context of the system. Each part affects the others. That is the very meaning of the word system.

Total Cost : A Systems Approach

Total cost concept : *In relation to physical distribution, a focus on the entire range of costs associated with a particular distribution method.*

The key ideas inherent in the systems approach to physical distribution have contributed to the development of the **total cost concept.** When marketing managers adopt this way of thinking they see the answer to the distribution problem as a system—a system aimed at reducing total physical distribution cost.

The distribution manager, seeking to realize the physical distribution objective of holding down total cost, must weigh a large number of variables. Consider this partial list :

- Handling costs at the point of production (of raw material inventory, work-in-progress inventory and finished goods inventory).
- Cost of transportation to a wholesaler, if necessary (by railways or roadways).
- Handling costs at the wholesaler level (storage space cost, personnel & administration cost, locked working capital cost).
- Cost of transportation to a retailer or industrial user (local transportation cost, loading & unloading cost).
- Handling costs at the retailer level (shelf space cost, personnel & material cost, locked working capital cost).
- Cost of transportation to a buyer, if necessary (free home delivery).

Let's consider the case of an organizational good : a file cabinet, produced in Hyderabad and intended for sale in Hisar. A partial list of physical distribution costs might include the following :

- Handling costs involved in moving the file cabinet from the factory to a warehouse near New Delhi (say).
- Storage costs at the warehouse.
- Handling and shipping costs to a point of storage convenient to the Hisar buyer.
- Storage costs at Hisar.
- Local transportation costs to move the file cabinet from the Hisar warehouse or another point of storage to the purchaser.
- Expenditures for paperwork, local taxes, and any additional handling or moving of the item, plus the further cost of customer concerns, worries, and dissatisfaction.

A glance at this list of costs quickly reveals the basic lesson of the systems approach to distribution. A relatively slow means of transportation from Hyderabad to Hisar, such as train, would reduce the cost of the shipment. But if the purchaser of the file cabinet could not wait for a slow shipment, the distributor would have a problem. Should the manufacturer warehouse a large inventory at New Delhi, thus incurring high expenditures for paperwork, inventory handling, and local taxes ? The cost in terms of lost sales could be even greater if the inventory were not available. Or could the problem be solved simply by using a more expensive means of transportation directly from the Hyderabad, eliminating the need for New Delhi warehouse? Using air freight would likely reduce problems of storage and handling at both ends of the transaction and would probably lessen the total cost. Cheap transportation could prove more costly in the long run.

Clearly, minimizing the cost associated with only one or two steps of a multi-step process can result in increasing the cost of the whole process. Systems-oriented managers make trade offs, increasing the cost of some parts of the system to produce even greater cost reductions in other parts of the system—thus reducing the total cost.

Total cost is an important measure that was not always appreciated. At one time, shippers selected their transportation modes in a one-dimensional way. If management thought a product required quick delivery, the fastest mode of transportation was chosen. If quick delivery was thought not to be a major concern, the cheapest means of transportation, within reason, was selected. Looking back, you may wonder why transportation experts frequently did not bother to determine whether it was possible to lower the total cost of distribution, even if that meant using a more expensive means of transportation; but this approach was uncommon until relatively recently in marketing history. Sometimes the customer's satisfaction may be more important than a dollars-and-cents cost reduction. One possible payoff of increasing some system costs may come in the form of greater buyer satisfaction. Unfortunately, it is easy for distribution managers to become so wrapped up in dealing with dollars that they neglect customer costs and payoffs.

Many opportunities to cut distribution costs present themselves to the effective marketing manager because so much of the distribution system operates beyond the observation of target buyers. Customers are concerned with the results of distribution, not how it is accomplished. Often, management finds that costs can be reduced through improvements in existing physical distribution systems. Here are some examples of such improvements:

- *Using robotics and automating warehouses, thereby reducing employee payroll expenses.*
- Replacing numerous small warehouses located near markets with a few large national warehouses that serve multiple markets, thereby reducing inventory carrying costs at numerous locations.
- Correcting inefficient procedures in order processing, thus eliminating needless red tape and paper handling. It means going for computerisation in order placing, order confirmation and delivery.
- Using low-cost transportation carriers, such as inland navigation through rivers.
- Moving offices, plants, warehouses, and retail outlets to low-cost locations, perhaps in a foreign country where labor costs are low. It means production and other different services to foreign counteries to get cost advantage.
- Requiring customers to perform some logistics functions (as when the marketer stipulates that retailers or wholesalers must carry certain minimum inventories), thus allowing the marketer to shift part of the warehousing and storage costs to customers. (channel members).

Cost-cutting measures can lower prices to buyers, increase the seller's margin, or achieve some combination of these goals. The extent of the possible savings from cost cutting is illustrated by the experience of one company that reported a potential savings of one-fifth of its total physical distribution costs of $40 million as the result of "a hardnosed physical distribution audit." Some of the problems that the audit uncovered were "small shipments moving separately to common destinations, fragmented inventories, different warehousing costs at different locations, and high costs per order.'

Table 12.1: Selected Symptoms and Cost Ramifications of a Poor Physical Distribution System

Symptom	*Cost Ramifications*
1. Slow-turning and/or too-high inventory	Excessive capital is tied up in inventory. The firm has high insurance costs, interest expenses, and high risks of pilferage and product obsolescence. Merchandise may become stale.
2. Inefficient customer service	Costs are high relative to the value of shipments; warehouses are poorly situated; inventory levels are not tied to customer demand.
3. A large number of interwarehouse	Merchandise transfers raise physical distribution

Both *warehouse* and *distribution center* are used commonly today, because the newer terminology has not fully replaced the old. But whatever the storage place is called, the emphasis is on moving, not keeping, the product. After all, keeping products in a warehouse is not the goal of physical distribution managers. Their goal is to get products into the hands of buyers.

As we have already noted, many large and small tasks are included in the warehousing function. Taken together, they comprise two primary activities : storage and breaking bulk.

Storage : *The holding and housing of goods in inventory for a certain period of time.*

Storage : Storage consists of holding and housing goods in inventory for a certain time period. It is necessary because of the almost inevitable discrepancies between production and consumption cycles. Consider this extreme example : The materials needed to operate midwestern steel mills are shipped across the northern Great Lakes via ship or barge. But shipment is impossible in the winter because the lakes freeze. Therefore, the materials must be stored at accessible locations. Such storage diminishes the effects that an uneven production cycle, caused by a cyclical supply of raw materials, would have on the steel business. In other cases, marketers store products because they have purchased large quantities and thus have more goods than they can sell at one time—another situation in which supply and demand are discrepant. Marketers may also store products in expectation that market prices for those products will be higher in the future. In any number of cases, cyclical demand brings about a discontinuity that has to be overcome by storing products. Products of a seasonal nature, such as air conditioners, class rings, skis, and wedding gowns, can be manufactured throughout the year. Regular schedules stabilize production and tend to minimize production costs. Storage permits the makers of these items to operate a steady production stream and hold the products until they are needed.

Storage does not always involve warehouses. The Magic Chef Corporation became a leader in the marketing of soft-drink vending machines when it designed a machine that stores three cans in a row instead of two, boosting the capacity of the machines by one-third and cutting the frequency of restocking. The company realized the importance of storage considerations to its customers.

Breaking Bulk : The second key function of warehousing is the physical task of *breaking bulk*. Shipments of any warehoused product are likely to arrive at the point of storage in large quantities and to leave in smaller quantities that are the appropriate to the individual retailers or other buyers seeking them. In the HLL's warehouse, the bulk will be broken according to the orders placed by different wholesalers located in New Delhi and others nearby cities.

Warehousing Strategy : A fundamental warehousing decision for marketing managers involves determining the optimal number, locations and types of warehouses needed. The warehousing choices open to marketing managers may be demonstrated by two strategy extremes, between which lie many combinations of strategies. At one extreme, the manufacturer makes large shipments over short distances to high-capacity storage warehouses located near manufacturing points. Smaller shipments are then made to retailers or other purchasers. At the other extreme lies the strategy alternative of making relatively large shipments over long distances to various distribution warehouses located near the buyers rather than near the manufacturer. The function of the warehouses then becomes serving local buyers.

If one of the other of these strikes you as "obviously" the better plan, remember that each alternative has certain cost and customer service advantages over the other. Locating warehouse facilities near buyers has a great deal of appeal but involves operating a larger number of storage points and dealing in smaller shipments, because local warehouses serve only local markets. On the other hand, using a few large warehouses located near manufacturing points can yield economies of scale and other advantages but may contribute to a reduction of service to buyers in far-off locales.

In warehouse location decisions, the consumers' need for timely delivery is a major consideration. A company may try to win customers by emphasizing how quickly orders can be filled. For example, management may indicate that

Damage in transit : *Breakage, spoilage, or other injury to products that occurs while the products are being transported.*

Trucks, and even the far less important **motor carrier** operations like Greyhound's package service, which uses buses as carriers, are preferred over rail shipment—especially by marketers of consumer products in boxed cartons—despite the fact that trains can move great quantities of product at lower prices. One reason is that **damage in transit** is less likely with trucks than with trains. Furthermore, trucks are more accessible and more flexible than railroads, and they are generally more reliable in terms of delivery deadlines. Although they are most efficient moving comparatively small shipments over short distances, they are also effective for long distances. While trucking companies may not fully believe it, times of economic recession make motor carriers even more attractive to shippers. Manufacturers, forced by high cost or lower margins to reduce inventories, become increasingly vulnerable to delivery delays. With little or no cushion of spare parts or supplies, they depend on reliable trucking service.

Air freight : *The shipment of products by air carrier.*

Air Freight. The primary advantages of **air freight** are its speed and distance capabilities. For many shippers, these advantages compensate for the high costs associated with air transportation. There are other advantages as well. Fast transportation permits inventory reductions and savings in warehousing costs. Air freight has a superb reputation for seldom damaging goods in transit. In remote areas that are inaccessible by truck or railroad, air freight may be the only transportation choice available. Traditionally, air transportation has been used primarily to move goods of high unit value, perishable goods, and emergency orders. The growth of international trade has contributed to a dramatic increase in the use of air transport during the past two decades. As with trucking, recession and high interest rates have a significant impact on the use of air freight.

Manufacturers, especially producers of high-technology products, often choose to ship goods on demand via air freight rather than incur the costs of carrying inventory. Physical distribution has moved away from the old ways of using regional warehouses and trucks to an instant supply cycle.

A popular strategy among air carriers is the hub-and-spoke approach. For example, Federal Express's hub is in Memphis, Tennessee. All packages arrive in Memphis and then depart on jet airplanes to spoke locations throughout the United States and around the world. Hub routing of commercial airline flights through major airports such as Dallas-Fort Worth, Atlanta, and Chicago has helped commercial airlines to establish new time and cost standards. The hub-and-spoke idea is not totally new. It was common in the early days of U.S. rail transportation marketing, when almost all livestock and grain were shipped into Chicago for sale, then resorted and redirected to new owners or food-processing facilities elsewhere. However, computerized resorting, reloading, and rerouting facilities have made major improvements in hub-and-spoke efficiency, allowing shippers to provide customers with major savings in both time and dollars.

WHAT WENT WRONG ?

Meltdown A load of margarine travels from Denmark to Tacoma, Washington, where a ramp worker notices a leak in the shipping container. The cargo is placed in a truck bound for a warehouse, but en route the driver looks in his rearview mirror and notices yellow globs flying out of the back of the truck. About 2,000 cartons of margarine have done a complete meltdown; the shipping documents from Denmark never specified a temperature setting for the cargo.

Water transportation : *The shipment of products by ship, boat, or barge.*

Water Transportation As a rule, **water transportation** offers a very low-cost means of moving products. It is most appropriate for bulky, low-value, nonperishable goods such as grain and coal. It is also appropriate for some fairly expensive items, such as automobiles from Germany or Japan being sent to U.S. or Canadian markets, if they can be properly protected from damage during transit. Goods are transported on inland bodies of water, such as the the Ganga River, as well as on oceans. Water ways are subject to certain problems, such as the closing of some routes and ports by ice during winter. Water is also the slowest mode of transportation. However, when there are few time constraints or when bulkiness and low unit value argue against faster, more expensive transportation, water transport is extensively employed.

Rail transport : *The shipment of products by train over railways.*

Railroads : Rail transport demonstrates its comparative advantage over other transportation modes when the freight to be hauled consists of heavy and bulky items. These can be moved by rail over long distances at low cost. Shippers may find that unit costs of transporting small shipments are lower if the goods are shipped by truck. However, as shipment size increases, the economies of rail transport come to equal, and then exceed, those of truck shipment.

Diversion in transit : *Direction to a rail shipment to a destination not specified at the start of the trip.*

The major disadvantages of rail shipment are that it is relatively slow and that it can be used only where tracks are located. In addition, the industry has both a reputation for damaging goods in transit and an unreliable delivery record. In some parts of the country, badly maintained tracks magnify these disadvantages. Still, in recent years some rail lines have modernized operations and have become more competitive with other means of transportation. For example, some lines allow **diversion in transit**, whereby a shipper can direct the shipment to a destination that was not specified at the start of the trip. A fruit and vegetable shipper may send oranges from Nagpur to the New Delhi and then, when the products are approaching that part of the country divert them to the particular city like Kanpur, Chandigarh etc. where prices are highest or demand greatest. Railroads have introduced this and other services and special rates in an attempt to offset some of the advantages offered by their competitors, especially truckers.

Pipelines : *Systems of pipes through which products such as oil and natural gas are transported.*

Pipelines : Pipelines are the most specialized transportation means, because they are designed to carry only one or two products. They are used mainly to transport natural gas and crude petroleum from wells to storage or treatment facilities. Most pipe lines are owned by the companies that use them, such as gas and oil producers. Pipeline shipping is generally less expensive than rail transport but more expensive than water transportation. A big part of the expense results from construction of the pipeline itself. Once in place, however, pipelines are a low-cost and reliable method of transportation. Some nonliquid and nongas products are shipped via pipeline. For example, coal may be broken up, mixed with water, and then pumped through pipelines as a *slurry.*

Piggyback service : *Transport of loaded truck trailers or other sealed containers by rail to destinations from which they are then moved by truck.*

Fishyback service : *Transport of containers by water to destinations from which they are then moved by truck.*

Birdyback service : *Transport of containers by air to destinations from which they are then moved by truck.*

Intermodal : Transportation In many instances, as *intermodal service,* which combines two or more modes of transportation, provides advantages. Many intermodal services involve transporting loaded truck trailers or other large containers to some location from which they can be moved to local destinations by trucks. With **piggyback service,** for example, railroad flat cars carry the containers to the intermediate first location. Piggyback service combines the long-distance hauling attractions of the railroad with the local delivery flexibility of trucks. Other intermodal transport methods are **fishyback service,** whereby the loaded containers are transported on ships or barges, and **birdyback service,** whereby the containers are transported on airplanes.

Warehousing

Whatever the storage place is called, the emphasis is on moving, not keeping the product.

Warehousing : *All the activities necessary to hold and house goods between the time they are produced and the time an order is shipped to the buyer.*

The second major aspect of physical distribution management is warehousing. **Warehousing** involves all the activities necessary to hold and house goods between the time they are produced and the time an order is shipped to the buyer. It includes breaking bulk, preparing product assortments for reshipping, and all the other activities that take place from the time the goods arrive at the warehouse until the proper product assortments are released for shipment to customers. The old, familiar term *warehouse* implies a dusty place where stacks of goods lie about collecting cobwebs. But a new term, *distribution center,* is taking its place. The new name reflects the changed perception of a storage facility as a vibrant, bustling place where the emphasis is on "throughput."

shipments	cost because items must be handled and verified at each warehouse.
4. Frequent use of emergency shipments	Extra charges add significantly to physical distribution costs.
5. Peripheral hauls and/or limited backhauling	The firm uses its own trucking facilities; but many hauls are too spread out and trucks may only be full one way.
6. A large number of small orders	Small orders often are unprofitable. Many distribution costs are fixed.
7. Excessive number of returns	The firm incurs high handling costs and may lose disgruntled customers.

Managing the Components of Physical Distribution

As mentioned earlier, six major areas of concern may be isolated in the physical movement of products. They are transportation, warehousing, inventory control, materials handling, order processing, and packaging. As we look at each of these separately, keep in mind their interrelationships as well as their individual contributions to the overall physical distribution system.

Transportation

Transportation : *The physical movement or shipment of products to locations in the distribution channel.*

Transportation decisions involve selecting the specific mode that will be used to physically move products from a manufacturer, grower, wholesaler, or other seller to the receiving facilities of the buyer. The major alternative modes of transportation are motor carrier, air freight, water transportation, railroad, and pipeline. Their comparative rankings on various attributes are shown in Figure 12.3. Other means of transporting merchandise that may come to mind, such as parcel post or overnight delivery services, themselves use one or more of these major transportation methods.

The physical distribution manager, or transportation manager, must consider the cost trade-offs mentioned earlier in selecting one of the modes of transportation. The first consideration is always the needs of the buyer. If these needs are extraordinarily difficult or expensive to meet, the manager must investigate the buyer's willingness to bear extra costs to satisfy those needs. Other considerations include the nature of the product (bulk, perishability, weight, fragility), how fast and dependable the delivery must be, and the cost and availability of transportation methods and storage space. Alternatives may be evaluated in terms of these variables.

Motor Carrier. At one time the trucking industry was tightly regulated by the federal government. Implementation of the Motor Carrier Act of 1980 dramatically transformed this situation, essentially deregulating the trucking industry. Motor carriers are now able to set rates for individual customers based on costs rather than having to comply with a uniform set of rates. Although not all trucking industry members favour deregulation, it seems to have resulted in heightened competition, greater efficiency, enhanced services, and innovative pricing.

Low Cost	Speed	Reliability of Delivery	Ability to Deliver to Many Geographical Areas	Reputation for Delivering Undamaged
(1) Pipeline	(1) Air	(1) Pipeline	(1) Motor	(1) Pipeline
(2) Water	(2) Motor	(2) Air	(2) Rail	(2) Water
(3) Rail	(3) Rail	(3) Motor	(3) Air	(3) Air
(4) Motor	(4) Pipeline	(4) Rail	(4) Water	(4) Motor
(5) Air	(5) Water	(5) Water	(5) Pipeline	(5) Rail

Figure 12.3: General Comparison of Attributes of Various Transportation Modes

Note. These comparisons are of a very general nature intended only to show the trade-offs involved when cost of use is compared with other attributes of modes of transportation.

Motor carrier : *A member of the trucking industry or another carrier, such as Greyhound's packages service, that transports products over roads.*

it can fill 20 percent of orders within 24 hours and the remaining 80 percent within 72 hours, given a particular warehouses-location network. For organizations that strive to provide quick and dependable delivery, speed and reliability are important factors in the warehouse location decision.

The best warehouse location is the one that maximizes customer service, gives the firm a competitive advantage over rivals, and minimizes cost. Finding the optimal location is difficult. Management, therefore, should turn to the organization's marketing strategy for guidance as to the best site. If, for instance, the strategy calls for maximizing customer service, then cost considerations may become relatively unimportant. Where the strategy is to minimize cost and pass the resulting economies on to consumers in the form of low prices, however, cost will become the most important variable.

In many instances, finished goods are warehoused at the factory. When this is the case, selecting the location of the factory becomes interrelated with physical distribution objectives. Management of production facilities clearly is not a marketing function. However, the location of a plant can be extremely important to the marketing strategy, and marketing personnel often provide information about market needs to top executives responsible for determining plant sites. The marketing strategy for Campbell's Fresh, a line of chilled fresh foods without preservatives, requires that processing plants be located within a one-day drive of stores, to guarantee product freshness. Hewlett Packard moved its personal-computer headquarters to France because the company believed that Europe, not the United States or Japan, would be the growth market of the 1990s.

Inventory Control

Inventory control : *Decision making related to inventory size, placement, and delivery.*

Another fundamental concern of physical distribution management is control of inventory levels. **Inventory control** involves decisions about how large or small inventories should be and how overstocking of inventory can be weighed against the dangers of costly stock-outs (which happen when the product the customer desires is not on hand). The ideal level of inventory is one that provides adequate service to customers while keeping suppliers' costs as low as possible. The fact that these twin goals are at cross-purposes complicates inventory decisions.

Valuable guidance on questions of inventory control can be found in sales forecasts. Also useful is information about how much inventory was needed in past planning periods, how much was left over at the ends of past periods, the inventory turnover rates of the individual warehouses being used, the value of the inventories held, and the carrying costs. A great deal has been written on the matter of inventory control. The general approach involves reliance on data gathered in the past and on careful projections of future demand. Any number of simple and sophisticated quantitative tools have been developed to help marketing managers deal with this problem area.

Risk cannot be entirely removed from inventory control, but great strides have been made in the use of computerized inventory control systems. In fact, even figures seemingly impossible to gauge can be closely estimated. For example, the value of a lost sale can be defined either as the selling price of the product or as the price plus expected income from service work. The ill will of a customer who was not served cannot be accurately quantified, however.

The following three major costs associated with holding inventory are more suited to quantitative treatment than are many other areas of marketing management :

- *Acquisition costs* are the expenses incurred in obtaining inventory. For a manufacturer, acquisition costs are the costs of production; for an intermediary, they are the cost of goods bought plus any transportation of handling assessments.
- *Holding costs* are those incurred in housing inventory. Interest paid, taxes on inventory, and any costs associated with warehousing, spoilage, and obsolescence are included.
- *Out-of-stock loses* are those that occur when customers demand goods the marketer cannot provide. In addition to the loss of a sale, stock-outs may lead to the loss of customer goodwill or contribute to a bad

reputation over the long term. Not all of these losses can be accurately calculated.

Management can, with care, minimize total inventory costs by setting inventories at levels that take into account the behaviors of all three sets of costs.

Computerized inventory control systems have greatly facilitated this task. For example. Savin Corporation has a computer terminal in each of its warehouses to keep track of every item in its inventory. The computerized inventory control system identifies the quantity on hand, the location and movement of stock, and the status of all orders. The system helps in planning shipments, locating single items in inventory, and locating customer records.

Economic order quantity (E.O.Q.) : *A mathematically determined purchase order size that yields the lowest total order processing and inventory holding costs.*

Economic Order Quantity (E.O.Q.) : For intermediaries, inventory control includes ordering goods to replenish inventory levels. An organization considers several factors in determining the order size at which total costs can be minimized. Among these are the prices of materials, parts, and merchandise (especially the possible quantity discounts); order-processing costs; the cost of holding inventory in stock; predicted demand for the product; and the rate of turnover associated with the product.

The factors mentioned here can be weighed mathematically to determine the purchase order size yielding the lowest total cost of order processing and inventory holding. This size is the **economic order quantity**, or **E.O.Q.**

International Sourcing : Multinational marketers face the same inventory control decisions as domestic marketers. "The buyer today, when looking for a source of supply, looks at the whole world to find where it's most economical to source it." This statement, by an executive of Ford Motor Company, indicates one of the most pronounced trends in logistics : looking beyond the home country to solve physical distribution and materials management problems. Today's marketing managers make choices from a worldwide selection of supply sources and sites for manufacturing and physical distribution.

Material Handling

Materials handling : *The use of muscle power, machinery, and other methods to identify, check, load, and unload goods in inventory.*

We have referred in this chapter to "moving" goods from manufacturer to warehouse and to the "movement" of products from one spot to another. This movement does not occur on its own. Personnel, machinery, and equipment are used to identify, check, load, and unload goods. These activities are fundamental to the task of **material handling,** which can be defined as the physical handling and moving about of inventory. Over the course of the 20th century, the materials-handling process became increasingly mechanized. Workers with hand trucks and carts have been largely replaced by operators of forklifts and other mechanical tools such as conveyor belts, elevators, and cranes. Most recently, robots have been used to perform materials-handling tasks. In many warehouses, orders can be assembled and packed with almost no human involvement. Such systems have proved faster, more accurate, and, in the long run, cheaper than systems using human workers to fill orders.

Order Processing

Order processing : *A systematic procedure for filling customer orders. The process begins when orders are received and ends when goods have been shipped and bills sent to customers.*

Like materials handling, **order processing** has become increasingly automated. Computerized order processing is common, because speed and accuracy are vital to this activity. For many buyers, high-quality order-filling procedures are a primary purchasing criterion. Because order processing is an early step in the process of getting merchandise to customers, mistakes made in this activity can carry through the whole process. Such mistakes result in lost time and money, as well as disgruntled customers and costly emergency shipments. Efficient and reliable order processing not only allows an organization to avoid these problems but also enables it to realize economies in related physical distribution areas; for example, the organization may be able to carry reduced inventories or to use lower-cost transportation modes, such as trucks rather than air.

The computerized order-processing system at American Hospital Supply, a wholesaler, gives hospitals a direct computer-to-computer link. Direct ordering lowers order-processing costs, reduces the possibility of incorrect orders, and reduces the time between placing an order and receiving the goods.

Many retailers have order-processing and inventory management systems that are linked to bar-coding systems. Scanners or computerized wands at the check-out counters read the bar codes on all merchandise being purchased and then send the information via computer to vendors or other suppliers.

Packaging

Packaging has an important place in the field of physical distribution, because products must be properly packaged for protection during the distribution process. Damage, which is costly to marketers, can occur either during transportation or in storage. Protection means guarding against breakage, spoilage, mildew, insects, dirt, and any other significant threat. When designing packaging, marketing managers must evaluate the container's quality, appearance, and cost. Less obvious, but just as important, are the costs associated with repackaging products into larger or smaller quantities, such as cartons of grosses or dozens. Packages must also be designed to minimize difficulties in physical handling, such as stacking in piles. For some products, like machine parts packages are color coded or in some other way marked for ease of use and facilitate the process of filling orders. The requirements of the Interstate Commerce Commission and other considerations specific to particular customers or products present still other challenges in package design.

Materials Management

Vendor analysis : *The rating of alternative suppliers on attributes such as product quality, reliability of service, delivery speed, and price*

We have discussed may aspects of physical distribution, the first area of managerial responsibility associated with logistics. The second area is materials management. The function of materials management within this overall system is to evaluate alternative sources of supplies and acquire the raw materials necessary to ensure uninterrupted production at acceptable cost. Materials managers must procure materials of an acceptable quality that meet the organization's specifications and obtain an assurance that the materials will arrive at the manufacturing facility at the right time. As this goal suggests, material management is concerned with materials that are inbound to the point of production, whereas physical distribution management is focused on outbound products. Materials management is of major importance to marketing because shortages of any needed materials interrupt both production and distribution processes, making it impossible to supply customers with the products they want. To ensure effective materials management, organizations perform **vendor analysis,** which is the comparative rating of alternative suppliers on attributes such as product quality, reliability of service assistance, speed of delivery, and competitive prices. Selection of suppliers may be an important determinant of the business strategy. For example, selecting a parts producer in Korea or Singapore because of its low cost of production may determine the marketer's pricing strategy. Figure 12.4, lists several logistical criteria for evaluating suppliers.

Just-in-time (JIT) inventory system : *A materials management system in which inventory arrives just in time for use.*

Materials managers strive to reduce inventory costs for parts and other items used in production by scheduling them to arrive just in time for use. **A just-in-time (JIT) inventory** system is a producer's (or reseller's) inventory control system, coordinated with a sophisticated ordering system, designed to minimize the amount of inventory kept on hand. For example, Japanese and American automobile manufacturers have just-in-time inventory systems that closely coordinate shipments from suppliers with the demand for these items so that the desired part arrives just before it is needed at the factory.

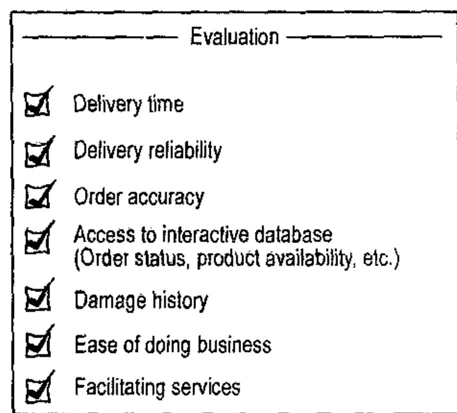


Figure 12.4: Logistical Criteria for Evaluating a Vendor

The central idea behind a just-in-time system is to reduce the need to stockpile inventory by receiving smaller shipments more frequently. If the just-in-time systems is to be efficient, the materials manager must understand the flow of products in the manufacturing (or distribution) process and carefully plan the organization's requirements for timely and reliable delivery. Furthermore, the supplier must be flexible, shipping inventory where and when it is needed. When demand for the final product, such as an automobile, rises dramatically, all supplier's parts production must be sufficiently flexible to keep up with the demand. If, for example, a transmission maker cannot increase production, the entire just-in-time system suffers.

General Motors has JIT system in place. Firestone, a major supplier of original equipment tires to the auto industry, has had to alter its own policies to meet GM's JIT requirements. Information about he automaker's tire requirements is continually transmitted via an online system to Firestone's Transportation Operations Department and the tire manufacturing plants. Each delivery to General Motors contain the number and types of tires required by the GM assembly line for a specified 6-hour period. Firestone switched from rail to truck transport so that smaller shipments could be delivered daily to particular loading docks at specified times. Firestone, in turn, has initiated a JIT system at its own plants, requiring its suppliers to deliver raw materials in small-lot sizes via trucks that arrive at Firestone plants at specific times.

Although we have discussed just-in-time system from a materials management perspective, it is important to note that the JIT principles are equally applicable to inventory management by wholesalers and retailers.

Organizational Collaboration

Organizations heavily involved in distribution activities have deliberately sought ways to cooperate with one another and to share services. It makes little sense, for example, for every air freight company to support an entire complement of facilities and staff at every airport in the country. Realizing this, many companies sell ground support services to other cooperating organizations in an effort to eliminate duplicate investments.

Federal Express's BLS system provides an excellent example of organizational collaboration among a supplier, the supplier's customers, and a logistic service. Practices whereby a marketing organization arranges for another organization, such as FedEx, to manage its logistic operation and to ship to its customers are sometimes called *third party logistics.*

New Information Technology

Distribution and materials managers have welcomed the use of computers, barcoding system, laser scanners, and automation of materials handling, because they make the jobs of distribution and supply easier and more efficient, thus contributing significantly to the overall health of an organization. Computers provide managers with detailed information that can be used to plan and control all types of decisions—from choosing sources of raw materials to determining the cheapest way to ship merchandise to retail dealers. Computer programs can simulate logistical problems, thus helping decision makers to weigh the many alternatives that confront them. Programs can also analyze the complicated cost variables so common to distribution decisions and calculate lowest-cost inventory levels and the most profitable warehouse location patterns. Procter & Gamble, for example, has a system called Direct Product Profitability, which provides computer-generated output measuring the cost of an item from the time it moves from the warehouse to the time it is sold at the retail level. Use of the system has resulted in the redesign of many product items based on information about size, shelf life, and purchase frequency.

Logistics management in general has become increasingly sophisticated because of the Internet and intranets. These media allow suppliers and customers to share data, and they make JIT system and other logistical tasks involving two or more organizations easier to manage.

Chapter 13
Pricing Decision and Strategies

All profit organizations and many non-profit organizations set prices on their products or services. Price goes by many names:

> *Price is all around us. You pay rent for your apartment, tuition for your education, and a fee to your physician or dentist. The airline, railway, taxi, and bus companies charge you a fare; the local utilities call their price a rate; and the local bank charges you interest for the money you borrow. The price for driving your car Delhi-Jaipur highway is a toll, and the company that insure your car charges you a premium. The guest lecturer charges an honorarium to tell you about a government official who took a bribe to help a shady character steal dues collected by a trade association. Clubs or societies to which you belong may make a special assessment to pay unusual expenses. Your regular lawyer may ask for a retainer to cover her services. The "price" of an executive is a salary, the price of a salesperson may be a commission, and the price of a worker is a wage. Finally, although economists would disagree, many of us feel that income taxes are the price we pay for the privilege of making money.*

Throughout most of history, prices were set by negotiation between buyers and sellers. Setting one price for all buyers is a relatively modern idea that arose with the development of large-scale retailing at the end of the nineteenth century. F.W. Woolworth, Tiffany and Co., John Wanamaker, and others advertised a "strictly one-price policy," because they carried so many items and supervised so many employees.

Now, just one hundred years later, the Internet promises to reverse the fixed pricing trend and take us back to an era of negotiated pricing. The Internet, corporate networks, and wireless setups are linking people, machines, and companies around the globe—and connecting sellers and buyers as never before. Web sites like Compare. Net and Price Scan.com allow buyers to compare products and prices quickly and easily. Online auction sites like Bazee.com and Onsale.com make it easy for buyers and sellers to negotiate prices on thousand of items—from refurbished computers to antique tin trains. At the same time, new technologies allow sellers to collect detailed data about customers' buying habits, preferences—even spending limits—so they can tailor their products and prices.

Traditionally, price has operated as the major determinant of buyer choice. This is still the case in poorer nations, among poorer groups, and with commodity-type products. Although nonprice factors have become more important in buyer behaviour in recent decades, price still remains one of the most important elements determining company market share and profitability. Consumers and purchasing agents have more access to price information and price discounters. Consumers shop carefully, forcing retailers to lower their prices. Retailers put pressure on manufacturers to lower their prices. The result is a marketplace characterized by heavy discounting and sales promotion.

Price is the marketing-mix element that produces revenue; the others produce costs. Price is also one of the most flexible elements : It can be changed quickly, unlike product features and channel commitments. At the same time, price competition is the number-one problem facing companies. Yet many companies do not handle pricing well. The most common mistakes are these : Pricing is too cost oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions.

Companies handle pricing in a variety of ways. In small companies, prices are often set by the company's boss. In large companies, pricing is handled by division and product-line managers. Even here, top management sets general pricing objectives and policies and often approves the prices proposed by lower levels of management. In industries where pricing is a key factor (aerospace, television, tourism) companies will often establish a pricing department to

set or assist others in determining appropriate prices. This department reports to the marketing department, finance department, or top management. Others who exert an influence on pricing include sales managers, production managers, finance managers, and accountants.

Factors Affecting Pricing Decisions

Before a firm develops a pricing strategy, it should analyze the outside factors affecting decisions. Like distribution planning, pricing depend heavily on elements external to the firm. This contrasts with product and promotion decisions, which are more controlled by a firm (except for publicity). Sometimes, outside elements greatly influence the ability to set prices; in other cases, they have little impact. Fig 13.1. Outlines the major factors, which are discussed next.

Consumers

Company personnel involved with pricing decisions must understand the relationship between price and consumer purchases and perceptions. This relationship is explained by two economic principles—the law of demand and the price elasticity of demand—and by market segmentation.

The *law of demand* states that consumers usually purchase more units at a low price than at a high price. The *price elasticity of demand* indicates the sensitivity of buyers to price changes in terms of the quantities they will purchase. Price elasticity represents the percentage change in the quantity demanded relative to a specific percentage change in the price charged. This formula shows the percentage change in demand for each 1 percent change in price:

$$\text{Price elasticity} = \frac{\dfrac{\text{Quantity 1} - \text{Quantity 2}}{\text{Quantity 1} + \text{Quantity 2}}}{\dfrac{\text{Price 1} - \text{Price 2}}{\text{Price 1} + \text{Price 2}}}$$

Because the quantity demanded usually falls as price rises, elasticity is a negative number. However, for purposes of simplicity, elasticity calculations are usually expressed as positive numbers.

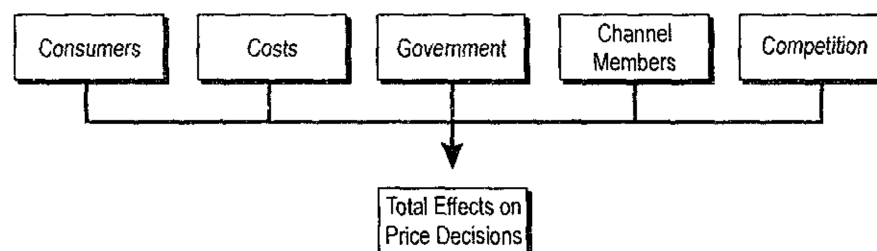


Figure 13.1: Factors Affecting Price Decisions.

Elastic demand occurs if relatively small changes in price result in large changes in quantity demanded. Elasticity is more than 1. Total revenue goes up when prices are decreased and goes down when prices rise. *Inelastic demand* takes place if price changes have little impact on the quantity demanded. Elasticity is less than 1. Total revenue goes up when prices are raised and goes down when prices decline. *Unitary demand* exists if price changes are exactly offset by changes in the quantity demanded, so total sales revenue remains constant. Price elasticity is equal to 1.

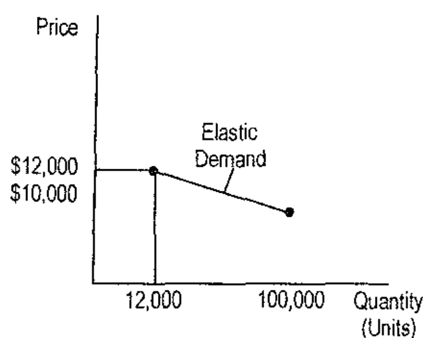
Demand elasticity is based mostly on two criteria : availability of substitutes and urgency of need. If people *believe* there are many similar goods or services from which to choose or have no urgency to buy, demand is elastic and greatly influenced by price changes. Price increases lead to purchases to substitutes or delayed purchases, and decreases or expand sales as people are drawn from competitors or move up the date of their purchases. For some

people, the airfare for a vacation is highly elastic. If prices go up, they may travel to a nearer location by car or postpone a trip.

If consumers believe a firm's offering is unique or there is an urgency to buy, demand is elastic and little influenced by price changes : Neither price increases nor declines will have much impact on demand. In most locales, when heating oil prices go up or down, demand remains relatively constant because there is often no feasible substitute and homes and offices must be properly heated. Brand loyalty also generates inelastic demand; consumers then feel their brands are distinctive and do not accept substitutes. Finally, emergency conditions increase demand inelasticity. A truck driver with a flat tire would pay more for a replacement than one with time to shop around. Figure 13.2. illustrates elastic and inelastic demand.

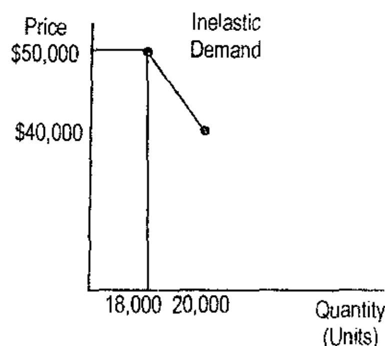
Elasticity usually varies over a wide range of prices for the same good or service. At very high prices, even revenues for essential goods and services may fall (mass-transit ridership would drop a lot if fares rise from $1.50 to $3; driving would become a more reasonable substitute). At very low prices, demand cannot be stimulated further; saturation is reached and shoppers may begin to perceive quality as inferior.

Table 13.1, shows elasticity for an office-equipment repair business. There is a clear relationship between price and demand. At the lowest price $60, daily demand is greatest, 10 service calls. At the highest price, $120, demand is least : 5 service calls. Demand is inelastic between $60 and $84; total service-call revenues rise as price increases. Demand is unitary between $84 and $96; total service-call revenues remain the same ($672). Demand is elastic between $96 and $120; total service-call revenues decline as the price rises within this range. Although a fee of either $84 or $96 yields the highest service rate revenues $672 other criteria must be evaluate before selecting a price. The repair firm should consider costs per call; the number of service people required at different levels; the overall revenues generated by each service call, including parts and added labor charges; travel time; the percentage of satisfied customers at different prices (expressed by repeat business); and the potential for referrals.



Economy Car—Model A

The purchasers of an economy car are highly sensitive to price. They perceive may models as interchangeable and demand will suffer significantly if the car is priced too high At $10,000, increases is $12,000 will cause demand to fall to 12,000 units (revenues are $144 million).



Luxury Car—Model B

The purchasers of a luxury car have little sensitivity to price. They perceive their model as quite distinctive and will pay a premium price for it. At $40,000, 100,000 models may be sold (revenues are $1 billion. small 20,000 models may be sold (revenues are $800 million; A large increase in price, to $50,000, will have a small effect on demand 18,000 units (revenues are $ 900 million.

Figure 13.2: Demand Elasticity for two models of Automobiles

Table 13.1: Price Elasticity for Service Calls by an Office-Equipment Repair Business

Price of Service Call	*Service Calls Demanded Per Day*	*Revenues from Service Calls*	*Price Elasticity of Demand**	*Type of Demand*
$ 60.00	10	$ 600.00		
			0.76	Inelastic
$ 72.00	9	$ 648.00		
			0.76	Inelastic
$ 84.00	8	$ 672.00		
			1.00	Unitary
$96.00	7	$ 672.00		
			1.31	Elastic
$108.00	6	$ 648.00		
			1.73	Elastic
$ 120.00	5	$600.00		

*Expressed as positive numbers.

Price sensitivity varies by market segment because all people are not equally price-conscious. Consumers can be divided into such segments as these:

- *Price shoppers*—They are interested in the "best deal" for a product. They will prefer the brand which is available at lowest price in a given product category.
- *Brand-loyal customers*—They believe their current brands are better than others and will pay "fair" prices for those products. Even if there is slight increase in the prices, they'll continue to stick with the same brand.
- *Status seekers*—They buy prestigious brands and product categories and will pay whatever prices are set; higher prices signify greater status. This is so because everyone is not able to purchase the brand at the higher price level.
- *Service/features shoppers*—They place a great value on customer service and/or product features and will pay for them. Even if the prices of comparable products or services are slightly lower.
- *Convenience shoppers*—They value ease of shopping, nearby locations, long hours by sellers, and other approaches that make shopping simple; they will pay above-average prices.

A firm must decide which segment or segments are represented by its target market and plan accordingly.

The consumer's (market segment's) perception of the price of a good or service as being high, fair, or low—its ***subjective price***—may be more important than its actual price. Thus, a consumer may feel a low price represents a good buy or inferior quality or a high price represents status or poor value, depending on his/her perception. Such factors as these affect a consumer's (market segment's) subjective price :

Purchase experience with a particular good or service—"How much have I paid in the past"

Purchase experience with other, rather similar goods or services—"What's fair price for an item in the same or adjacent product category that I bought before ?"

- *Self-image*—"How much should a person like me pay for something like this ?"
- *Social s[illegible]*—"How much do my friends expect me to pay for something like this ?"
- *Context of the purchase*—"What should this cost in these circumstances ?"

KB Home formerly Kaufman Broad, is a leading U.S. housing developer that strives hard to offer prices perceived

as fair by its target market. "We survey 300,000 home buyers each year to find out what they truly want and need in their homes. This means KB Home is ready to respond to the needs of today's young buyers, who expect more, but don't want to pay more."

Costs

The costs of raw materials, supplies, labour, transportation, and other items are commonly beyond a firm's control. Yet, they have a great impact on prices. Since the early 1980s, overall U.S. cost increases have been rather low. While the 1980 inflation rate was 13.5 percent, the recent annual rate has been less than 4 percent. This means better cost control and more stable prices for most firms. Nonetheless, the costs of some goods and services have risen rapidly or fluctuated a lot in recent years. For example,

- In 2001, the price for regular unleaded gasoline reached more than Rs. 33/- per litre in all the cities of India— largely due to the higher costs of crude oil resulting from the OPEC trade group's decision to cut production.
- The U.S. minimum wage rose from $3.80 per hour in 1990 to $4.25 per hour in 1991 $4.75 in 1996, and $5.15 in 1997—a 35 percent increases. This affected fast food retailers and others using semiskilled and unskilled labor. The minimum wage has not changed since 1997.
- The cost of prime-time TV ads have gone up dramatically. A 30-second ad on the 1996 Super Bowl telecast cost $1.3 million. In 2001, the cost was $2.1 million.
- Auto makers and PC makers have been affected by the rising cost of palladium, a precious metal used in catalytic converters and some laptop PCs. From late 1996 to early 2001, the price of pladium rose from $115 an ounce to $1,100 an ounce, before falling to $650 an ounce.
- Gold and silver prices have been very voltatile. Gold went from $325 per ounce in mid-1999 to $250 per ounce in early 2001, before rebounding to $300 per ounce in mid-2001. High gold prices adversely affect dentists and jewelers. Silver went from $7 per ounce in 1998 to $4.50 an ounce in early 2001, before rebounding slightly. The decline had a positive impact on the photography industry, which uses silver as a film ingredient.

During periods of rising costs, firms can react in one or more ways : They can leave products unchanged and pass along all of their cost increases to consumers, leave products unchanged and pass along part of their increases and absorb part of them, modify products to hold down costs and maintain prices (by reducing size, using lesser-quality materials, or offering fewer options), modify products to gain consumer support for higher prices (by increasing size, using better-quality materials, offering more options, or upgrading customer services), and/or abandon unprofitable products. For instance,

> In an effort to offset rising production costs, Frito-Lay, the world's largest maker of salty snack foods, has begun putting fewer chips in bags of Fritos, Chee-tos, and other well-known brands, while keeping the price the same. A supermarket-size sack of Lay's potato chips has lost an ounce, or about 7.5 percent of its previous weight, but still costs $2.99. A 99 cent box of Cracker Jack has shed about 6.7 percent of its weight. And a $3.29 bag of Doritos has dropped almost 7 percent of its weight. Procter & Gamble has scaled back the number of disposable diapers in its Lays and Pampers packages by an average of 13 percent while cutting prices only 7 percent. Company officials say the change, which comes out to eight fewer diapers in a jumbo Pack that previously had 56, leaves parents with just enough diapers to get through the week, while providing Procter a price increase for each diaper sold.

If costs decline, firms can drop prices or raise margins, as these examples, show : Using microchips has reduced PC costs by requiring less wiring and assembly time, improving durability, and enlarging information processing capability. PC prices have gone down steadily, thus expanding the market. On the other hand, low sugar prices let candy makers increase package size (and profits) without raising prices.

Sometimes, low costs can actually have a negative long run impact : "Ironically cheap petrol prices during the final

years of the recent U.S. economic boom, which helped propel sales of fuel-gobbling SUVs, pushed refineries to the wall. To make matters worse, most distributors believed that OPEC would boost production. Betting that oil and petrol would soon be cheaper, they neglected to build any significant reserves. Result : inventories of gasoline, home heating oil, and other refined products have been at a low ebb for nearly two years, leaving prices vulnerable to the slightest market upset. Now, consumers are dealing with it in a tough economic climate."

Government

U.S. Government (federal and/or state) actions related to pricing can be divided into the five major area shown in Figure 13.3 and discussed next.

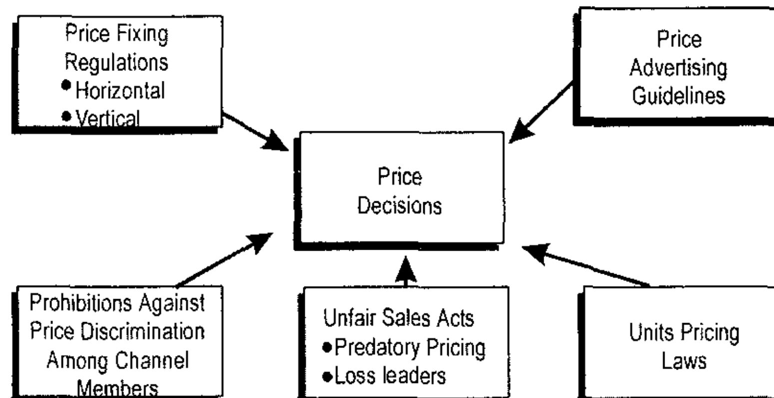


Figure 13.3. Selected U.S. Government Actions Affecting Price Decisions.

Price Fixing

There are restrictions pertaining to horizontal and vertical price fixing. *Horizontal price fixing* results from agreements among manufacturers, among wholesalers or among retailers to set prices at a given stage in a channel of distribution. Such agreements are illegal according to the federal Sherman Antitrust Act and the Federal Trade Commission Act regardless of how "reasonable" prices are.

If there are violations, federal penalties may be severe : A firm can be fined up to $10 million, and individuals can be fined up to $350,000 each and imprisoned for upto 3 years. The Justice Department investigates and prosecutes price-fixing cases.

In 1999, it achieved convictions resulting in fines amounting to $1.1 billion. Over the last few years, Hoffman-La Roche (of Switzerland), BASF (of Germany), Archer Daniels Midland (of the United States), and Eisai (of Japan) have each been fined more than $30 million for price-fixing activities.

To avoid price-fixing charges, a firm must be careful not to

- Coordinate discounts, credit terms, or conditions of sale with competitors.
- Talk about price levels, markups and costs at trade association meetings.
- Plan with competitors to issue new price list on the same date.
- Plan with competitors to rotate low bids on contracts.
- Agree with competitors to limit production to keep high prices.
- Exchange information with competitors, even informally.

Vertical price fixing occurs when manufacturers or wholesalers seek to control the final selling prices of their

goods or services. Until 1976, the Miller-Tydings Act allowed these firms to set and strictly enforce resale prices if they so desired. This practice was known as fair trade. It protected small resellers and maintained brand images by forcing all resellers within fair trade states to charge the same price for affected products. The practice was criticized by consumer groups and many resellers and manufacturers as being noncompetitive, keeping prices too high, and rewarding reseller inefficiency. The Consumers Goods Pricing Act terminated all interstate use of fair trade or resale price maintenance. Today, resellers cannot be forced to adhere to manufacturer or wholesaler list prices. Most times, they are free to set their own prices.

Manufacturers or wholesalers may control final prices only by one of these methods :

- Manufacturer or wholesaler ownership of sales facilities.
- Consignment selling. The manufacturer or wholesaler owns items until they are sold and assume costs normally associated with the reseller, such as advertising and selling. Careful screening of the channel members that sell good or service A supplier can bypass or drop distributors if they are not living up to the supplier's performance standards, as long as there is no collusion between the supplier and other distributors. (A firm must be careful not to threaten channel members that do not adhere to suggested prices.).
- Suggesting realistic selling prices.
- Pre-printing prices on products.
- Establishing customary prices (such as 50 cents for a newspapers) that are accepted by consumers.

Price Discrimination

The Robinson-Patman Act prohibits manufacturers and wholesalers from price discrimination in dealing with different channel member purchasers of products with "like quality" if the effect of such discrimination is to injure competition. Covered by the act are prices, discounts, rebates, premiums, coupons guarantees, delivery, warehousing and credit rates. Terms and conditions of sale must be made available to all competing channel-member customers on a proportionately equal basis.

The Robinson-Patman Act was enacted in 1936 to protect small retailers from unfair price competition by large chains. It was feared that small firms would be driven out of business due to the superior bargaining power (and the resultant lower selling prices) of chains. This act requires that the price differences charged to competing resellers be limited to the supplier's cost savings in dealing with the different resellers. It remains a legal restraint on pricing.

There are exceptions to the Robinson-Patman Act. Price discrimination within a channel is allowed if each buyer purchases items with substantial physical differences, if non-competing buyers are involved, if prices do not injure competition, if price differences are justified by costs, if market conditions change (such as production costs rising), or if the seller reduces prices in response to another supplier.

Discounts are permissible if a seller demonstrates that they are available to all competing resellers on a proportionate basis, sufficiently graduated so both small and large buyers can qualify, or cost justified. For instance, a seller must prove that discounts for cumulative purchase (total volume during the year) or multistore purchases by chains are based on cost savings.

Although the Robinson-Patman Act is geared toward sellers, it has specific liabilities for purchasing firms under Section 2(F) : "If shall be unlawful for any person engaged in commerce in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited in this section." Accordingly, resellers should try to get the lowest prices charged to any competitor in their class, but not bargain so hard that their discounts cannot be explained by one of the acceptable exceptions to the act.

Minimum Prices

A number of states have enacted ***unfair-sales acts (minimum price laws)*** to prevent firms from selling products for less than their cost plus a fixed percentage that includes overhead and profit. About one-half of the states have unfair-sales acts covering all kinds of products and retail situations; two-thirds have laws involving specific products, such as bread, dairy items, and liquor. The acts are intended to protect small firms from predatory pricing by larger competitors and to limit the use of loss leaders by retailers.

With ***predatory pricing***, large firms cut prices on products to below their cost in selected geographic areas so as to eliminate small, local competitors. At the federal level, predatory pricing is banned by the Sherman and Clayton Acts. Manufacturers, wholesalers and retailers are all subject to these acts. However, predatory pricing is extremely difficult to prove.

Loss leaders, items priced below cost to attract customers to a seller—usually in store setting—are also restricted by some state unfair-sales acts. Sellers use loss leader typically well-known and heavily advertised brands, to increase their overall sales. They assume customers drawn by loss leaders will also buy non-sale items. Because consumers benefit, loss-leader laws are rarely enforced.

Unit Pricing

The lack of uniformity in package sizes has led to unit-pricing legislation in several sates. ***Unit pricing*** lets consumers compare price per unit for competing brands and for various size of the same brand.

Food stores are most affected by unit-pricing laws; they often must show price per unit of measure, as well as total price. For example, through unit pricing, a shopper could learn that a 12 ounce can of soda selling for 40 cents is priced at 3.3 cents per ounce, where as a 67.6 ounce (2-liter) bottle of the same brand selling for $2.09 is priced at 3.1 cents per ounce. The larger size is cheaper than the smaller one.

Retailers' unit-pricing costs include computing per-unit prices, printing shelf labels and maintaining computer records. The costs are affected by the number of stores in chain, the sales per store, the number of items under unit pricing, and the frequency of price changes.

When unit-pricing laws were first enacted in the early 1970s, research found that people generally did not use the data and that low-income consumers (for whom the laws were most intended) were least apt to look at unit prices. Critics felt the laws were costly without providing benefits. More recent research has shown unit pricing to be effective and suggests that consumer learning and the subsequent behavioural changes take time. Upscale suburban residents are still more prone to use the data than others.

Price Advertising

Price advertising guidelines have been set by the FTC and various trade associations, such as the Better Business Bureau. The FTC's guidelines specify standards of permissible conduct in several categories :

- A firm may not claim or imply that a price has been reduced from a former level unless the original price was offered to the public on a regular basis during a reasonable, recent period of time.
- A firm may not claim its pricing is lower than that of competitor's or the manufacturer's list price without verifying, via price comparisons involving large quantities of merchandise, that an item's price at other companies in the same trading area is in fact higher.
- A suggested list price or a pre-marked price cannot be advertised as a reference point for a sale or a comparison with other products unless the advertised product has really been sold at that price.
- Bargain offers ("free", "buy one, get one free", and "half-price sale") are deemed deceptive if terms are not disclosed at the beginning of a sales presentation or in an ad, the stated regular price of an item is inflated to create an impression of savings, or the quality or quantity of a product is lessened without

informing consumers. A firm cannot continuously advertise the same item as being on sale.

- ***Bait-and-switch advertising*** is an illegal practice whereby customers are lured to a seller that advertises items at very low prices and then told the items are out of stock or of poor quality. Sales-people try to switch shoppers to more expensive substitutes, and there is no intent to sell advertised items. Signs of bait-and-switch are refusal to demonstrate sale items, the belittling of sale items, inadequate quantities of sale items on hand, refusals to take orders, demonstrations of defective items, and the use of compensation plans encouraging sales people to use the tactic.

Channel Members

Generally, each channel members seeks a major role in setting prices so as to generate sales volume, obtain adequate profit margins, have a proper image, ensure repeat purchases, and meet specific goals.

A manufacturer can gain greater control over prices by using an exclusive distribution system or avoiding price-oriented resellers; pre-marking prices on products; owning sales outlets; offering products on consignment; providing adequate margins to resellers; and most importantly, by having strong brands to which people are brand loyal and for such they will pay premium prices.

A wholesaler or retailer can gain better control over prices by stressing its importance as a customer to the supplier, linking resale support to the profit margins allowed by the supplier refusing to carry unprofitable items, stocking competing items, having strong private brands so people are loyal to the seller and not the supplier, and purchasing outside traditional channels.

Wholesalers and retailers may engage in ***selling against the brand***, whereby they stock well known brands, place high prices on them, and then sell other brands for lower prices. This is done to increase sales of their private brands and is disliked by manufacturers since sales of their brands decline.

Sometimes, wholesalers and retailers go outside traditional distribution channels and by ***gray market goods***—foreign-made products imported into countries by distributors (suppliers) that are not authorized by the products' manufacturers Personal stereos, VCRs, car stereos, watches, and cameras are just some of the items handled in this way. If wholesalers and retailers buy gray market goods, their purchase prices are less than they would be otherwise and they have greater control over their own selling prices. The result in often discounted prices for consumers, which may be upsetting to both manufacturers and their authorised dealers.

To maximize channel-member cooperation regarding price decision, these factors should be considered: channel-member profit margins, price guarantees, special deals, and the impact of price increases. Wholesalers and retailers require appropriate profit margins to cover their costs (such as shipping, storage, credit, and advertising) and earn reasonable profits. Thus, the prices that are charged to them must take these profit margins into account. An attempt to reduce traditional margins for channel members may lose their cooperation and perhaps find them unwilling to carry a product.

Channel members may seek price guarantee to maintain inventory values and profit. Such guarantees assure resellers that the prices they pay are the lowest available. Any discount given to competitors will also given to the original purchasers. Guarantees are most frequently requested for new firms or new products that want to gain entry into an established channel.

Special deals—consisting of limited time discounts and/or free products—are often used to stimulate reseller purchases. The deals may require channel members to share their savings with final consumers to increase the latter's demand. For example, soda bottlers normally give retailers large price discounts on new products to encourage them to make purchases and then offer low introductory prices to consumers.

The effects of price increases on chains member's behaviour must also be assessed. When firms raise prices to resellers, these increases tend to be passed along to consumers. The practice is more difficult for items with

customary prices, such as candy, where small cost rises may be absorbed by the resellers. In any event, cooperation depends on an equitable distribution of costs and profit within the channel.

Competition

Another factor contributing to the degree of control a firm has over prices in the competitive environment within which it operates. See Figure 13.4.

A ***market-controlled price environment*** is characterized by a high level of competition, similar goods and services, and little control over prices by individual firms. Those trying to charge much more than the going price would attract few customers because demand for any single firm is weak enough that customers would switch to competitors. There would similarly be little gained by selling for less because competitors would match price cuts.

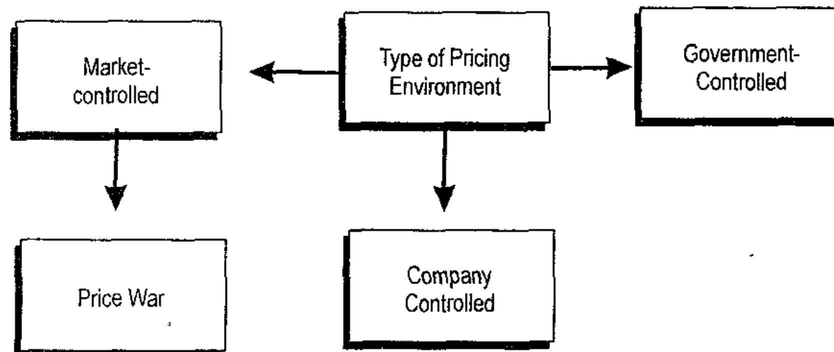


Figure 13.4: To Competitive Environment of Pricing

A ***company-controlled price environment*** is characterized by moderate competition, well differentiated goods and services, and strong control over prices by individual firms. Companies an succeed with above-average prices because people view their offerings as unique. Differentiation may be based on brand image, features, associated services, assortment or other elements. Discounts also can carve out a niche in this environment by attracting consumers interested in low prices.

A government-controlled price environment is characterized by prices being set or strongly influenced by some level of government. Examples are public utilities, mass transit, insurance, and state universities. In each case, government bodies determine or affect prices after getting input from relevant firms, institutions and/or trade associations, as well as other parties such as consumer groups.

Companies may have to adapt to a changing competitive environment in their industries. Firms in the insurance, telecommunications and financial industries have seen their price environment shift from government to market-controlled, although some strong firms in these industries have managed to develop a company-controlled price environment.

Because price strategies are rather easy and quick to copy, competitors' reactions are predictable if the firm initiating a price change does well. Thus, marketers must view price from both short and long-run perspectives. Excessive price competition may lead to lengthy and costly *price wars*, in which various firms continually try to undercut each other's prices to draw customers. These wars often result in low profits of even losses for the participants and in some companies being forced out of business.

In recents years, there have been price wars among some soft-drinks, airlines, detergents, PC makers, mobile phone companies, insurance companies, and others in India. Although price wars have been more common in United States (due to fierce competition in some industries), they are now spread-overseas—particularly to Europe and, to a lesser extent, to Japan. The impact of price wars can be dramatic.

The combination of a slowing economy, weaker demand, and bloated inventories has electronics makers whacking

prices faster than a slasher in a teen flick. Indeed, price wars once limited to the mature PC industry have even spread to the recently red-hot markets for products such as mobile handsets and digital music players. Making things worse, many markets are new crowded with too many players. That means the industry's smallest and weakest are getting squeezed—and a wave of industry consolidations and bankruptcies is likely.

Setting the Price

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work.

The firm must decide where to position its product on quality and price. In some markets, such as the cigarette market in India, as many is seven *price points* can be found

Segment	***Examples (Cigarettes)***
Ultimate	555, Marboro
Luxury	India kings
Special Needs	Classic Menthol
Middle	Gold Flake
Ease/Convenience	Wills
Me too, but Cheaper	Four Square/Red & White
Price Alone	Cavenders & exports from Bangladesh.

There can be competition between price—quality segments. Figure 13.5. shows nine price-quality strategies. The diagonal strategies 1, 5 and 9 can all coexist in the same market; that is, one firm offers a high-quality product at a high price, another offers an average-quality product at an average price, and still another offers a low-quality product at a low price. All three competitors can coexist as long as the market consists of three groups of buyers : *those who insist on quality, those who insist on price, and those who balance the two considerations.*

Strategies 2, 3 and 6 are ways to attack the diagonal positions. Strategy 2 says, "Our product has the same high quality as product 1 but we charge less." Strategy 3 says the same thing and offers an even greater savings. If quality-sensitive customers believe these competitors, they will sensibly buy from them and save money (unless firm 1's product has acquired snob appeal).

Product Quality \ Price	High	Medium	Low
High	1. Premium strategy	2. High-value strategy	3. Super-value strategy
Medium	4. Overcharging strategy	5. Medium-value strategy	6. Good-value strategy
Low	7. Rip-off strategy	8. False economy strategy	9. Economy strategy

Figure 13.5: Nine Price-Quality Strategies

Positioning strategies 4, 7 and 8 amount to overpricing the product in relation to its quality. The customers will feel "taken" and will probably complain or spread bad word of mouth about the company.

The firm has to consider many factors in setting its pricing policy. We will describe a six-step procedure: (1) selecting the pricing objective; (2) determining demand; (3) estimating costs; (4) analyzing competitor's costs, prices, and offers; (5) selecting a pricing method; and (6) selecting the final price (Figure 13.6).

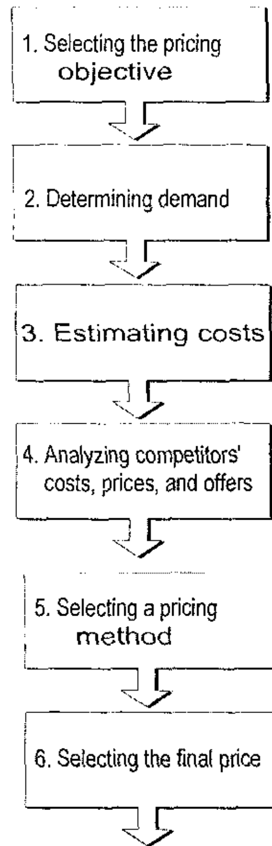


Figure 13.6. Setting Pricing Policy.

1. SELECTING THE PRICING OBJECTIVE

Although we are concerned here with pricing, we should mention again that **pricing objectives** must be coordinated with the firm's other marketing objectives. These must, in turn, flow from the company's

overall objectives. Thus, if Toshiba seeks to become the leader in developing and marketing high-technology electronics products, all of its marketing objectives, including its pricing objectives, must be consistent with that broad company mission. For example, the objectives associated with a high level of product differentiation at the overall marketing level would not generally be compatible with an objective of always setting prices below competitors' prices. The relationship of pricing decisions to organizational objectives is diagrammed in Figure 13.7.

Pricing objective : The desired result associated with a particular pricing strategy. The pricing objective must be consistent with other marketing objectives.

With organizational objectives firmly in mind, marketers pricing a good or service must determine what specific objectives are to be accomplished with the pricing strategy. Managers should know why certain prices are being charged as well as why these prices might differ from buyers to buyer and from time to time. A firm may face any a number of problems and opportunities and these may give rise to many pricing objectives. Some possible objectives are shown in the table along with possible pricing steps to be undertaken for each objective.

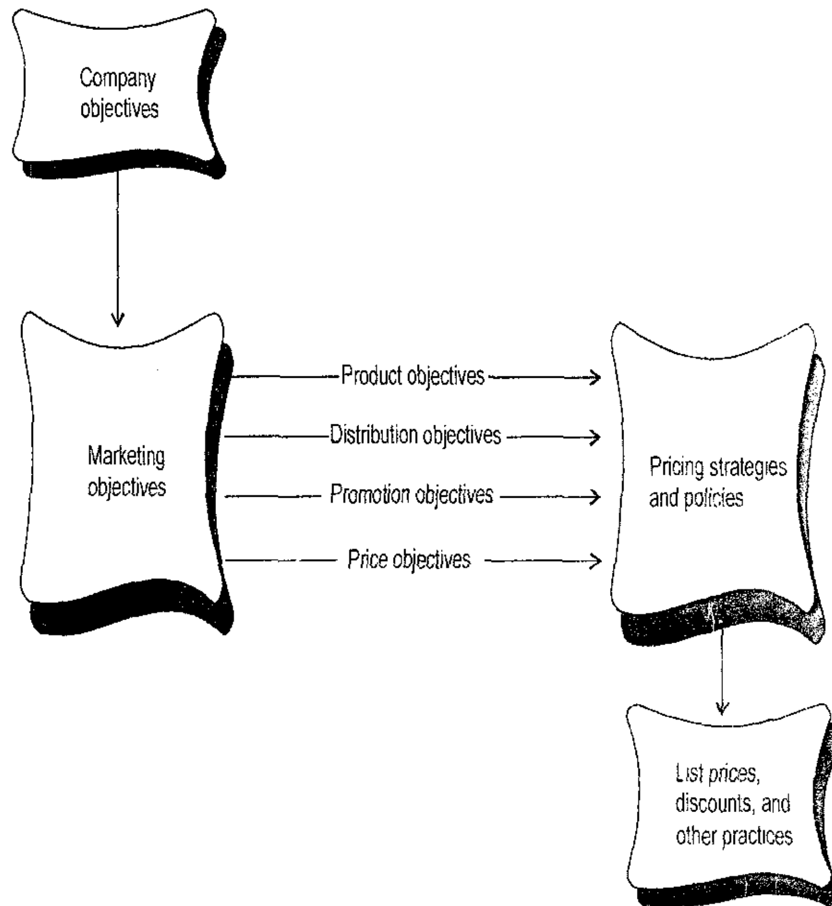


Figure 13.7: The Relationship of Pricing Decisions to Company Objectives.

The important thing to note is that each pricing strategy—each type and level of price—has logic and reason behind it. Prices are set to help bring about a result. The hoped-for result is the pricing objective. Clearly, objectives narrow the range of pricing possibilities considerably and thus greatly facilitate the determining of price.

Income-oriented Objectives

Organizations may focus on income-oriented pricing objectives because they find these goals compatible with the profitability dimension of the marketing concept. Although income-oriented objectives may be stated as short-term or long-term objectives, management should concentrate on the long run. In the short run, changes in the external environment, such as changes in a competitor's strategy, may hinder the achievement of an income target. Establishing a price that will ultimately achieve the desired profit level should remain the objective. Here, we discuss income-oriented objectives that involve achieving a target return on investment and maximizing profit.

Table 13.2: Some Organizational Objectives and the Role Pricing Can Play in Attaining Them

Main Focus of Objectives	*Pricing steps Taken*	*Why Take Such Steps ?*
Income		
Achieve a target return on investment (ROI)	Identify price levels that will yield the required return on investment	Firm may have a required return on investment and may drop product lines that cannot reach that return.
Maximize profit	Control costs and adjust prices to achieve profit maximization.	All companies would like to achieve profit maximization. Some come close to this goal, particualrly for certain items in their product lines.
Increase cash clow	Adjust prices and discounts to encourage purchases and rapid payment.	The company may face a serious cash-flow problem and be unable to meet its obligations.
Survive/Keep a concern going	Adapt prices to permit the organization to "hold on" in periods of business downturns or until a buyer can be found.	The organization may be seeking to weather an economic storm or simply hold on for a few years. The organization may be for sale, and it is easier to sell a going concern than one that is out of business.
Sales		
Maintain market share	Assure that prices contribute to keeping sales in roughly the same position relative to those of competitors.	Many companies (such as Procter & Gamble in detergents) are long-time leaders and want to keep leadership positions.
Encourage sales growth	Adjust prices and discounts to encourage more purchases by existing buyers and to attract new buyers.	The firm may need a larger group of customers to ensure growth.
Competition		
Meet competition	Set prices about equal to those of competitors. Do the same with discounts offered.	Many firms avoid price competition and compete by means of nonprice competitive moves.
Avoid competition	Set prices at a level that will discourage competition in the firm's market.	A firm with a local monopoly might choose to keep prices low so that no new competitors will be attracted to its market.
Undercut competition	Set prices lower than the competition's.	The organization might undercut competion to project a bargain image or to draw customers away from competitors.
Social Concerns		
Behave ethically	Because of special considerations, set prices at levels lower than they would have been set on income, competition, or similar market factors.	A manufacturer of prescription medicines could charge almost any price for effective drugs but "does what's right," though this is partly to avoid government regulation.
Maintain employment	Set prices at levels that will maintain production and employment of workers.	An organization with strong community ties may seek to keep townspeople employed at least until a buyer for the company can be found.

**Notice that no consideration is given here to possible responses by competitors or shifts in demand.*

Target Return on Investment. Return on investment (ROI) is the ratio of profits to assets (or net worth) for an organization, an organizational unit (such as a division), a product line, or a brand. The ROI is also called the *target profit.* If management has determined that a certain ROI is needed from each product or product line, the prices for these must be set with the return objective in mind. Such a price is referred to as an ROI price.

Return on investment (ROI) : The ratio of profits to assets (or net worth) for an organization, a unit of an organization, a product line, or a brand, also called the target profit.

Return on investment considerations are important to many pricing decisions because they provide a means to evaluate alternative marketing opportunities (or other investment options). Suppose two proposed products are expected to generate approximately the same sales volume, but one product can be priced to yield an ROI of 10 percent and the other an ROI of 30 percent. The latter product will be selected, unless a factor such as greater risk renders it less attractive. The choice between the two marketing opportunities is made easier because the ROI pricing method suggests a standard that the marketing manager can use for reference as the decision-making process continues.

Turnover (sales divided by average inventory) is an important factor in influencing the ROI to many organizations, especially retailers and wholesalers. Grocery store pricing strategies, for example, recognize that a higher return on investment may be generated if there is a rapid turnover of inventory. Thus, a grocery store might have a profit margin of less than 5 percent but a higher return on investment.

Turnover : *Sales divided by average inventory. Turnover measures the speed with which merchandise is sold.*

Profit Maximization. A form of pricing is suggested by the expression "all that the traffic will bear." Perhaps this is a distasteful idea, but in certain circumstances it works. Faced with a shortage of apartments in Mumbai. newcomers are willing to pay more rent than they had planned to pay rather than have no place to stay. Wealthy victims of cancer or other serious diseases frequently demonstrate that they will pay any price for a cure. In these and similar situations, sellers might try to raise their prices to the highest levels. This course of action is exemplified by the classic, but rare, monopolist (OPEC) that prices a good (crude oil) or service at the highest possible level. However, few, if any, businesses are free to behave in this manner, since legislation has restricted the extreme forms of profit maximization sometimes practiced by monopolies.

Aside from questions of ethics, an "all the traffic will bear" approach violates a major premise of the marketing concept : the idea that a consumer orientation and relationship building will lead to long-term profitability. Maximizing prices, even if it is tempting in the short run, can be disastrous if it results in threats, boycotts, bad public relations, or government action. Furthermore, a business charging a very high price over a short period runs the risk of being driven out of business by competitors willing to provide the same service or a substitute good at a more reasonable price. Given the realities of our market economy, then, effective marketers focus on maximizing profits over the long term and, accordingly, charge prices that will keep customers and the government comparatively content.

Sales-oriented Objectives

Prices may be set to encourage sales growth or to maintain on increase market share. Sales-oriented pricing objectives are often interwined with competitive objectives and with the company's commitment to the marketing concepts, which emphasizes profitable sales volume. We limit our discussion here to objectives concerning market share.

Market share refers to the percentage of total industry sales accounted for by a particular firm. Escorts JCB accounts for a large portion of the total sales in the excavator and road-building-tractor industry and thus has a large share of the market. In the soft-drink industry, the same is true of Coca-Cola. These companies, for financial reasons or for reasons of pride, seek to protect their impressive shares of the market. They keep their prices at reasonable levels even when it might appear that the popularity of certain items would permit them to raise prices without losing sales. The objective of this type of pricing is to maintain market share.

Market share : *The percentage of total industry sales accounted for by a particular firm or the percentage of sales of a given product accounted for by a particular brand.*

Price might also be used aggressively by firms seeking to enlarge market share. Such firms may cut prices drastically in an attempt to attract customers away from competitors. However, such a move can backfires. Competitors may begin to lower their own prices, setting off a price war. Or customers may come to believe that the price reduction signals a cutback in the product's quality. Thus, price cuts are generally used to attract customers

on a temporary basis. Coupons that expire on a certain date, rebates av ilable for a short time, and January white sales are examples of temporary price cuts.

Competition Oriented Objectives

The effective marketer invariably tempers pricing judgements with considerations related to competition. Several situations in which competition is an issue in pricing decisions are discussed here.

Avoiding Competition : One pricing objective is to under price goods and services to avoid attracting competitors. Businesses using this approach reasons that it is better to own the only store in the neighbourhood and make a reasonable profit than to make a large profit that attracts other marketers to the service area.

Meeting Competition : Businesses may find it necessary to price goods or services at apr roximately the levels charged by competitors. Indeed, unless the marketer is in the rare situation of holding an unf reakable patent on a product that is unique, difficult to copy, and in great demand, it is impossible to set prices without at least considering this strategy. Many goods are so similar that buyers can and do consider them to be virtually the same, forcing the individual firm to set its prices at the level established by competitors. New brands of coffee for example, are generally priced at the going rate because one coffee is highly substitutable for another. Most consumers will not buy a brand of regular coffee that costs Rs. 25/- more per 200 gm. than the others.

Where a brand is considerably more expensive than others, the higher pricing must be supported by other marketing strategies. These might include producing a genuinely better coffee blend, promoting the brand with an extensive advertising campaign, positioning it as a gourmet coffee, or packaging the coffee in attractive eusable containers.

Stabilizing Prices : A marketer may aim to match competitors' prices or maintain existing price differentials in order to avoid injurious price wars and help stabilize the general price level. This is a **price stabilization** strategy. It is fairly common, particularly in the retailing of fast moving consumer goods and consumer durables. Though price wars in these fields are not unheard of, normally all retailers in town charge roughly equal prices for toothpaste, and all general stores charge approximately the same price for branded products. Thus, prices remain stable and predictable.

Price stabilization : *A pricing objective aimed at avoiding widely fluctuating prices. The marketer with this objective sets prices to match competitors' prices or to maintain existing price differentials.*

Objectives Related To Social Concerns

Many organizations, especially not-for-profit organizations, set pricing objectives on the basis of social concerns. For example, zoos might be able to raise prices but refuse to do so because the organizational mission stresses public education above profit maximization. Pricing objectives for other organizations, especially sole proprietorships, might simply be to make enough to meet the payroll. Pricing objectives based on social concerns are highly interrelated with the ethical and legal aspects of pricing.

2. Determining Demand

Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. The relation between alternative prices and the resulting current demand is captured in a *demand curve* (Figure 13.8 (*a*)). In the normal case, demand and price are inversely related : the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upward. A perfume company raised its price and sold more perfume rather than less ! Some consumers take the higher price to signify a better product. However, if too high a price is charged, the level of demand may fall.

Price Sensitivity

The demand curve shows the market's probable purchase quantity at alternative prices. It sums the reactions of many individuals who have different price sensitivities. The first step in estimating demand is to understand what affects price sensitivity. Nagle has identified nine factors :

1. *Unique-value effect:* Buyers are less price sensitive when the product is more distinctive.

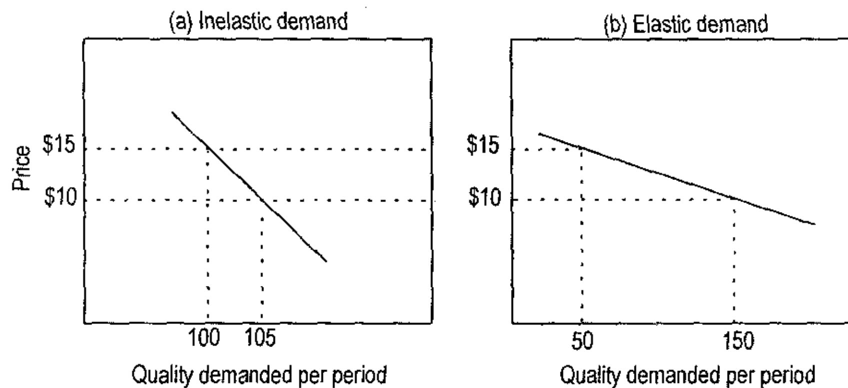


Figure 13.8: Inelastic and Elastic Demand.

2. *Substitute-awareness effect:* Buyers are less price sensitive when they are less aware of substitutes.
3. *Difficult-comparison effect:* Buyers are less price sensitive when they cannot easily compare the quality of substitutes.
4. *Total-expenditure effect:* Buyers are less price sensitive the lower the expenditure is as a part of their total income.
5. *End-benefit effect :* Buyers are less price sensitive the smaller the expenditure is to the total cost of the end product.
6. *Shared-cost effect:* Buyers are less price sensitive when part of the cost is borne by another party.
7. *Sunk-investment effect:* Buyers are less price sensitive when the product is used in conjunction with assets previously bought.
8. *Price-quality effect:* Buyers are less price sensitive when the product is assumed to have more quality, prestige or exclusiveness.
9. *Inventory effect:* Buyers are less price sensitive when they cannot store the product.

A number of forces, such as deregulation and the instant price comparison technology available over the Internet, have turned products into commodities in the eyes of consumers and increased their price sensitivity. Marketers need to work harder than ever to differentiate their offerings when a dozen competitors are selling virtually the same product at a comparable or lower price. More than ever, companies need to understand the price sensitivity of their customers and prospects and the trade-offs people are willing to make between price and product characteristics. In the words of marketing consultant Kevin Clancy, those who target only the price sensitive are "leaving money on the table." Even in the energy marketplace, where you would think than a kilowatt is a kilowatt is a kilowatt, some utility companies are beginning to wake up to this fact. They are buying power, branding it, marketing it, and providing unique services to customers.

Estimating Demand Curves

Most companies make some attempt to measure their demand curves. They can use differe ethods.

The first involves statistically analyzing past prices, quantities sold, and other factors to estimate their relationships. The data can be longitudinal (over time) or cross-sectional (different locations at the same time). Building the appropriate model and fitting the data with the proper statistical techniques calls for considerable skill.

The second approach is to conduct price experiments. Bennett and Wilkinson systematically va ed the prices of

several products sold in a discount store and observed the results. An alternative approach is to charge different prices in similar territories to see how sales are affected.

The third approach is to ask buyers to state how many units they would buy at different proposed prices. But buyers might understate their purchase intentions at higher prices to discourage the company from setting higher prices.

In measuring the price-demand relationship, the market researcher must control for various factors that will influence demand. The competitor's response will make a difference. Also, if the company changes other marketing-mix factors besides its price, the effect of the price change itself will be hard to isolate.

Price Elasticity of Demand

Marketers need to know how responsive, or elastic, demand would be to a change in price. Consider the two demand curves in Figure 13.8. With demand curve (*a*) a price increase from $10 to $15 leads to a relatively small decline in demand from 105 to 100. With demand curve (*b*), the same price increase leads to a substantial drop in demand from 150 to 50. If demand hardly changes with a small change in price, we say the demand is *inelastic*. If demand changes considerably, demand is elastic.

Demand is likely to be less elastic under the following conditions : (1) There are few or no substitutes or competitors; (2) buyers do not readily notice the higher price; (3) buyers are slow to change their buying habits and search for lower prices; (4) buyers think the higher prices are justified by quality differences, normal inflation, and so on. If demand is elastic, sellers will consider lowering the price. A lower price will produce more total revenue. This makes sense as long as the costs of producing and selling more units does not increase disproportionately.

The effects of not considering the needs of customers for whom demand is most elastic is illustrated by the subway fair change made by New York's Metropolitan Transit Authority. In 1997, the governor of New York announced that in the following year New York City subway riders would be able to purchase daily, weekly or monthly passes and avoid having to pay on a per-ride basis. By purchasing passes, riders would also benefit from a discounted fare; for users of the monthly pass, the benefit kicked in if the pass was used at least 47 times. Yet a *Barron's* journalist pointed out that the special fare did not benefit those whose demand was most elastic, sub-urban off-peak riders who use the subway the least. Here is how he segmented New York City's subway riders in terms of price elasticity : Commuters' demand curve is perfectly inlastic : No matter what happens to the fare, these people must get to work and get back home. The some what elastic demand curvê for "all riders" includes commuters who live in the city and who might use the subway for other activities if the fare were lowered. The demand curve for off-peak riders, however, is the most price elastic, because this is the group that might use the subway much more with lower fares.

Price elasticity depends on the magnitude and direction of the contemplated price change. It may be negligible with a small price change and substantial with a large price change. It may differ for a price cut versus a price increase. Finally, long-run price elasticity may differ from short-run elasticity. Buyers may continue to buy from their current supplier after a price increase, because they do not notice the increase, or the increase is small, or they are distracted by other concerns, or they find choosing a new supplier takes time. But they may eventually switch suppliers. Here demand is more elastic in the long run than in the short run. Or the reverse may happen. Buyers drop a supplier after being notified of a price increase but return later. The distinction between short-run and long-run elasticity means that sellers will not know the total effect of a price change until time passes.

3. Estimating Costs

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor. The company wants to charge a price that covers its cost of producing, distributing and selling the product, including a fair return for its effort and risk.

Types of Costs and Levels of Production

A company's costs take two forms, fixed and variable. *Fixed costs* (also known as *overhead*) are costs that do not vary with production or sales revenue. A company must pay bills each month for rent, heat, interest, salaries and so on, regardless of output.

Variable costs vary directly with the level of production. For example, each hand calculator produced by Texas Instruments involves a cost of plastic, microprocessing chips, packaging and the like. These costs tend to be constant per unit produced. They are called variable because their total varies with the number of units produced.

Total costs consist of the sum of the fixed and variable costs for any given level of production. *Average cost* is the cost per unit at that level of production; it is equal to total costs divided by production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

To price intelligently, management needs to know how its costs vary with different levels of production.

Take the case in which a company such as TI has built a fixed-size plant to produce 1,000 hand calculators a day. The cost per unit is high if few units are produced per day. As production approaches 1,000 units per day, average cost falls. The reason is that the fixed costs are spread over more units, with each one bearing a smaller fixed cost. Average cost increases after 1,000 units, because the plant becomes inefficient : Workers have to quene for machines, machines break down more often and workers get in each other's way.

If TI believes that it could sell 2,000 units per day, it should consider building a larger plant. The plant will use more efficient machinery and work arrangements and the unit cost of producing 2,000 units per day will be less than the unit cost of producing 1,000 units per day. This is shown in the long-run average cost curve in Figure 13.9 (*b*). In fact, a 3,000-capacity plant would be even more efficient according to Fig 13.9 (*b*). But a 4,000-daily production plant would be less efficient because of increasing diseconomies of scale : There are too many workers to manage and paperwork slows things down. Figure 13.9 (*b*) indicates that a 3,000-daily production plant is the optimal size to build, if demand is strong enough to support this level of production.

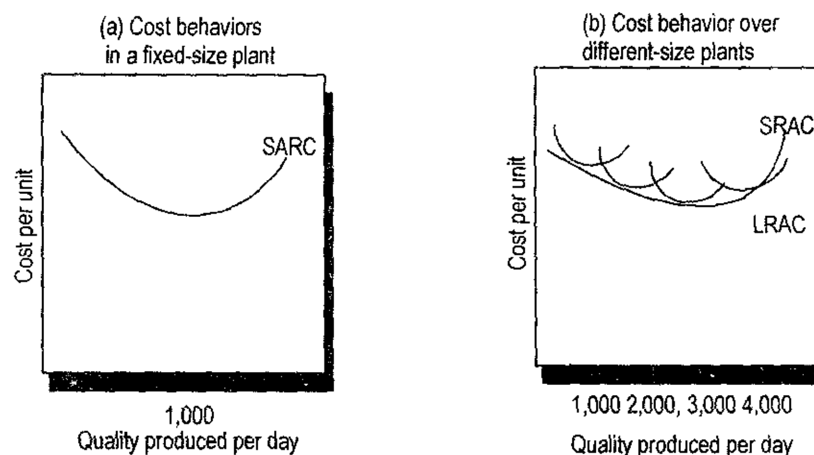


Figure 13.9. Cost per unit at Different Levels of Production per Period

Table 13.3: Key Cost Concepts and How They may Be Applied to Big-Screen Television Sets

Cost Concept	*Definition*	*Sources of Examples*	*Method of Information*	*Computation*
Total fixed costs	Ongoing costs not related to volume. They are usually constant over a given range of output for a specified time.	Rent, salaries, electricity, real-estate taxes, plant, and equipment.	Accounting data, bills, cost estimates.	Addition of all fixed cost components.
Total variable costs	Costs that change with increases or decreases in output (volume).	Parts (such as tuners and speakers), hourly employees who assemble sets, and sales commissions.	Cost data from suppliers, estimates of labour productivity, sales estimates.	Addition of all variable cost components.
Total costs and total variable	Sum of total fixed costs.	See above	See above fixed and variable	Addition of all cost components.
Average fixed costs	Average fixed costs per unit.	See above under total fixed costs.	Total fixed costs and production estiamtes.	Total fixed costs/ Quantity produced in units.
Average variable costs	Average variable costs per unit.	See above under total variable costs.	Total variable costs and production estimates.	Two variable costs/ Quantity produced in units.
Average total costs	Sum of average fixed costs and average variable costs.	See above under total fixed and total variable costs. produced in units.	Total costs and production estimates.	Average fixed costs + Average variable costs *Or* Total costs/Quantity
Marginal costs	Costs of making an additional unit.	See above under total fixed and total variable costs.	Accounting data, bills, cost estiamtes of labour and materials.	(Total costs of producing current quantity + one unit) – (Total costs of producing current quantity).

Accumulated Production

Suppose TI runs a plant that produces 3,000 hand calculators per day. As TI gains experience producing hand calculators, its methods improve. Workers learn shortcuts, materials flow more smoothly, procurement costs fall. The result, as Figure 13.10 shows, is that average cost falls with accumulated production experience.

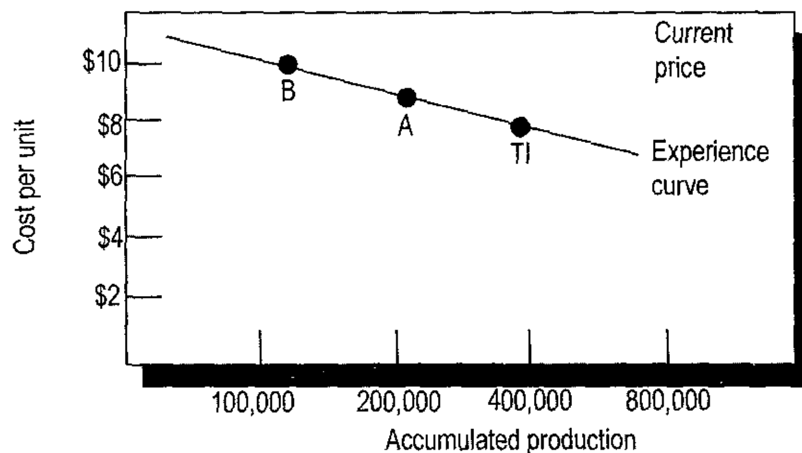


Figure 13.10: Cost per Unit as a Function of Accumulated Production: The Experience curve

Thus the average cost of producing the first 100,000 hand calculators is $10 per calculator. When the company has produced the first 200,000 calculators, the average cost has fallen to $9. After its accumulated production experience doubles again to 400,000, the average cost is $8. This decline in the average cost with accumulated production experience is called the *experience curve* or *learning curve*.

Now suppose three firms compete in this industry, TI, A and B. TI is the lowest-cost producer at $8, having produced 400,000 units in the past. If all three firms sell the calculator for $10, TI makes $2 profit per unit, A makes $1 per unit, and B breaks even. The smart move for TI would be to lower its price to $9. This will drive B out of the market, and even A will consider leaving. TI will pick up the business that would have gone to B (and possibly A). Furthermore, price-sensitive customers will enter the market at the lower price. As production increases beyond 400,000 units. TI's costs will drop still further and faster and more than restore its profits, even at a price of $9. TI has used this aggressive pricing strategy repeatedly to gain market share and drive others out of the industry.

Experience-curve pricing nevertheless carries major risks. Aggressive pricing might give the product a cheap image. The strategy also assumes that the competitors are weak and not willing to fight. Finally, the strategy leads the company into building more plants to meet demand while a competitor innovates a lower-cost technology and obtains lower costs than the market leader, who is now stuck with the old technology.

Most experience-curve pricing has focused on manufacturing costs. But all costs, including marketing costs, are subject to learning improvements. If three firms are each investing a large sum of money trying telemarketing, the firm that has used it the longest might achieve the lowest telemarketing costs. This firm can charge a little less for its product and still earn the same return, all other costs being equal.

Differentiated Marketing Offers

Today's companies try to adapt their offers and terms to different buyers. Thus a manufacturer will negotiate different terms with different retail chains. One retailer may want daily delivery (to keep stock lower) while another retailer may accept twice-a-week delivery in order to get a lower price. As a result, the manufacturer's costs will differ with each chain, and its profits will differ. To estimate the real profitability of dealing with different retailers, the manufacturer needs to use *activity-based cost (ABC) accounting* instead of *standard cost accounting*.

ABC accounting tries to identify the real costs associated with serving different customers. Both the variable costs and the overhead costs must be tagged back to each customer. Companies that fail to measure their costs correctly are not measuring their profit correctly. They are likely to misallocate their marketing effort. Identifying the true costs arising in a customer relationship also enables a company to explain its charges better to the customer.

Target Costing

We have seen that costs change with production scale and experience. They can also change as a result of a concentrated effort by the company's designers, engineers, and purchasing agents to reduce them. The Japanese use a method called *target costing*. They use market research to establish a new product's desired functions. Then they determine the price at which the product will sell given its appeal and competitors' prices. They deduct the desired profit margin from this price, and this leaves the target cost they must achieve. They then examine each cost element—design, engineering, manufacturing, sales—and break them down into further components. They consider ways to reengineer components, eliminate functions, and bring down supplier costs. The objective is to bring the final cost projections into the target cost range. If they can't succeed, they may decide against developing the product because it couldn't sell for the target price and make the target profit. When they can succeed, profits are likely to follow.

4. ANALYZING COMPETITOR'S COSTS, PRICES AND OFFERS

Within the range of possible prices determined by market demand and company costs, the firm must take the competitors' costs, prices and possible price reactions into account. If the firm's offer is similar to a major competitor's offer, then the firm will have to price close to the competitor or lose sales. If the firm's offer is inferior, the firm will

not be able to charge more than the competitor. If the firm's offer is superior, the firm can charge more than the competitor. The firm must be aware, however, that competitors might change their prices in response.

5. SELECTING A PRICING METHOD

Given the three Cs—the customers' demand schedule, the cost function, and competitors' prices—the company is now ready to select a price. *Figure 13.11 summarizes the three major considerations in price setting.* Costs set a floor to the price. Competitors' prices and the price of substitutes provide an orienting point. Customers' assessment of unique product features establishes the ceiling price.

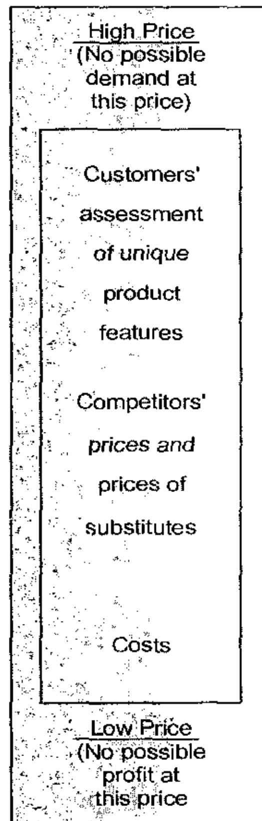


Figure 13.11: The Three Cs Model for Price Setting.

Companies select a pricing method that includes one or more of these three considerations. We will examine six price-setting methods : markup pricing, target-return pricing, perceived-value pricing, value pricing, going-rate pricing, and sealed-bid pricing.

Markup Pricing

The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers and accountants typically price by adding a standard markup on their time and costs. Defense contractors charge their cost plus a standard markup.

Suppose a toaster manufacturer has the following costs and sales expectations :

Variable cost per unit	$ 10
Fixed cost	300,000
Expected unit sales	50,000

The manufacturer's unit cost is given by :

$$\text{Unit cost} = \text{variable cost} + \frac{\text{Fixed costs}}{\text{Unit sales}} = \$10 + \frac{\$300{,}000}{50{,}000} = \$16$$

Now assume the manufacturer wants to earn a 20 percent markup on sales. The manufacturer's markup price is given by :

$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$16}{1 - 0.2} = \$20$$

The manufacturer would charge dealers $20 per toaster and make a profit of $4 per unit. The dealers in turn will mark up the toaster. If dealers want to earn 50 percent on their selling price, they will mark up the toaster to $40. This is equivalent to a cost markup of 100 percent.

Markups are generally higher on seasonal items (to cover the risk of not selling), speciality items, slower moving items, items with higher storage and handling costs, and demand-inelastic items, such as prescription drugs. Unfortunately, those least able to pay for prescription drugs are often those most burdened by the markups : uninsured individual customers and the elderly on Medicare.

Does the use of standard markups make logical sense ? Generally, no. Any pricing method that ignores current demand, perceived value, and competition is not likely to lead to the optimal price. Markup pricing works only if the marked-up price actually brings in the expected level of sales.

Companies introducing a new product often price it high hoping to recover their costs as rapidly as possible But a high-markup strategy could be fatal if a competitor is pricing low. This happened to Phillips, the Dutch electronics manufacturer, in pricing its videodisc players. Philips wanted to make a profit on each videodisc player. Meanwhile, Japanese competitors priced low and succeeded in building their market share rapidly, which in turn pushed down their costs substantially.

Still, markup pricing remains popular for a number of reasons. First, sellers can determine costs much more easily than they can estimate demand. By tying the price to cost, sellers simplify the pricing task. Second, where all firms in the industry use this pricing method, prices tend to be similar. Price competition is therefore minimized, which would not be the case if firms paid attention to demand variations when they priced. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers do not take advantage of buyers when the latter's demand becomes acute, and sellers earn a fair return on investment.

Target-Return Pricing

In *target-return pricing*, the firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20 percent ROI. This pricing method is also used by public utilities, which need to make a fair return on their investment.

Suppose the toaster manufacturer has invested $1 million in the business and wants to set price to earn a 20 percent ROI, specifically $200,000. The target-return price is given by the following formula :

$$\text{Target-return price} = \frac{\text{unit cost} + \text{desired return} + \text{invested capital}}{\text{unit sales}}$$

$$= \$16 + \frac{.20 \times \$1{,}000{,}000}{50{,}000} = \$20.$$

The manufacturer will realize this 20 percent ROI provided its costs and estimated sales turn out to be accurate. But what if sales do not reach 50,000 units ? The manufacturer can prepare a *break-even chart* to learn what would happen at other sales levels (Figure 13.12). Fixed costs are $300,000 regardless of sales volume. Variable costs, not shown in the figure, rise with volume. Total costs equal the sum of fixed costs and variable costs. The total revenue curve starts at zero and rises with each unit sold.

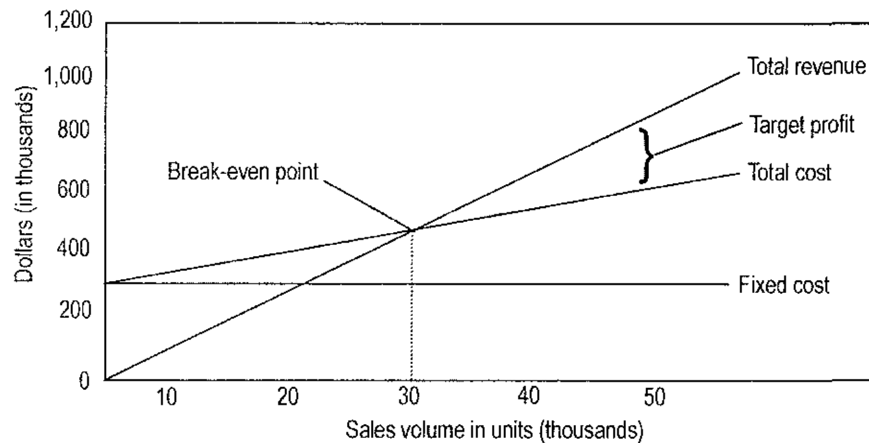


Figure 13.12. Break-Even Chart for Determining Target-Return Price and Break-Even Volume

The total revenue and total cost curves cross at 30,000 units. This is the *break-even volume.* It can be verified by the following formula :

$$\text{Break-even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}} = \frac{\$300{,}000}{\$20 - \$10} = 30{,}000$$

The manufacturer, of course, is hoping that the market will buy 50,000 units at $20, in which case it earns $200,000 on its $1 million investment. But much depends on price elasticity and competitor's prices. Unfortunately, target-return pricing tends to ignore these considerations. The manufacturer needs to consider different prices and estimate their probable impacts on sales volume and profits. The manufacturer should also search for ways to lower its fixed or variable costs, because lower costs will decrease its required break-even volume.

Perceived-Value Pricing

An increasing number of companies base price on the customer's *perceived value*. They see the buyers' perceptions of value, not the seller's cost, as the key to pricing. They use the other marketing-mix elements, such as advertising and sales force, to build up perceived value in buyers' minds.

DuPont is a major practitioner of perceived-value pricing. When DuPont developed its new synthetic fiber for carpets, it demonstrated to carpet manufacturers that they could afford to pay DuPont as much as $1.40 per pound for the new fiber and still make their target profit. DuPont calls the $1.40 the *value-in-use price*. But pricing the new material at $1.40 per pound would leave the carpet manufacturers indifferent. So it set the price lower than $1.40 to induce carpet manufacturers to adopt the new fiber. DuPont did not use its manufacturing cost to set the price but only to judge whether there was enough profit to go ahead in the first place.

DuPont also embeds each chemical into a larger offering so that it is not seen as a commodity but rather as a solution to a customer's problem. Consider the following:

Attribute	*Standard Offer*	*Premium Offer*	*Added Value*
Quality	Impurities less than ten parts per million	Impurities less than one part per million	$1.40
Delivery	Within two weeks	Within one week	.15
System	Supply chemical only	Supply total system	.80
Innovation	Little R&D support	High level R&D support	2.00
Retraining	Train initially	Retrain on request	.40
Service	Through home office purchases	Locally available	.25
Price	$100/pound	$105/pound	$5.00

The chemical is part of a standard offer or a premium offer. The customer who wants the premium offer pays $105 instead of $100 a pound. The customer may end up requesting fewer added values. DuPont is willing to *unbundle* the premium offer and charge only for the chosen added values.

Caterpillar also uses perceived value to set prices on its construction equipment. It might price its tractor at $100,000, although a similar competitor's tractor might be priced at $90,000. When a prospective customer asks a Caterpillar dealer why he should pay $10,000 more for the Caterpillar tractor, the dealer answers:

$ 90,000	is the tractor's price if it is only equivalent to the competitor's tractor
$ 7,000	is the price premium for Caterpillar's superior durability
$ 6,000	is the price premium for Caterpillar's superior reliability
$ 5,000	is the price premium for Caterpillar's superior service
$ 2,000	is the price premium for Caterpillar's longer warranty on parts
$110,000	is the normal prices to cover Caterpillar's superior value
– $ 10,000	discount
$100,000	final price

The Caterpillar dealer is able to indicate why Caterpillar's tractor delivers more value than the competitor's. Although the customer is asked to pay a $10,000 premium, he is actually getting $20,000 extra value! He chooses the Caterpillar tractor because he is convinced that its lifetime operating costs will be lower.

The key to perceived-value pricing is to determine the market's perception of the offer's value accurately. Sellers with an inflated view of their offer's value will over-price their product. Sellers with an underestimated view will charge less than they could. Market research is needed to establish the market's perception of value as a guide to effective pricing

Value Pricing

In recent years, several companies have adopted *value pricing*, in which they charge a fairly low price for a high-quality offering. Value pricing says that the price should represent a high-value offer to consumers.

The computer industry has gone from seeking top dollar for computers with the most technology to putting out computers with basic features for lower prices.

Recently Procter & Gamble created quite a stir by reducing its price on Pampers and Luvs diapers, liquid Tide detergent, and Folger's coffee to value price them. In the past, a brand-loyal family had to pay what amounted to a $725 premium for a year's worth of P&G products versus private-label or low-priced brands. To offer value prices, P&G underwent a major overhaul. It redesigned the way it develops, manufactures, distributes, prices, markets, and sells products to deliver better value at every point in the supply chain. Value pricing is not a matter of

simply setting lower prices on one's products compared to competitors. It is a matter of reengineering the company's operations to become a low—cost producer without sacrificing quality and lowering prices significantly to attract a large number of value-conscious customers.

An important type of value pricing is everyday low pricing (EDLP), which takes place at the retail level. A retailer who holds to an EDLP pricing policy charges a constant, everyday low price with no temporary price discounts. These constant prices eliminate week-to-week price uncertainty and can be contrasted to the "high-low" pricing of promotion-oriented competitors. In high-low pricing, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level.

Retailers adopt EDLP for a number of reasons, the most important of which is that constant sales and promotions are costly and have eroded consumers confidence in the credibility of everyday shelf prices. Consumers also have less time and patience for such time-honoured traditions as watching for supermarket special and clipping coupons.

Yet, there is no denying that promotions create excitement and draw shoppers. For this reason, EDLP is not a guarantee of success. As supermarkets face heightened competition from their counterparts and from alternative channels, many find that the key to drawing shoppers is using a combination of high-low and everyday low pricing strategies, with increased advertising and promotions.

Going-Rate Pricing

In *going-rate pricing*, the firm bases its price largely on competitors' prices. The firm might charge the same, more, or less than major competitor(s). In oligopolistic industries that sell a commodity such as steel, paper or fertilizer, firms normally charge the same price. The smaller firms "follow the leader," changing their prices when the market leader's prices change rather than when their own demand or costs change. Some firms may charge a slight premium or slight discount, but they preserve the amount of difference.

Going-rate pricing is quite popular. Where costs are difficult to measure or competitive response is uncertain, firms feel that the going price represents a good solution. It is thought to reflect the industry's collective wisdom as to the price that will yield a fair return and not jeopardize industrial harmony.

Sealed-Bid Pricing

Competitive-oriented pricing is common where firms submit sealed bids for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price bid. At the same time, the firm cannot set its price below cost.

The net effect of these two opposite pulls can be described in terms of the bid's expected profit (Table 13.4). Suppose a bid of $9,500 would yield a high chance of getting the contract (say 81 percent) but only a low profit, say $100. The expected profit is calculated by multiplying the company's profit by the probability of winning the bid. Thus the expected profit of this bid is $81. If the firm bid $11,000, its profit would be $1,600, but its chance of getting the contract might be reduced, say to 1 percent. The expected profit would thus be only $16. One logical bidding criterion would be to bid the price that would maximize the expected profit. According to Table 13.4, the best bid would be $10,000, for which the expected profit is $216.

Using expected profit for setting price makes sense for the firm that makes many bids. In playing the odds, the firm will achieve maximum profits in the long run. The firm that bids only occasionally or that needs a particular contract badly will not find it advantageous to use the expected-profit criterion. This criterion, for example, does not distinguish between a $1,000 profit with a 0.10 probability and a $125 profit with an 0.80 probability. Yet the firm that wants to keep production going would prefer the second contract to the first.

6. Selecting the Final Price

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the

company must consider additional factors, including psychological pricing, the influence of other marketing-mix elements on price, company pricing policies, and the impact of price on other parties.

Table 13.4: Effect of Different Bids on Expected Profit.

Company's Bid	*Company's Profit*	*Probability of Getting Award with this Bid (Assumed)*	*Expected Profit*
$ 9,500	$ 100	0.81	$ 81
10,000	600	0.36	216
10,500	1,100	0.09	99
11,000	1,600	0.01	16

Psychological Pricing

Many consumers use price as an indicator of quality. When Fleischmann raised the price of its gin from $4.50 to $5.50 a bottle, its liquor sales went up, not down. Image pricing is especially effective with ego-sensitive products such as perfumes and expensive cars. A $100 bottle of perfume might contain $10 worth of scent, but gift givers pay $100 to communicate their high regard for the receiver.

Price and quality perceptions of cars interact. Higher-priced cars are perceived to possess high quality. Higher-quality cars are likewise perceived to be higher priced than they actually are. When alternative information about true quality is available, price becomes a less significant indicator of quality. When this information is not available, price acts as a signal of quality.

When looking at a particular product, buyers carry in their minds a *reference price* formed by noticing current prices, past prices, or the buying context. Sellers often manipulate these reference prices. For example, a seller can situate its product among expensive products to imply that it belongs in the same class. Department stores will display women's apparel in separate departments differentiated by price; dresses found in the more expensive department are assumed to be of better quality. Reference-price thinking is also created by stating a high manufacturer's suggested price, or by indicating that the product was priced much higher originally, or by pointing to a competitor's high price.

Many sellers believe that prices should end in an odd number. Many customers see a Bata shoe priced at Rs. 599.95 instead of Rs. 600/- as a price in the Rs. 500/- range rather than Rs. 600/- range. Another explantation is that odd endings convey the notion of a discount or bargain. But if a company wants a high-price image instead of a low-price image, it should avoid the odd-ending tactic.

The Influence of Other Marketing-Mix Elements

The final price must take into account the brand's quality and advertising relative to competition. Farris and Keibstein examined the relationships among relative price, relative quality, and relative advertising for 227 consumer businesses and found the following :

- Brands with average relative quality but high relative advertising budgets were able to charge premium prices. Consumers apparently were willing to pay higher prices for known products than for unknown products.
- Brands with high relative quality and higher relative advertising obtained the highest prices. Conversely, brands with low quality and low advertising charged the lowest prices.
- The positive relationship between high prices and high advertising held most strongly in the later stages of the product life cycle for market leaders.

Company Pricing Policies

The price must be consistent with company pricing policies. Many companies set up a pricing deparment to

develop policies and establish or approve decisions. The aim is to ensure that the sales people quote prices, that are reasonable to customers and profitable to the company.

Impact of Price on Other Parties

Management must also consider the reaction of other parties to the contemplated price. How will distributors and dealers feel about it ? Will the sales force be willing to sell at that price ? How will competitor react? Will suppliers raise their prices when they see the company's price ? Will the government intervene and prevent this price from being charged ?

In the last case, marketers need to know the laws regulating pricing. U.S. legislation states that sellers must set prices without talking to competitors : *Price-fixing* is illegal. Many federal and state statutes protect consumers against deceptive pricing practices. For example, it is illegal for a company to set artificially high "regular" prices, then announce a "sale" at prices close to previous everyday prices.

Adapting The Price

Companies usually do not set a single price but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts and other factors. As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product that it sells. Here we will examine several price-adaptation strategies : geographical pricing, price discounts and allowances, promotional pricing, discriminatory pricing, and product-mix pricing.

Geographical Pricing (Cash, Countertrade, Barter)

Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries. For example, should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business ? Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchaser. Many buyers want to offer other items in payment, a practice known as *countertrade*. American companies are often forced to engage in countertrade if they want the business. Countertrade may account for 15 to 25 percent of world trade and takes several forms : barter, compensation deals, buyback agreements, and offset.

- *Barter:* The direct exchange of goods, with no money and no third party involved. Coca-Cola will sell its soft drink in return for high quality vodka to a Russian company.
- *Compensation deal:* The seller receives some percentage of the payment in cash and the rest in products. A British aircraft manufacturer sold planes to Brazil for 70 percent cash and the rest in coffee.
- *Buyback arrangement:* The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment. Levy's built a plant for an Hungarian company and accepted partial payment in cash and the remainder in jeans manufactured in that plant.
- *Offset:* The seller receives full payment in cash but agrees to spend a substantial amount of that money in that country within a stated time period. For example, an armament manufacturer sells its arms and ammunition to Saudi Arabia and agrees to buy Saudi Arabian products at a certain rate for sale in the United States.

More complex countertrade deals involve more than two parties. For example, Daimler-Benz agreed to sell 30 trucks to Romania and accept in exchange 150 Romanian-made jeeps, which it sold in Ecuador for bananas, which in turn were sold to a German supermarket chain for deutsche marks. Through this circuitous, transaction, Dalmer-Benz finally achieved payment in German current. Deals such as this are carried on by a separate countertrade department within the company. Other companies rely on barter houses and countertrade specialists to assist them.

Price Discounts and Allowances

Most companies will adjust their list price and give *discounts* and *allowances* for early payment, volume purchase, and off-season buying (see Table 13.5). Companies must do this carefully or find that their profits are much less than planned.

Jack Trout, author of *Positioning* and several other marketing guidebooks, cautions that some categories tend to self-destruct by always being on sale. Mink coats and mattresses, says Trout, never seem to be sold at anything near list price, and when automakers get rebate happy, the market just sits back and waits for a deal. Discount pricing has become the *modus operandi* of a surprising number of companies offering both products and services. Even Pepsi and Coke, two of the most popular brands in the world, engaged in a price war, which ultimately tarnished their brand equity.

Promotional Pricing

Companies can use several pricing techniques to stimulate early purchase.

- *Loss-leader pricing :* Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. The manufacturers of these brands typically disapprove of their products being used as loss leaders because this practice can dilute the brand image and bring complaints from other retailers who charge the list price. Manufacturers have tried to restrain intermediaries from loss-leader pricing through lobbying for retail-price-maintenance laws, but these laws have been revoked.

Table 13.5: Price Discounts and Allowances.

Cash Discounts :	A cash discount is a price reduction to buyers who pay their bills promptly. A typical example is "2/10, net 30," which means that payment is due within 30 days and that the buyer can deduct 2 percent by paying the bill within 10 days, such discounts are customary in many industries.
Quantity Discounts :	A *quantity discount* is a price reduction to those buyers who buy large volumes. A typical example is "Rs. 100/- per unit for less than 100 units; Rs. 95/- per unit for 200 or more units." Quantity discounts must be offered equally to all customers and must not exceed the cost savings to the seller associated with selling large quantities. They can be offered on a noncumulative basis (on each order placed) or a cumulative basis (on the number of units ordered over a given period.)
Functional Discounts :	*Functional discounts* (also called *trade discounts*) are offered by a manufacturer to trade-channel members if they will perform certain functions, such as selling, storing and record keeping. Manufacturers may offer different functional discounts to different trade channels but must offer the same functional discounts within each channel.
Seasonal Discounts :	A *seasonal discount* is a price reduction to buyers who buy merchandise or services out of season. Ski manufacturers will offer seasonal discounts to retailers in the spring and summer to encourages early ordering. Hotels, tourism companies and airlines will offer seasonal discounts in slow selling periods.
Allowances :	Allowances are extra payments designed to gain reseller participation in special programs. *Trade-in allowances* (also called exchange offer) are price reductions granted for turning in an old item when buying a new one. Trade-in allowances are most common in durable-goods (like Television, Washing machine etc.) categories. *Promotional allowances* are payments or price reductions to reward dealers for participating in advertising and sales support programs.

- *Special-event pricing:* Sellers will establish special prices in certain seasons to draw in more customers. Every July, there are back-to-school sales in most of the Indian cities.
- *Cash rebates:* Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories with/without cutting the stated list price. Buy 2 get 1 free schemes (although cash discount/rebate is not involved) helps in clearing the stocks in garment segment.
- *Low-interest financing:* Instead of cutting its price, the company can offer customers low interest financing. Automakers have announced 3 percent financing and in some cases no-interest financing to attract customers (of course there'll always be a hidden cost in one form or the other which must be born by the customer. Otherwise how the dealers and companies are going to earn the profits).
- *Longer payment terms:* Sellers, especially lending banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (*i.e.*, the interest rate) of a loan and more about whether they can effort the monthly payment. In the long run customer may end up paying more than double the amount of loan as interest.
- *Warranties and service contracts:* Companies can promote sales by adding a free or low-cost warranty or service contract. Warranties are always on those items which are not easily breakable for *e.g.*, metallic parts in a car.
- *Psychological discounting :* This strategy involves setting an artificially high price and then offering the product at substantial savings; for example, "Was $359, now $299. Illegitimate discount tactics are fought by the Federal Trade Commission and Better Business Bureaus. However, discounts from normal prices are a legitimate form of promotional pricing.

Promotional-pricing strategies are often a zero-sum game. If they work, competitors copy them and they lose their effetiveness. If they do not work, they waste company money that could have been put into longer impact marketing tools, such as building up product quality and service or strengthening product image through advertising.

Discriminatory Pricing

Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. *Discriminatory pricing* occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. Discriminatory pricing takes several forms :

- *Customer-segment pricing :* Different customer groups are charged different prices for the same product or service. For example, museums & railways often charge a lower admission fee to students and senior citizens. BSNL charges less if the users use the facility during the night time.
- *Product-form pricing :* Different versions of the product are priced differently but not proportionately to their respective costs. Evian prices a 48-ounce bottle of its mineral water at $2.00. It takes the same water and packages 1.7 ounces in a moisturizer spray for $6.00. Through product form pricing, Evian manages to charge $3.00 an ounce in one form and about $.04 an ounce in another.
- *Image pricing :* Some companies price the same product at two different levels based on image differences. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at Rs. 100/- for 150 ml. It can put the same perfume in another bottle with a different name and image and price it at Rs. 250/- for 150 ml.
- *Location pricing :* The same product is priced differently at different locations even though the cost of offering at each location is the same. A theater varies its seat prices according to audience preferences for

different locations. In the cinema halls, nearer the seat lower will be the prices whereas in a live concert nearer seats fetch higher prices.

- *Time pricing :* Prices are varied by season, day or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. A special from of time pricing is *yield pricing*, which is often used by hotels and airlines to ensure high occupancy. To ensure that all its berths are full, for example, a cruise ship may lower the price of the cruise two days before sailing. Telephone and electricity companies per unit charges increase with the consumption level.

For price discrimination to work, certain conditions must exist. First, the market must be segmentable and the segments must show different intensities of demand. Second, members in the lower-price segment must not be able to resell the product to the higher-price segment. Third, competitors must not be able to under sell the firm in the higher-price segment. Fourth, the cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination. Fifth, the practice must not breed customer resentment and ill will. Sixth, the particular form of price discrimination must not be illegal.

As a result of deregulation in several industries, competitors have increased their use of discriminatory pricing. Airlines charge different fares to passengers on the same flight depending on the seating class (first class or economy class); the time of day (morning or night coach); the day of the week (workday or weekend); the season the person's company, past business, or status (youth, military, senior citizen); and so on. Airlines are using yield pricing to capture as much revenue as possible.

Computer technology is making it easier for sellers to practice discriminatory pricing. For instance, they can use software that monitors customer's movements over the Web and allows them to customize offers and prices to each customer. New software applications, however, are also allowing buyers to discriminate between sellers by comparing prices instantaneously.

Some forms of price discrimination (in which sellers offer different price terms to different people within the same trade group) are illegal. However, price discrimination is legal if the seller can prove that its costs are different when selling different volumes or different qualities of the same product to different retailers. *Predatory pricing*—selling below cost with the intention of destroying competition—is against the law.

But although predatory pricing is thought to be against the law, courts regard it as a legal fiction : theoretically against the law but almost impossible to prove. A new generation of economists, however, is arguing it is wrong and illegal, especially where software is concerned. Economist Brian Arthurs holds that once a company gains a decisive lead in an industry, such as computing, where there is a strong tendency for consumers to band around one standard, it is almost impossible for rivals to unseat it (even when the predator raises its prices). The U.S. government's antitrust lawsuit against Microsoft could well bring attention to what many perceive as its predatory pricing tactics, even through the suit focuses on other grievances :

- **Microsoft :** When the software giant target a market for domination, it frequently wins over customers with an irresistible offer : free products. In 1996, Microsoft started giving away Internet Explorer, its Web browser—and in some cases arguably even "paid" people to use it by offering free software and marketing assistance. The strategy was crucial in wrestling market dominance from Netscape Communications corporation. Netscape constantly revised its pricing structure but "better than free" is not the most appealing sales pitch. Right now, most of Microsoft's giveaways are offered as part of its effort to gain share in the interactive corporate computing market. For instance, the company is offering free web-server software to customers who purchase the Windows NT network operating system. Netscapes seller a higher powered version of the same software for $4,100. Yet it's not the giveaways themselves that cause rivals to label Microsoft as a predator but the company's tendency to raise prices above market levels after it gains the lion's share of the market. The wholesale price it charges PC makers for its Windows operating system (in which is bundled the Internet Explorer) has doubled during the past seven years.

Product-mix Pricing

Price-setting logic must be modified when the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes profits on the total mix. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations involving product-mix pricing : product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

Product-Line Pricing

Companies normally develop product lines rather than single products and introduce price steps.

- **Intel :** In the fall of 1997, Intel segmented its product line into micro-processors aimed at specific markets, such as cheap PCs, mid tier "performance" PCs, and powerful corporate servers. This strategy let Intel balance thin profits from products like the Celerons, which sell for as little as $86 and go into low-priced PCs, with cash cows like the Pentium II Xeon work-station and server chips, which cost up to $2,000. The company's most profitable chips are the mid-range Pentium IIs, used in 97 percent of all PCs priced over $1,500.

In many lines of trade, sellers use well-established price points for the products in their line. A men's clothing store might carry men's shirts at three price levels : Rs. 500/-, Rs. 1000/-, Rs. 1,500/-. Customers will associate low-, average-, and high-quality shirts with the three price points. The seller's task is to establish perceived-quality differences that justify the price differences.

Optional-Feature Pricing

Many companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing these options is a sticky problem, because companies must decide which items to include in the standard price and which to offer as options. For many years, U.S. auto companies advertised a stripped-down model for $10,000 to pull people into showrooms. The economy model was stripped of so many features that most buyers left the showroom spending $13,000.

Captive-Product Pricing

Some products require the use of ancillary, or *captive*, products. Manufacturers of razors and cameras often price them low and set high markups on razor blades and film respectively. For *e.g.*, Gillette and Kodak

There is a danger in pricing the captive product too high in the *aftermarket* (the market for ancillary supplies to the main product). Dealers of cars, for example, makes high profits in the aftermarket by pricing its parts and service high. This practice has given rise to "pirates", who counterfeit the parts and sell them to "shady tree" mechanics who install them, sometimes without passing on the cost savings to customers. Meanwhile, the dealers loses sales on the parts as well as service.

Two-Part Pricing

Service firms often engage in *two-part pricing*, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond a certain number of units. Theme/water parks charge an admission fee plus fees for everything that the customers use. The service firm faces a problem similar to captive-product pricing—namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase of the service; the profit can then be made on the usage fees.

By-product Pricing

The production of certain goods—edible oil, petroleum products, and other chemicals—often results in by-products. If the by-products have value to a customer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

Sometimes companies don't realize how valuable their by-products are. Until Zoo-Doo Compost Company came along, many zoos did not realize that one of their by-products—their occupants' manure—could be an excellent source of additional revenue.

Product-Bundling Pricing

Sellers often bundle their products and features at a set price. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theater company will price a season subscription less than the cost of buying all the performance separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

Some customers will want less than the whole bundle. Suppose a medical equipment supplier's offer includes free delivery and training. A particular customer might ask to forgo the free delivery and training in exchange for a lower price. The customer is asking the seller to "unbundle" or "rebundle" its offer. If a supplier saves $100 by not supplying delivery and reduces the customer's price by $80, the supplier has kept the customer happy while increasing its profit by $20.

Initiating and Responding to Price Changes

Companies often face situations where they may need to cut or raise prices.

Initiating Price Cuts

Several circumstances might lead a firm to cut its price. One is *excess plant capacity.* The firm needs additional business and cannot generate it through increased sales effort, product improvement, or other measures. It may resort to aggressive pricing. But in initiating a price cut, the company may trigger a price war. Another circumstance is a *declining market share.* Maruti Suzuki, for example, cut its Maruti Esteem car prices by 5-7 percent in the country when competition starts making inroads.

Companies sometimes initiate price cuts in a *drive to dominate the market through lower costs.* Either the company starts with lower costs than its competitors or it initiates price cuts in the hope of gaining market share and lower costs. But a price-cutting strategy involves possible traps :

- *Low-quality trap :* Consumers will assume that the quality is low and that is why the company is offering its product at such a low price *e.g.,* AIWA.
- *Fragile-market-share trap :* A low price buys market share but not market loyalty. The same customers will shift to any lower-price firm that comes along and it is always possible that a competitor can offer the products at lower price than yours.
- *Shallow-pockets trap :* The higher-priced competitors may cut their prices and may have longer staying power because of deeper cash reserves and this will drive out the competitiors who cannot se[illegible] the price lower than their costs on a long term.

Companies may have to cut their prices in a period of *economic recession.* During hard times, consumers reduce their spending. Some possible company responses are given in Table 13.6.

Table 13.6. Marketing-Mix Alternatives.

	Strategic Options	*Reasoning*	*Consequences*
1.	Maintain price and perceived quality. Engage in selective customer pruning.	Firm has higher customer loyalty. It it willing to lose poorer customers to competitors.	Smaller market share. Lowered profitability.
2.	Raise price and perceived quality.	Raise price to cover rising costs. Improve quality to justify higher prices.	Smaller market share. Maintained profitability.
3.	Maintain price and raise perceived quality.	It is cheaper to maintain price and raise perceived quality.	Smaller market share. Short-term decline in profitability. Long-term increase in profitability.
4.	Cut price partly and raise perceived quality.	Must give customers some price reduction but stress higher value of offer.	Maintained or increased market share. Short-term decline in profi-tability. Long-term maintained profitability.
5.	Cut price fully and maintain perceived quality.	Discipline and discourage price competition.	Maintained market share. Short-term decline in profitability.
6.	Cut price fully and reduce perceived quality.	Discipline and discourage price competition and maintain profit margin.	Maintained market share. Maintained margin. Reduced long-term profitability.
7.	Maintain price and reduce perceived quality.	Cut marketing expense to combat rising costs.	Smaller market share. Maintained margin Reduced longterm profitability.
8.	Introduce an economy model.	Give the market what it wants.	Some cannibalization but higher total volume.

Initiating Price Increases

A successful price increase can raise profits considerably. For example, if the company's profit margin is 3 percent of sales, a 1 percent price increase will increase profits by 33 percent if sales volume is unaffected. This situation is illustrated in Table 13.7. The assumption is that a company charged $10 and sold 100 units and had costs of $970, leaving a profit of $30 or 3 percent on sales. By raising its price by 10 cents (1 percent price increase), it boosted its profits by 33 percent, assuming the same sales volume.

A major circumstance provoking price increases is *cost inflation*. Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than the cost increase in anticipatory pricing. Companies hesitate to offer long-term price contracts.

Another factor leading to price increases is overdemand. When a company cannot supply all of its customers, it can raise its prices, ration supplies to customers, or both. The price can be increased in the following ways. Each has a different impact on buyers.

- *Delayed quotation pricing:* The company does not set a final price until the product is finished or delivered. Delayed quotation pricing is prevalent in industries with long production lead times, such as industrial construction and heavy equipment.
- *Escalator clauses:* The company requires the customers to pay today's price and all or part of any inflation increase that takes place before delivery. An escalator clause bases price increases on some specified price index. Escalator clauses are found in many contracts involving industrial projects of long duration.
- *Unbundling:* The company maintains its price but removes or prices separately one or more elements that were part of the former offer, such as free delivery or installation. Many restaurants have shifted from total dinner pricing to a la carte pricing. A joke in countries with high inflation is that the current price of a car no longer includes the tires and steering wheel.

- *Reduction of discounts :* The company instructs its sales force not to offer its normal cash and quantity discounts.

A company needs to decide whether to raise its price sharply on a one-time basis or to raise it by small amounts several times. When costs rose for Supercuts stores (a franchised chain of hairdressers), management debated between raising the haircut price immediately from $10 to $12 or raising the price to $11 this year and $12 the following year. Generally, consumers prefer small price increases on a regular basis to sharp price increases.

Table 13.7: Profits Before and After a Price Increase

	Before	After	
Price	$ 10	$ 10.10	(a 1 percent price increase)
Units sold	100	100	
Revenue	$ 1000	$ 1010	
Costs	- 970	- 970	
Profit	$ 30	$ 40	(a 33 1/3 percent profit increase)

In passing price increases on to customers, the company must avoid the image of being a price gouger. Companies also need to think of who will bear the brunt of increased prices. Customer memories are long, and they will turn against companies they perceive as price gougers when the market softens. This happened to Kellogg, the breakfast cereal company :

- **Kellogg :** Throughout the 1980s, Kellogg pushed up the prices of its break-fast cereals and its stock price soared. The company justified the price increase by saying that with more and more women working, families would not worry about the rising cost of cereal. Although the strategy worked for quite some time, in the early 1990s people did begin to be concerned about just how much that box of cornflakes was costing, and Kellogg's fortune began to fade. Kellogg responded by cutting costs and closing plants. The company even lowered cereal prices a bit. But while the move hurt profits, it did not help sales as the company had hoped.

There are some techniques for avoiding this image : One is that a sense of fairness must surround any price increase, and customers must be given advance notice so they can do forward buying or shop around. Sharp price increases need to be explained in understandable terms. Making low-visibility price moves first is also a good technique : Eliminating discounts, increasing minimum order sizes, curtailing production of low-margin products are some examples. And contracts or bids for long-term projects should contain escalator clauses based on such factors as increases in recognized national price indexes.

Companies can also respond to higher costs or overdemand without raising prices. The possibilities include the following:

- Shrinking the amount of product instead of raising the price. (Hershey Food maintained its candy bar price but trimmed its size. Nestle maintained its size but raised the price).
- Substituting less expensive materials or ingredients. (Many candy-bar companies substituted synthetic chocolate for real chocolate to fight the price increases in cocoa).
- Removing or reducing product services, such as installation or free delivery.
- Using less expensive packaging material or larger package sizes.
- Reducing the number of sizes and models offered.
- Creating new economy brands. (Jewel food stores introduced 170 generic items selling at 10 percent to 30 percent less than national brands).

Reactions to Price Changes

Any price change can provoke a response from customers, competitors, distributors, suppliers and even government.

Customer's Reactions

Customers often question the motivation behind price changes. A price cut can be interpreted in different ways : The item is about to be replaced by a new model; the item is faulty and is not selling well; the firm is in financial trouble; the price will come down even further; the quality has been reduced.

A price increase, which would normally deter sales, may carry some positive meanings to customers: The items is "hot" and represents an unusually good value.

Customers are most price sensitive to products that cost a lot or are bought frequently. They hardly notice higher prices on low cost items that they buy infrequently. Some buyers are less concerned with price than with the total costs of obtaining, operating, and servicing the product over its lifetime. A seller can charge more than competitors and still get the business if the customer can be convinced that total life time costs are lower.

Competitors' Reactions

A firm contemplating a price change has to worry about competitors' reactions. Competitors are most likely to react where the number of firms are few, the product is homogeneous, and buyers are highly informed.

How can a firm anticipate a competitor's reactions ? One way is to assume that the competitor reacts in a set way to price changes. The other is to assume that the competitor treats each price change as a fresh challenge and react according to self-interest at the time. In this case, the company will have to figure out what lies in the competitor's self-interest. It will need to research the competitor's current financial situation, recent sales, customer loyalty, and corporate objectives. If the competitor has a market-share objective, it is likely to match the price change. If it has a profit-maximization objective, it may react by increasing the advertising budget or improving product quality.

The problem is complicated because the competitor can put different interpretations on a price cut : that the company is trying to steal the market, that the company is doing poorly and trying to boost its sales, or that the company wants the whole industry to reduce prices to stimulate total demand.

Responding to Competitors' Price Changes

How should a firm respond to a price cut initiated by a competitor ? In markets characterized by high product homogeneity, the firm should search for way to enhance its augmented product, but if it cannot find any, it will have to meet the price reduction. if the competitor raises its price in a homogeneous product market, the other firms might not match it, unless the price increase will benefit the industry as a whole. By not matching it, the leader will have to rescind the increase.

In non-homogeneous product markets, a firm has more latitutde. The firm needs to consider the following issues : (1) Why did the competitor change the price ? Is it to steal the market, to utilize excess capacity, to meet changing cost conductions, or to lead an industrywide price change ? (2) Does the competitor plan to make the price change temporary or permanent ? (3) What will happen to the company's market share and profits if it does not respond ? Are other companies going to respond ? (4) What are the competitor's and other firms' responses likely to be to each possible reaction ?

Market leaders frequently face aggressive price cutting by smaller firms trying to build market share. Using price, Fuji attacks Kodak, Pepsi attacks Coca-Cola, and Ariel attacks Surf. Brand leaders also face lower-priced private store brands. The brand leader can respond in several ways :

- *Maintain price :* The leader might maintain its price and profit margin, believing that (1) it would lose too much profit if it reduced its price, (2) it would not lose much market share, and (3) it could regain market share

when necessary. The leader believes that it can hold on to good customers and give up the poorer ones. However, the argument against price maintenance is that the attacker gets more confident, the leader's sales force gets demoralized, and the leader loses more share than expected. The leader panics, lower price to regain share, and finds that regaining its market position is more difficult and costly than expected.

- *Maintain price and add value :* The leader could improve its product, services, and communications. The firm may find it cheaper to maintain price and spend money to improve perceived quality than to cut price and operate at a lower margin.
- *Reduce price :* The leader might drop its price to match the competitor's price. It might do so because (1) its costs fall with volume, (2) it would lose market share because the market is price sensitive, and (3) it would be hard to rebuild market share once it is lost. This action will cut profits in the short run.
- *Increase price and improve quality :* The leader might raise its price and introduce new brands to bracket the attacking brand.

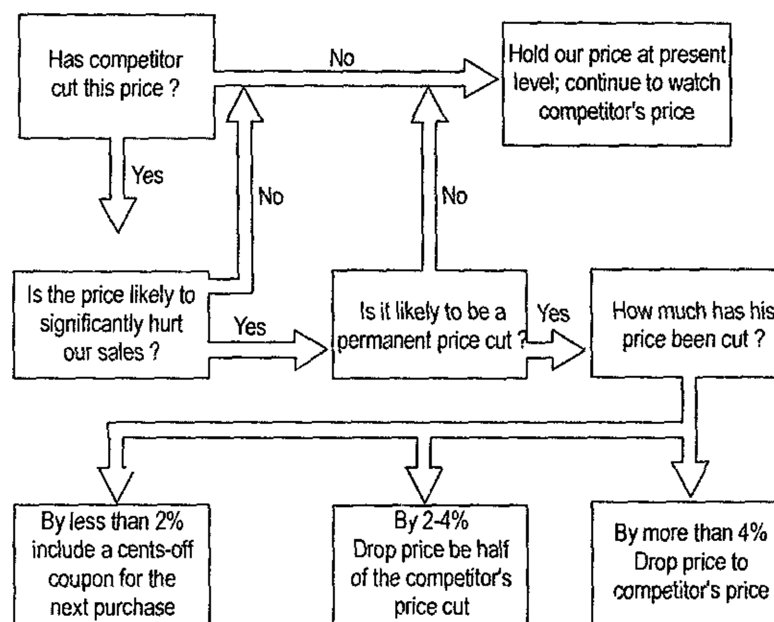


Figure 13.13: Price-Reaction Program for Meeting a Competitor's Price Cut

- *Launch a low-price fighter line:* Add lower-price items to the line or create a separate lower-price brand. Eastman Kodak introduced a low-priced seasonal film called Funtime. Miller Beer launched a lower-priced beer brand called Red Dog.

The best response varies with situation. The company has to consider the product's stage in the life cycle, its importance in the company's portfolio, the competitor's intentions and resources, the market's price and quality sensitivity, the behaviour of costs with volume and the company's alternative opportunities.

An extended analysis of company alternatives may not be feasible when the attack occurs. The company may have to react decisively within hours or days. It would make better sense for the company to anticipate possible competitors' price changes and to prepare contingent responses. Figure 13.13 shows a *price-reaction program* to be used if a competitor cuts prices. Reaction programs for meeting price changes find their greatest application in industries where price changes occur with some frequency and where it is important to react quickly—for example, in the soft drinks, detergents or mobile phone service industries.

PRICING STRATEGIES

A wide range of pricing strategies are available to marketing managers, as shown in Table 13.8. Managers may use

several of these strategies to arrive at a price that reflects market realities, costs, consumer perceptions, and other considerations. Pricing strategies may be broadly categorized under five headings:

1. Differential pricing strategies
2. Competitive pricing strategies
3. Product-line pricing strategies
4. Psychological and image pricing strategies
5. Distribution-based pricing strategies

DIFFERENTIAL PRICING STRATEGIES

Differential pricing strategy : *A strategy whereby an organization charges different prices to different buyers of the same product.*

An organization that sells the same product to different buyers at different prices is using a *differential pricing strategy.* The type of industry strongly influences whether an organization uses differential pricing.

ONE-PRICE POLICY VERSUS VARIABLE PRICING

One-price strategy : *A strategy whereby an organization charges a single price for a product regardless of the circumstances surroundings the sale, the quantity bought or any other unique aspect of the exchange.*

Determining whether to maintain a fixed price for all customers or to vary the prices from buyer to buyer is a basic pricing decision. Holding the price same for all buyers is termed a *one-price strategy* (or a one-price policy, if it is routinely used for all pricing decisions).

In the India, most retailers follow a one-price policy. Whether a millionaire or a child with only Rs. 10/- enters the general store, the price of the choclate is the same. Some marketers defend this strategy on the grounds that it is fair and democratic not to charge prices that might favour one customer over another.

Table 13.8: The Basic Pricing Strategies

Differential pricing strategies	**Product-line pricing strategies**
Variable pricing	Total-profit pricing
Second-market discounting	Captive pricing
Skimming	Leader pricing
Periodic discounting	Bait pricing
Random discounting	Price lining
	Price bundling
Competitive pricing strategies	Multiple-unit pricing
Meeting the competition	
Undercutting the competition	**Psychological and image pricing strategies**
Price leadership	Reference pricing
Following the leader	Odd and even pricing
Penetration pricing	Prestige pricing
Predatory pricing	
Traditional pricing	**Distribution-based pricing strategies**
Inflationary pricing	F.O.B.
	Delivered pricing
	Zone pricing
	Uniform delivered pricing
	Basing-point pricing

A one-price policy provides the advantage of simplicity of administration, which leads, in turn, to lower personnel expenses. This is the main reason most retailers use it. Salespeople and clerks need not debate the price of a packet of bread or a yard of cloth with each customer.

Among marketers that adopt a differential pricing strategy, the most popular is the *variable pricing strategy*, in which marketers allow customers to negotiate in an attempt to secure a favourable price. In many foreign markets,

variable pricing is the rule. In the United States, automobile and real estate purchases often present such an opportunity. Variable pricing developed in the automobile industry as a response to customers desire to trade in their older models. When variable prices are used, each salesperson must be able to handle customers' questions, complaints and attempts to have the price reduced. While the supermarkets one-price policy allows it to employ less experienced, lower-paid clerks, the automobile dealer must hire active salespeople—and pay them comparatively high commissions—to administer its variable price policy.

Variable pricing strategy : *A differential pricing strategy whereby an organization allows customers to negotiate a price that varies from buyer to buyer.*

Where haggling is allowed, large companies usually find themselves in a better position than smaller firms to drive a hard bargain with suppliers. Federal legislation prohibits the use of variable pricing policies when they might give large of powerful organizational buyers competitive advantages over small organisational buyers.

However, there are many situations in which seller and buyer engage in a bit of give and take. The variable pricing policy allows for this.

Internet auctions and *reverse auctions* on the Internet are a new form of variable pricing. Companies such as Bazee.com consider themselves online trading communities. Auctions on the Internet operate in a manner similar to the way traditional auctions work : When the auction closes, the highest bidder gets to purchase the good or service for sale. In a reverse auction, a buyer who wants to get the best price on an item indicates a willingness to buy and then allows sellers to compete for his or her business. Typically the buyer picks a maximum price he or she would pay for the item and does not accept sellers' bids higher than this price.

Second-market Discounting

Second-market discounting is a differential pricing strategy designed to sell a brand at one price in the core target market and at a reduced price in a secondary market segment. For example, art museum tickets, railway tickets etc. are often discounted to students and senior citizens. Theaters, airline and utilities may vary their prices among buyers. A theater's matinee price is ordinarily less than the evening price; a plane ticket is less expensive if one flies on a weekend; the industrial user generally pays more for electricity than the homeowner. The price differences are usually treated as "discounts or penalties" rather than price variants. They are not illegal under the Robinson-Patman Act because the groups of buyers are not considered to be in competition with one another.

Second-market discounting : *A differential pricing strategy whereby a product is sold at one price in the core target market and at a reduced price in a secondary market.*

Excess capacity is a requirement for a second-market discounting strategy. An organization exporting products to foreign markets may choose this strategy to make use of its excess capacity and to reduce its average production costs.

Skimming price : *A relatively high price, often charged at the beginning of a product's life. The price is systematically lowered as time goes by.*

A **skimming price** is a high price intended to "skin the cream off the market." It is best employed at the start of a product's life, when the product is novel and consumers are uncertain about its value. For example, compact disc players first sold at prices of about Rs. 10,000/-. Now they can be purchased for as little Rs. 2000/-. Mobile phone handsets have done similarly. New handsets were introduced at high price and with the passage of time their price comes down.

This pattern—pricing high and systematically reducing price over time—allows companies to establish a flow of revenue that covers research and development expenses, as well as the high initial costs of bringing the product to market. A skimming strategy assumes the existence of a relatively strong inelastic demand for the product, often because the product has status value or because it represents a true breakthrough. Price is used as a means to segment the market on the basis of discretionary income or degree of need for the product. As the product life cycle

progresses, prices are reduced in response to competitive pressures, and new market segments become the key targets. Marketing managers are most likely to embrace a skimming strategy when production capacity limits output or when competitors face some barrier to market entry. For instance, during early stage of Nutra Sweet's product life cycle, when G.D. Searle and Company had a patent on the product, Searle charged the highest possible prices to soft-drink companies, the customers with the greatest need for the artificial sweetener. As it increased production capacity, and as other food manufacturers began to demand Nutra Sweet for diet versions of their products, Searle progressively lowered prices. In 1992, when its patent expired, it lowered its prices again and began heavily promoting the Nutra Sweet brand name to solidify brand loyalty.

Periodic Discounting

Periodic discounting: *A pricing strategy whereby discounts are offered systematically and predictably.*

Like skimming, *periodic discounting* uses price reductions that are predictable over time. The basic strategy is to price high and to discount systematically as time elapses. Summer fashion items are reduced in price in midsummer. Long-distance telephone calls are cheaper after 8:00 P.M. The price changes associated with periodic discounting take place over shorter time periods than those associated with skimming. Further, prices may be expected to rise in subsequent periods.

Random Discounting

Random discounting : *A pricing strategy whereby discounts are offered occasionally and unpredictably.*

The *random discounting* pricing strategy involves lowering the price of a product randomly to entice new customer, perhaps by means of coupons or featured prices. It is designed so that customers do not anticipate the reduced prices and therefore do not postpone purchases at the regular price. In its simplest form, the strategy is designed so that regular and high-in-come customers routinely buy at the normal (high) price and price-conscious shoppers purchase at the sale price. The key to implementing this strategy is to ensure that consumers can't predict the timing of the discounts.

Competitive Pricing Strategies

Competitive pricing strategies are used by organizations that have competitive pricing objectives. Dominant firms may use pricing to exploit their positions. Weak firms may opt for the role of follower.

Meeting The Competition

Meeting-the-competition strategy : *A pricing strategy whereby an organization sets prices at level equal to those of competitors.*

Organizations concerned with meeting competition quite naturally set prices at levels equal to those of competitors— the going rate. Many U.S. firms choose a *meeting-the-competition strategy* to avoid price competition and price-cutting wars. This approach tends to shift competition to areas other than price. Setting prices for organizational products may be considerably different from setting prices for consumer products. An organizational buyer may solicit competitive bids, asking various suppliers to submit independent price quotations for a specific order. This permits the buyer to obtain the lowest possible price for products that meet certain predetermined specifications. When they must submit price quotes, many marketers adopt competitive pricing strategies.

For many custom-made products, the supplier may request a proposal from the buyer indicating the exact nature of the product or service that will be sold, often, the buyer and the seller will then negotiate a price.

Undercutting the Competition

Undercutting-the-competition strategy : *A pricing strategy whereby an organization sets prices at levels lower than those of competitors.*

An **undercutting-the-competition strategy** emphasizes offering the lowest price among available choices. Marketers implementing this approach often use price as the focal point of the entire marketing strategy. For

instance, most discount stores highlight undercutting the competition (traditional retailers). Their lower markup helps generate a higher volume of merchandise sales.

Many large organizations, especially those that compete in the global market-place, also favour this strategy. Multinational organizations and others that price to undercut the competition often have certain advantages because of production costs. For example, many Asian electronic manufacturers pay relatively low wages, and their low labour costs allow them to undercut prices in many of their export markets. Organizations experienced in producing a product often find that their know-how and technical expertise provide economies of scale, which allow them to undercut competition with a discount strategy.

Price Leadership Strategy

Price leadership strategy : *A strategy whereby organizations with large market shares and production capacities determine a price level that other, weaker organizations in the same industry will follow.*

Price leadership strategies are implemented by organizations that have large shares of the market and of the production capacity in their industries. Such organization have enough market information and enough control over their distribution systems to determine a price adjustments without starting price wars and can make their announced prices stick. Price leaders are often sensitive to the price and profit needs of the rest of the industry. Some organizations, especially those in weak competitive positions, adopt a *follow-the-leader strategy* by simply pricing as the market leader does.

Follow-the-leader strategy : *A pricing strategy whereby an organization sets prices at the level the market leader has established. It is used especially by organizations in weak competitive positions.*

Penetration Pricing

Penetration price : *A low introductory price meant to quickly establish a product in the market.*

Predatory pricing strategy : *An illegal pricing strategy whereby the price of a product is set low to eliminate competition and then raised to a high level after competition has been eliminated.*

A **penetration price** is a low introductory price. In the shot run, it may even result in a loss. A penetration pricing strategy is implemented when a competitive situation is well established (or soon will be) and a low price in the introductory stage of the product life cycle will be necessary to break into the market. Penetration pricing is an alternative to skimming. Its objective is to enable a new product to become established and survive in the long run. A company achieves this objective by pricing so low that a profit is possible only if the company sells a relatively high volume and obtains a large market share. Penetration pricing is likely to be the most effective and desirable approach under one or more of the following conditions:

1. When demand for the product is very sensitive to price (elastic demand)
2. When it is possible to achieve substantial economies in the unit cost of manufacturing and/or distributing the product by operating at high volume (economies of scale).
3. When a brand faces threats of strong competitive imitation soon after introduction because there is no patent protection, no high capital requirement for production, and no other factors to keep competition out of the market (strong competitive threat).
4. When market segments do not appear to be meaningful and there is mass market acceptance of the product (mass market acceptance)

When Motorola, Apple and IBM jointly introduced the Power PC microprocessor, they use a penetration pricing strategy. They priced the microprocessor very low relative to Intel's Pentium, assuming that the production cost per chip would be dramatically lowered if they produced at high volume and obtained a high market share in the share run. This would have been a successful pricing strategy if it had eliminated competitors. Unfortunately for Motorola, Apple and IBM, Intel was too well established in the computer chip market to be dislodged strictly on the basis of

price.

The logic of penetration pricing is that the strategy will reduce the threat of competitive imitation because the small profit margin will discourage low-cost imitators from entering the market. Furthermore, by increasing the size of the total market or its market share, the marketer establishes strong brand loyalty and increases the brand's dominance in consumers' minds.

An organization trying to establish a monopoly might set prices low to restrict or eliminate competition and then raise prices high, after all competition had been eliminated. This **predatory pricing strategy** is illegal under the Sherman Antitrust Act and the Robinson-Patman Act.

Traditional Pricing

Certain prices are set largely by tradition rather than by individual marketers. These customary prices may remain unchanged for long periods. The Rs. 2/- phone calls, although now a thing of the distant past, was priced at the same level for decades. Toffees tended to be priced so that they could be paid for with coins. As chocolate and sugar prices rose or fell, the bars got smaller or larger, but the price (25 paise or 50 paise) remained the same. Until that time, only a few bars were priced higher than the traditional price, and these were backed by appropriate supporting policies. The Rs. 2/- toffee in the 50 paise era was bigger than the others and of better quality, and it was heavily promoted. Today, toffees that break with the going rate have similar attributes.

Figure 13.14. portrays the demand situation faced by firms in industries where prices have become established at particular levels. Should a company attempt to raise prices above the traditional level, the result will be considerably decreased sales. On the other hand, notice that a reduction in price will not produce sales increases that justify the price cut. Demand is thus elastic above the traditional price (P_t) but inleastic below it. The resulting curve is "kinked." This condition arises because consumers' beliefs and habits are so ingrained that price reductions are attributed to some negative change, such as a perceived lowering of quality, rather than to competitive market pressures.

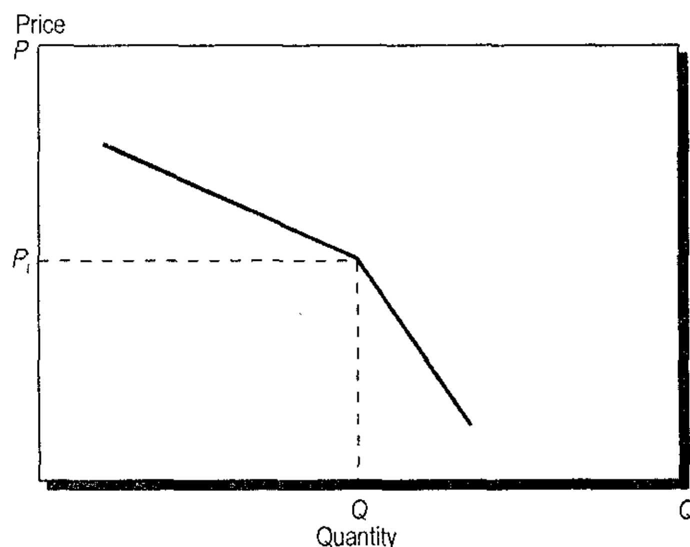


Figure 13.14: Kinked Demand Curve Facing Marketers of Products Sold at a Traditional Price

The kinked demand curve also characterizes oligopolistic markets, in which a small number of marketers must price at traditional market level to maximize profits. Oligopolists, which are highly sensitive to competitive price shifts, generally respond in kind to price reductions. Thus, there is no advantage in price reductions; they will only lead to a lower market price adhered to by all of the oligopolists.

Inflationary Pricing

Executives focus increased attention on pricing strategies when inflation rates are high. During periods of inflation, buying power declines for consumers as well as for many organizational, buyers and most buyers become more price conscious and sensitive to price changes. To make sure its brands offer value, Gillette bases its pricing based on a market-basket approach. Marketing managers keep daily track of a collection of lowly items, including a newspaper, a toffee and a can of Coke, that are all priced under a dollar. Then Gillette never raises its prices faster than the rate of increase in the price of the market basket. The company does not believe in a what-the-market-will-bear pricing strategy. Gillette believes that consumers have a relative-value consciousness. If the price of some things gets out of whack, consumers feel as if they are getting ripped off.

Increased price awareness heightens price competition. Products may be altered to permit the offering of lower-priced alternatives. For example, during an inflationary period, an airline may continue to offer dependable air service while cutting some of the "free" frills and extra services rather than increasing price.

Organizations may react to inflation by changing the size or amount of the product sold. When the toffee manufacturers raised prices and enlarged bar size, perceived value was enhanced even though price per ounce increased. Alternatively, distribution systems may be tightened in an effort to hold costs down. Advertising and personal selling messages can stress lower prices and better values when customers are known to be especially sensitive to price.

Product-line Pricing Strategies

Many pricing strategists consider the product line, rather than individual product items, to be the appropriate unit of analysis. The objective of product-line pricing is to maximize profits for the total product line rather than to obtain the greatest profits for any individual item in the line. Marketers who do this are said to focus on *total-profit pricing* rather than on item *profit pricing.*

Captive Pricing

> ***Captive pricing strategy :*** *A strategy whereby a basic product, such as a razor, is priced low but the profits from associated products needed for operating the basic product, such as razor blades, makeup for the lack of often the basic product.*

A camera manufacturer may set low prices on cameras in the hope of making significant profits on film. Firms such as Gillette sells its razors at low prices to encourage long-term purchase of blades that fit the razors. In a **captive pricing strategy**, the basic product is priced low, often below cost, but the high markup on supplies required to operate the basic product makes up for that low price.

Leader Pricing and Bait Pricing

> ***Lossleader :*** *A product priced below cost to attract consumers, who may then make additional purchases.*

A common pricing strategy that sacrifices item profit for total profit is *leader pricing.* Most consumers are familiar with the concept of the **loss leader**, the product that the seller prices at a loss os as to attract customers who may than buy other goods or services. Consumers are perhaps less aware of similar strategies involving *cost leader* and *low-profit leaders.* Here again, products are priced to attract bargain hunting customers, who may make additional purchases. The leader items, however are sold not at a loss but at the seller's cost (the cost leader) or at a very small profit (the low-profit leader). Such pricing strategies can be quite effective. For example, when Target discount stores priced selected popular video-games at two-third of the regular price, they tripled store traffic. Goods so priced are usually familiar, frequently purchased items that customers will be able to recognize as bargains. Reduced prices on cavier and goat meat would not accomplish the same objective.

> ***Bait pricing :*** *A method of attracting customers by offering low-priced items by sale with the intention of selling more expensive goods.*

Bait pricing involves attracting customers by advertising low-priced models of, for example, televisions. Although the bait item is available for sale in sufficient quantity, the marketer's expectation is to trade the customer up to a

higher-margin model that is also available for sale. This strategy may be an effective means to sell higher-margin items.

The term *bait and switch,* however, is used when the merchant has no intention of selling the bait merchandise but only intends to convince the customer to buy more expensive goods. In fact, the item used in the bait-and-switch scheme is sometimes referred to as the "nailed-down model", so unlikely is it that it will be sold. Bait and switch has an ungavory reputation and is often and target of attention from the Federal Trade Commission.

Price Lining

Price-lining strategy : *A strategy whereby a seller prices products in a product line in accordance with certain "price points" believed to be attractive to buyers.*

A marketer using a **price-lining strategy** prices the products in a product line according to a number of "price points." Price points are simply specific prices. A marketer selling a full product line establishes certain prices points to differentiate the items in the line.

Many retailers, especially retailers, practice price lining. A dress store ordinarily does not stock dresses priced at Rs. 395/-, Rs. 380/-, Rs. 375/-, and so on, down to Rs. 200/-. Instead, the prices offered are Rs. 350/-, Rs. 500/-, Rs. 750/-, and the like. These prices are believed by the store owner to be "strong price points," or prices that are greatly attractive to buyers. The assumption is that a good number of dresses will be sold at Rs. 500/- but that not many more will be sold at prices lower than Rs. 500/- until the price reaches the next strong price point, Rs. 350/-. Similarly, if the price is raised from Rs. 500/-, there will be a rapid drop in sales until the next strong price point is reached.

Price lining simplifies consumers' buying decisions. Shopper can first select a price point and then choose from the assortment in the price line based on colour, style, or other product characteristics. It also simplifies the retailer's decisions about what specific prices should be selected.

Price Bundling and Multiple Unit Pricing

Price-bundling strategy : *A strategy whereby the price of a group of products in lower than the total of the individual prices of the components. An example is selling a new car with an "options package."*

With a **price-bundling strategy**, a group of products in sold as a bundle at a price lower than the total of the individual prices. The bargain price for the "extras" provides an incentive for the consumer. Selling a car with an "option package" is an example of a price-bundling strategy.

Microsoft Corporation combined a price-bundling strategy with a product strategy in its Microsoft Office 97, a so-called suite of software. Suites are bundle of applications—for example, spreadsheets, word-processing programs, and graphics programs—sold together for a fraction of what they would cost if purchased separately. Microsoft Office 97 combines Microsoft Word, Microsoft Excel, Microsoft Power point, Microsoft Access, and Microsoft Explorer.

The Marketer using a price-bundling strategy benefits by increasing total revenues and, in many instances, reducing manufacturing costs. Inventory costs may also be reduced when marketers bundle slow-selling items with popular items to deplete inventory.

Multiple-unit pricing : *Selling more than one unit of a product at a price lower than the sum of the individual unit prices, as in a four-for-the-price-of-three sale.*

Price bundling differs from **multiple-unit pricing** (as in a two-for-one sale) and quantity discounts because "enhanced" products or multiple products are sold rather than increased quantities of a particular product.

Multiple-unit p :ing, in addition to attracting new customers through lower prices, may increase overall consumption of the product. Consumers who bring home two six-packs rather than a single six-pack may increase consumption, for example. The major disadvantage of multiple-unit pricing is that regular customers may stock up on the product

and postpone future purchases until other "specials" appear.

Psychological and Image Pricing Strategies

Like any other stimulus, a price may be selectively perceived by consumers. Consumers may infer something about a brand's value or image from its price. When customers choose brands because their prices send a message, they are responding to a psychological or image pricing strategy.

Reference Pricing

Reference pricing strategy : *A strategy where by a moderate price is set for a version of a product that will be displayed next to a higher-priced model of the same brand or next to a competing brand.*

Isolation effect : *An effect by which a product appears more attractive next to a higher-priced alternative than it does in isolation.*

Retailers often use a **reference pricing strategy**, in which they choose a moderate price for a version of a product that will be displayed next to a higher-priced model of the same brand or a competitive brand. This strategy is based on the **isolation effect**, which suggests that a choice looks more attractive next to a high-priced alternative than it does in isolation. Reference pricing is also used by catalog retailers such as Service Merchandise to convey the idea that they offer bargain prices. The catalog may show "reference price", "store price" and "sale price".

Odd Versus Even Pricing

One seldom sees consumer packaged goods priced at $2.00, $5.00 or $10.00. Instead, they are normally priced at odd amounts such as $1.87, $4.98 and $9.99. Odd prices have, in fact, become tradtional.

The use of odd prices is based on the belief that for example, a price of $1.95 is seen by consumers as only a dollar plus some small change. Advocates of odd pricing assume that more sales will be made at certain prices than at prices just one or two cents higher. However the published research findings in this area are inconclusive about he benefits of odd pricing. There are those who suggest that a price of $1.98 is seen as $2.00 and that deeper cuts-says, to $1.75—are necessary to achieve the intended psychological effect. The practice of odd pricing does have a practical purpose. It forces clerks to use the cash register to make change, thus creating a record of the sale and discouraging employee dishonesty.

Even prices are often used to good effect by the marketers of services and high-quality merchandise. A physician charges Rs. 500/- for your annual check-up. A gold ring costs Rs. 2,500/-. Even prices are said to be most effective when the objective is to create an image of high quality or to appeal to upscale consumers.

Prestige Pricing

Prestige price : *A high price meant to convey an impression of high quality.*

For many products, consumers use price to infer quality, especially when it is difficult to determine quality by inspection. Certain products are demanded in part because of their high prices. Perfumes, furs and gems are among them. These products are high-status goods, and marketers often charge a **prestige price** for them to portray an image of high quality.

Distribution-based Pricing Strategies and Tactics

Many prices are based on the geographic distance separating the buyer from the point of sale or the point of production. Prices are not always higher as the buyer gets further from the seller. However, in most cases, geographic pricing policies reflect management's attempt to recover some or all of the costs involved in shipping products long distance.

F.O.B.

F.O.B. : *"Freight on board" or "Free on board"; a term used to identify the point at which title passes from seller to buyer. For example, "F.O.B. factory" means that the buyer takes title at the factory and is responsible for all shipping charges.*

A common form of geographic pricing is **F.O.B.**, which stands for either "freight on board" or "free on board." The letters never stand alone but are always followed by the name of a specific place as in "F.O.B. factory" or "F.O.B. Noida." This place name tells the buyer the point to which the seller will ship the goods. At that point, the buyer takes title to the goods and becomes responsible for shipping charges. A consumer in Ludhiana might buy a Japanese auto "F.O.B. New Delhi". This means that the price quoted includes shipment to New Delhi; all other transportation costs are extra.

DELIVERED PRICING

> ***Delivered pricing :*** *Pricing that includes delivery within a specified area; also known as* fright-allowed pricing.

When a department store advertises that the price of a sofa is "$1,500 delivered in our area," that store is practicing **delivered pricing**, or *freight-allowed pricing.* The delivery charges are built into the price paid by the consumer. Occasionally, ill will may develop when customers located just beyond the delivery zone lines are charged a price higher than the advertised price.

> ***Zone pricing :*** *A type of delivered pricing in which prices vary according to the number of geographic zones through which a product passes in moving from seller to buyer.*

A variation on delivered pricing is **zone pricing**, whereby geographic zones are delineated and prices increase as the zone lines crossed in completion of the transaction accumulate. The parcel post system employs zone pricing, basing rates to mail a package on the weights of the parcel and the number of zones it will travel through before arriving at its destination, "Slightly higher in North East states" is a phrase that reflects a zone pricing policy.

> ***Uniform delivered pricing :*** *A type of delivered pricing in which an organization charges the same price for a given product in all locations.*

A company that views that entire country as its delivery zone and charges the same prices in every location is practicing a special form of delivered pricing called **uniform delivered pricing**. When you buy through a catalog, you pay a postage-and-handling fee subject to uniform delivered pricing. Such prices are attractive to marketers because they simplify pricing and nation-wide advertising.

Basing Point Pricing

Another distribution-based pricing system involves the selection of one or more locations to serve as basing points. Customers are charged prices and shipping fees as if their orders were shipped from these points, regardless of where the merchandise actually originates

> ***Basing-point pricing :*** *Charging for shipping from a specified basing point, or location, no matter where the shipment actually origiantes.*

A buyer in Rohtak makes a purchase from a supplier in Bangalore. The goods are in fact shipped from New Delhi. However, Nagpur has been specified as the basing point, so the buyer is charged as if the goods came from Nagpur. The true shipping charge is Rs. 500/-, but the buyer must pay Rs. 2000/-. The seller is able to pocket the extra Rs. 1500/- (known as phantom freight because of this **basing-point pricing.**

Because this system is clearly not in the buyer's best interest and because it smacks of collusion on the part of suppliers, it has been the subject of court cases for more than 70 years. Although Supreme Court ruling made in the 1940s forbid industrywide pricing systems that include phantom freight, cases involving basing-point pricing still arise.

Chapter 14

Promotion: Communication with a Purpose

Effective marketers know that the old adage "Build a better mousetrap and the world will beat a path to your door" contains a basic flaw. If the "world" doesn't find out that there is a better mousetrap, the manufacturer will be a very lonely person, indeed. Having a great product is not enough. People must be made familar with the product's benefits. Some form of promotion is necessary to make consumers, and other publics with which an organization interacts, aware of the existence of a product.

Having a great product is not enough. People must be made aware of the existence of a product.

Recall that promotion is communication used by marketers to inform, remind, or persuade potential buyers. Personal selling, advertising, publicity public relations, and sales promotion are promotional methods that may be used to communicate a message. Although promotion, and advertising in particular, is often singled out as a part of the marketing mix that society could well do without, a moment''s reflection shows that this criticism is unwarranted. The job of marketing is to identify consumer needs and to try to satisfy those needs by developing appropriate products—priced right, packaged for convenience, and properly distributed. The role of promotion in the marketing function is to convey news—to tell consumer about the benefits of the product. This communication, often termed "selling the product," is an indispensable part of the marketing function.

Promotion Informs

Even critics of advertising might feel more comfortable with the job promotion performs in society once they realize that the essence of promotion is communication. If the management of departmental store is planning a sale, communicating price savings to potential customers must be part of the plan. Lowering prices will not benefit anyone unless promotion communicates to consumers the fact that a sale is under way. The store's promotions also provide other information, such as store hours, whether returns will be allowed on sale merchandise, and whether customers can use credit cards. Thus, the broad goal of promotion is to inform potential buyers.

Promotion Persuades

Marketers rarely face a situation in which simple and plain communication of information is enough to make promotion effective. In the era of the production concept, when many organization faced a seller's market, this may have been the case. But today's world is full of messages and distractions of all sorts. Consumers are often faced with many competing options. People find themselves increasingly rushed and harried. With less time for comparative shopping, consumers turn to advertising for product information. However "pure information" is not all these is to be found in marketing communications. Marketing managers exist in a competitive environment, and as competitors they want consumer to buy their brands. Thus, persuasion that encourages purchases or attitude change is a primary goal of promotion. It is Benetton's management's hope that the information that the store is having a big sale will persuade consumers to visit Benetton's and see for themselves. In fact, a traditional definition of promotion is "persuasive communication."

Promotion Reminds

Consider the customer who shops at Benetton's regularly or the consumer who always buys Tide detergent. Do the marketers of Benetton's or Tide advertise to this consumer ? Yes. Is that a waste of money ? The answer is no, for the very practical reason that even the most loyal customers must be reminded that a store or product has served them well over time and that it has features that make it attractive. This is especially true when competitors are free to tempt loyal customers with their own informative and persuasive messages. Thus, reminding customers, in

addition to informing and persuading them, may be a promotional objective. Tata salt, Bayer aspirin, and Coca-Cola are all number one in their fields. They have achieved their goals to inform and persuade. The major goal of their promotion is to sustain their customers' preference for their products. Attracting new customers is a secondary promotional goal for these companies with loyal customers. Similarly, even people who buy Johnson & Johnson dental floss and believe that it is the best floss may forget to use it as much as they should (and so may not buy as often). They may be influenced by the message "a reminder to remember to floss."

New Communication Media are Shaping Promotion

Advertising, personal selling, and publicity are among the traditional forms of promotion. Technical definitions of each will be provided in the following section. However, new media have emerged because of the revoluton in digital technology. The availability of these new media has dramatically influencd the elements of promotion how they are defined in our information age.

The traditional 20th-century view broke media into two categories : *mass media,* in which there was no interaction between the marketer and the audience, the *personal media,* such as personal selling, which involved a dialougue between buyer and seller. Today, because of computers' capacity to interact with consumers, advances in digital technology have made this distinction outdated.

For our purposes, we will use a simple threefold classification of media : mass media, personal media, and electronic interactive media. Figure 14.1 shows the individual promotional media in each of these classifications.

Mass Media

Mass media *Advertising media,such as television, radio, newspapers, and magazines, that reach a broad audience from many market segments and involve no personal contact or instantaneous interaction between the marketer and the target of the message.*

Mass media are means of communication that reach large audiences without personal contact or instantaneous interaction between the marketer and the receiver of the message. Messages in print media, such as newspapers and magazines, and broadcast media, such as radio and television, are targeted at a general group of people rather than at any particular individual. When people think of advertising they traditionally envision messages in mass media, but as you will see, the nature of advertising is changing.

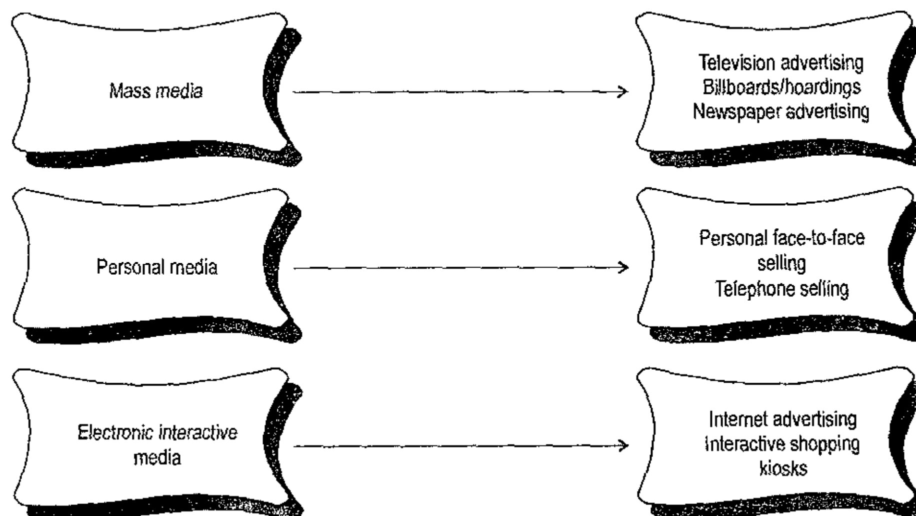


Figure 14.1: Three General Media for Marketing Communication

Personal Media

Personal media *Personal forms of communication involving face-to-face interaction and person-to-person interaction (as by telephone).*

When two people have a conversation, human interaction takes place. The medium is personal. When personal media are used for communication, the messages are directed at a particular individual (or a small group), who has the opportunity to interact with another human being. When they think of the traditional role of personal selling, most people envision two people engaged in a face-to-face dialogue or a telephone conversation.

Electronic Interactive Media

Electronic interactive media *Media, such as the Internet, touch-tone telephone systems, and online information services, that allow marketers to reach large audiences with personalized individual messages and that provide an opportunity for immediate interaction.*

Digital technology is having a profound impact on society in general and marketing in particular. Its greatest impact is in the creation of new forms of media.

Electronic interactive media allow marketers to reach a large audience, to personalize individual messages, and to provide the opportunity for immediate interaction. To a large extent, electronic interactive media are controlled by the users themselves. Users are not passive audience members—they are actively involved in two-way communication.

The Internet, a medium that is radically altering many organizations' promotional strategies, provides a prominent example of the new electronic interactive media. Consumers determine what World Wide Web information they will be exposed to and for how long. Although the Internet is the most sophisticated new medium, electronic interactive media also include CD-ROM and DVD mateials, touch-tone telephone systems, interactive kiosks in stores, and other forms of digital technology.

Today, a consumer can use an interactive medium to converse electronically via computer with another consumer, an advertiser, or an information content provider.

The Elements of Promotion

The four main subsets of promotion are personal selling, advertising, publicity (as part of a public relations effort), and sales promotion. It is up to the marketer to determine which approach is best for each situation. The nature of the message and the context in which it is to be delivered provide powerful clues about which method to choose. Few organizational buyers would feel comfortable buying industrial equipment solely on the basis of direct mail or telephone communication. On the other hand, few consumers need help from a salesperson to choose a certain brand of detergent; they are content to rely on advertising for most product information.

Personal Selling

Personal selling *Person-to-person interaction between a buyer and a seller wherein the seller's purpose to accept a point of view, to convince the buyer to take a course of action, or to develop a customer relationship.*

Personal selling is a person-to-person dialogue between buyer and seller. The purpose of the human interaction, whether face-to-face or over the phone, is to provide information that may persuade the buyer to accept a point of view, to convince the buyer to take a specific course of action, or to develop a customer relationship. In many instances, the one-to-one nature of this communication technique means that it is quite expensive to employ. The salesperson must be properly trained. He or she may have to spend considerable time developing and delivering a message suited to the individual customer. Time may also be spent traveling or waiting for the opportunity to deliver the message.

These potential disadvantages are balanced by the fact that personal selling is the most flexible means of delivering a promotional message. The salesperson can answer questions, pause at appropriate spots to allow an idea to sink in, and tailor responses to address particular customer objections or reluctance to complete a purchase.

Furthermore, unlike a TV or radio communication, a salesperson can focus on the best prospects—those most likely to buy the product being offered. Direct, and usually immediate, feedback from customers is among the major advantages of personal selling. In contrast, the other elements of promotion are essentially one-way communications delivered to potential buyers. They allow little or no interpersonal activity, and the feedback they elicit is not immediate. Reactions, in the form of buying or refusing to buy, are slow in coming but potentially devastating to the marketing organization.

The Internet and personal selling allow for more feedback than most other media.

Advertising

Advertising *An informative or persuasive message carried by a nonpersonal medium and paid for by an identified sponsor whose organization or product is identified in some way.*

Advertising includes any informative or persuasive message carried by a nonpersonal medium and paid for by a sponsor whose product is in some way identified in the message. Traditional mass media; such as television and magazines, are most commonly used to transmit advertisments. However, the direct mailing of catalogs, electronic media advertisments featuring computerized ordering, and other direct-response vehicles are becoming increasingly popular. Thus, contemporary definitions of adverising recognize that it can be carried via mass media or electronic interactive media.

The ability to communicate to a large number of people at once is the major benefit of mass media advertising. In theis sense, advertising, which uses nonpersonal channels, is a cost-efficient substitute for personal selling. Advertising, because it is indirect and nonpersonal, has other benefits. Advertisers have a great deal of control over the content of the promotional message. Furthermore, they can send a uniform and unvarying message with great frequency. You may see a soft drink commercial several times as you watch a cricket game on TV. You would never ask a salesperson to repeat a message over and over again.

Mass media advertising is not without disadvantages. Even though the cost per person may be low, a large absolute rupee expenditure is often required to reach the target audience through a medium such as national television. This expense tends to restrict all but the larger, better-financed organizations from using national advertising. Mass media advertising, unlike personal selling, does not allow the message to be personalized and tailored to the prospect. Immediate, direct feedback from a prospect is rare when mass media are utilized. In contrast, when marketers advertise on electronic interactive media, the audience has the opportunity to "customize" the nature of the information they receive and to interact with the marketer through the medium.

Publicity and Public Relations

Publicity *A message about a product, organization, or event carried by a nonpersonal medium but not paid for by a sponsor. Publicity involves a third party who detemines whether the message is newsworthy enough to transmit and what the nature of the transmitted message will be.*

Public relations *The activities involved in actively seeking to manage the nature of the publicity an organizaton receives.*

Advertising is a form of message delivery in which the sender pays to send the message. Publicity is similar to advertising in that it may use the same mass media. The difference between the two is that publicity involves a message that is not paid for and whose content is determined by the communication medium. When information about a company, a product, or an event is considered newsworthy, mass media may communicate that information "for free." Thus, the organization being publicized neither pays for the message directly nor is identified as the message sponsor. The Internet is a new medium for publicity that has, in many cases, increased the speed of message diffusion.

Although publicity is "free" in the sense that mass media are not paid to communicate the message, this does not mean that publicity should go unmanaged.

Marketers may expend considerable time and effort in getting news releases and interview with company spokespersons placed in newspapers and on broadcasts to promote a favorable orgnizational image. When an organization systematically plans and distributes information in an attempt to manage the nature of the publicty it receives, it is engaged in public relations. The purpose of public relations is to actively manage publicity (and sometimes other promotional elements) to establish and maintain a positive organizational image or to ensure that the public understands an organization's policies.

An important distinguishing characteristic of publicity is that it always involves a third party, such as a newspaper reporter or editor, who has the ultimate power to determine the nature of the message. Because the third party usually has some credibility and because the information is generally factual rather than persuasive, publicity scores high in believability.

Publicity can be either positive or negative. In fact, because the message is in the hands of the media and not in the hands of the organization promoting the product, publicity can be terrible. Sunbeam Corporation and the American Medical Associaton planned an alliance in which the AMA would endorse and allow its seal of approval to be placed on a line of Sunbeam's health-care products, such as thermometers and heating pads. There were many news reports about this agreement. The AMA had little influence over what unidentified news writers, editors, and producer wrote or said about the plan. The negative publicity was intense. The media suggested that the AMA was selling its soul by taking money for its seal of approval The product-royalty deal was renounced within ten days.

Similarly, negative publicity occurs whenever a recall of a popular product for repair or replacement makes the evening news. The makers of Pepsi, Coca-Cola, and various bottled water have spent millions of rupee to develop fine products. Bad publicity due to presence of pesticides, however minor, can easily offset their efforts.

Sales Promotion

Sales promotion Promotional activities other than personal selling, advertising, and public rèlations that are intended to stimulate buyer purchases or dealer effectiveness over a specific time period.

Marketers use the term sales promotion to categorize a variety of promotional activities that are something other than personal selling, advertising, or public relations. Sales promotions are usually intended to induce buyers to make purchases or to stimulate dealer effectiveness in a specific time period. Sales promotions add value to the product offering or provide an incentive for certain behaviour. Thus, special offers of free goods, coupon deals, display items for store use, training programs, in-store demonstrations, and vacation trips for top salespeople are sales promotions. With a few exceptions, these are not routine events but special out of the ordinary occurences. Although they typically involve programs paid for by an identified sponsor, they are distinguished from advertising because they are temporary offers of a material reward to customer, salespeople, or sales prospects.

Sales promotion programs amplify or bolster the adverising and personal selling messages offered by an organizaition. More often than not, these effects occur at the point of purchase. For instance, advertising may create an awarness of a new product like Tide detergent powder, but the scratch and win scheme is the enticement the gets the first-time buyer to try the the new detergent. Sales promotion is not a "poor cousin" of the other elements of promotion, however, Indian marketers spend crores of rupees on sales promotion, just as they do on advertising and personal selling. In fact, many consumer package goods companies spend more on sales promotion efforts that they do on advertising. (for instance bathing soap manufacturers).

The main purpose of sales promotion is to achieve short-term objectives. Free samples or coupons encourage a first-time trial of a product. A premium offer or sweepstakes may stimulate interest in a product and encourage off-season sales. A contest may require that individuals visit a store or showroom to see if they have won. Whether the sales promotion takes the form of a trade show, a consumer rebate, a point of purchase display for retailers, or pens and calendars for wholesalers to give away, the best sales promotions support and are coordinated with other promotional activities. The characterstics of the four elements of promotion are summarized in Table 14.1.

Table 14.1: Characteristics of the Four Elements of Promotion

	PERSONAL SELLING	*ADVERTISING*	*PUBLICITY*	*SALES PROMOTION*
Mode of communication	Direct and personal	Indirect and personal	Indirect and nonpersonal	Indirect and nonpersonal
Regular and recurrent activity ?	Yes	Yes	No—only for newsworthy activity	No—short-term effort
Message flexibility	Personalized and tailored to prospect	Typically uniform and unvarying	Beyond market-ers direct control	Uniform and unvarying
Direct feedback possible ?	Yes	No—if placed in the mass media	No	No
Marketer controls message content ?	Yes	Yes	No	Yes
Sponsor identified	Yes	Yes	No	Yes
Cost per contact	High	Low to moderate	No direct costs	Varies

Integrated Marketing Communications—The Promotional Mix

Promotional mix *An organization's combination of personal selling, advertising, publicity and public relations, and sales promotion; its total promotional effort.*

Intergrated marketing communications *Marketing communications in which all elements of the promotional mix are coordinated and systematically planned so as to be harmonious.*

The effective marketer recognizes that each of the four elements of promotion has certain strength. The combination of elements a marketer chooses is the marketer's **promotional mix.** Some organization, like the Hindustan Lever Limited emphasize advertising and public relations efforts in their promotional mixes. Other, especially those engaged in business to business marketing, make personal selling the main ingredient. No matter what the pomotional mix, marketers should strive to blend the elements effectively, integrating and uniting the appropriate elements to accomplish their promotional objectives. The term **integrated marketing communications** is used to remind managers that all elements of the promotional mix should be coordinated and systematically planned to be in harmony with each other.

Table 14.2: Characteristics of Promotional Types

Factor	*Advertising*	*Publicity Form of Public Relations*	*Personal Selling*	*Sale Promotion*
Audience	Mass	Mass	Small (one-to-one)	Varies
Message	Uniform	Unifrom	Specific	Varies
Cost	Low per viewer	None for media space and time; can be some costs for media releases and publicity materials	High per customer	Moderate per customer
Sponsor	*Company*	*No formal sponsor (media are not paid)*	*Company*	*Company*
Flexibility	Low	Low	High	Moderate
Control over content and placement	High	None (controlled by media)	High	High
Credibility	Moderate	High	Moderate	Moderate
Major goal	To appeal to a mass audience at a reasonable cost, and create awareness and favorable attitudes	To reach a mass audience with an independently reported message	To deal with individual consumers,to resolve question, to close sales	To stimulate short-run sales, to increase impulse purchases
Example	Television ad for a Sony CD player for use in cars	Magazine article describing the unique features of a Sony CD player for use in cars	Retail sales personnel explaining how a Sony CD player for cars works	A Sony CD player for cars exhibited at trade shows

Criticisms and Defenses of Promotion

For many years, industry trade groups have campaigned to improve the overall image of promotion. As the general director of the International Advertising Association once remarked, "There's been enough talk about the bad—the clutter, the obtrusiveness, the stuffed mail boxes. It's time that people know about the good."

Nonetheless, promotion is the most heavily criticized area of marketing. Here are a number of criticisms and the defenses of marketers to them :

Detractors Feel

That promotion	***Marketing professionals Answer That Promotion***
Creates an obsession with material possessions.	Responds to consumer desires for material possessions.
	In affluent societies, these items are plentiful and paid for with discretionary earning.

Is basically dishonest.	Is basically honest. The great majority of companies abide by all laws and set strict self-regulations. A few dishonest firms give a bad name to all.
Raises the prices of goods and services	Holds down prices. By increasing consumer demand, promotion enables firms to use mass production and mass distribution and reduce per-unit costs. Employment is higher if demand is stimulated.
Overemphasizes symbolism and status.	Differentiates goods and services by symbolic and status appeals. Consumers desire distinctiveness and product benefits.
Causes excessively high expectations.	Keeps expectation high; it thereby sustains consumer motivation and worker productivity in order to satisfy expectations.

The Communication Process

Communication *The process of exchanging information with and conveying meaning to others.*
Reveiver *In communication theory, the one at whom a message is aimed.*
Source *In communication theory, the one who sends a message.*

Communication is the process of exchanging information with and conveying meaning to others. The goal of communication is a comman understanding. That is, the goal is to have the receiver of the information understand as closely as possible the meaning intended by the sender, or source, of the message.

One communication theorist described communication as "who says what to whom through which channels with what effect." In slightly different terms, he was saying that to achieve the desired effect, the marketer must consider the source, the message, the channel, and the receiver.

Figure 14.2 summarizes the communicaton process graphically. In considering the exhibit, remember that it describes all types of communication—words, gestures, pictures, and so on. The model may be used to describe an advertisement, a telephone sales call, a point-of-purchase display, or any promotional communication.

Encoding the Message

Encoding *In communication theory, the process by which a sender translates an idea to be communitcated into a symbolic message, consisting of words, pictures, numbers, gestures, or the like, so that it can be transmitted to a receiver.*

The communication source (the advertiser) wishes to communicate the notion that the Tata Sumo is a durable, high-quality product that helps drivers enjoy driving in rugged terrain. This idea—not an easy one to get across—is the message of the advertisement. The message is communicated primarily in a visual and symbolic way, though the intriguing image of a Tata Sumo easily negotiating a gravel road in the mountains. The sender's idea has been encoded by means of this picture. **Encoding** is the process of translating the idea to be communicated into a symbolic message consisting of words, pictures, numbers, gestures, or the like. Encoding is a necessary step—there is no way to send an in idea from one person to another without encoding it.

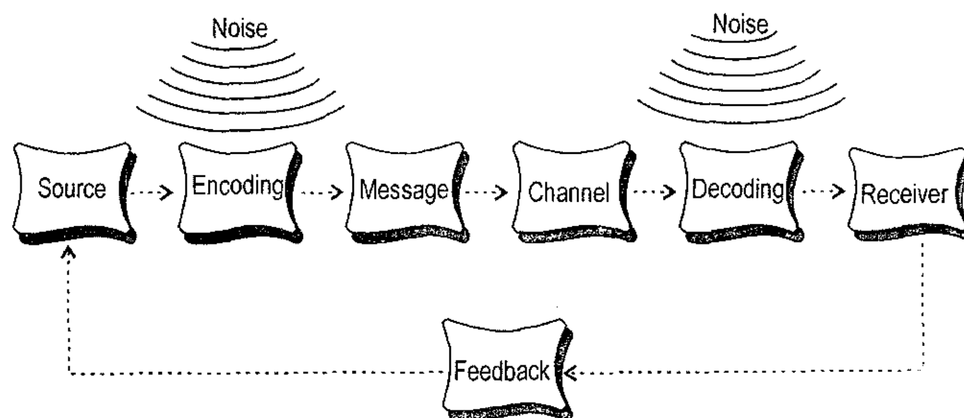


Figure 14.2: A Basic Model of the Communication Process.

As in the Tata Sumo advertisement, nonverbal messages and nonrational symbolism are essential to the encoding process, because words can be hopelessly inadequate to express emotions. "There are just no words to express the various nuances of sensation and feeling, to express such things as mood and aesthetic impression. Try to describe to a child how an orange tastes compared to a mango, how a rose smells, why it is pleasurable to dance, what a pretty girl looks like. The emotional definition of a situation or the precise meaning of human feelings may be determined almost entirely from facial expressions; from expressions of excitement, such as weeping, blushing, or laughter; or from and sounds, such as whistling, singing, or involuntary exclamations.

Transmitting the Message Through a Channel

Once the sender has created the message by encoding an idea into a transmittable form, it must be somehow conveyed to the receiver : It must be sent through a *channel of communication,* such as a magazine or other medium. Even people's casual conversations are sent through a channel, though the medium is the less obvious one of vibrating vocal cords, which send sound through air.

The message arrives at the receiver via the channel of communication. But some receivers will be more receptive than others. For example, some receivers of the communication about the Tata Sumo will be consumers who for one reason or another (their age, their dislike of the outdoors) have little interest in a rugged vehicle that facilitates driving in mountains and rough terrain. It is the sender's job to pick the medium that will reach a maximum number of target receivers and a minimum number of a nontarget receivers.

Decoding the Message

***Decoding** : In communication theory, the process by which the receiver of a message interpret the message's meaning.*

The message arrives and is viewed, heard, or other wise sensed by the receiver. But in order for communicaton to occur, the receiver must decode it. Decoding is the mental process by which the receiver interprets the meaning of the message. A difficulty encountered at this stage of the communication process is that receivers may interpret the message in different ways, given their particular biases, backgrounds and other characteristics. That is, selective perception operates as the message is decoded. People interpret messages and give them meaning based on their personal experiences and background. An advertisement for cigarettes may be viewed differently by different people, for example. Non smokers may pass over the message entirely; antismokers may be angered by it; smokers satisfied with another brand may note the advertisement only casually. Some who see the advertisement may not "get it" at all; for whatever reason, the intended imagery may escape them completely.

In the Tata Sumo advertisement, if the receiver interprets the message "like a rock" to mean that Tata Sumo are tough, sturdy, and long lasting, the communication has worked.

Feedback

***Feedback** Communication of the receiver's reaction to a message back to the source.*

Often, the communication process includes feedback, communication of the receiver's reaction that goes back to the source of the message. In a personal selling situation, the feedback may be direct and immediate, as when the customer raises questions about the product or states why he or she will not purchase it. Indeed, as mentioned, the great attraction of personal selling is that there can be a two-way conversation, which ensures greater understanding between the people involved.

Feedback about advertising, sales promotions, or publicity and public relations is in most cases slower and less direct. For instance, advertisers may conduct surveys, count coupon redemptions, or evaluate letters and telephone calls from consumers to learn the audience's reactions. Although advertisers can get delayed feedback about an advertisment's effectiveness, the feedback rarely provides all the desired information about the receivers' responses to message.

Perfect Communication

Ideally, in perfect communication, the message that was decoded and entered the mind of the receiver would be exactly the same as the one the sender had in mind, encoded, and transmitted. If the sender and the receiver share a common social background and have similar needs, they are more likely to similarly interpret the meaning of the words and symbols in the message. Perfect transmission, though, is never possible. In many cases, however, the sender can develop messages that will be decoded by the target audience to communicate approximately the message the sender had in mind.

It is likely—perhaps even inevitable—that any communication process will be interrupted or distorted by factors that communication experts term "noise." Noise is interference or distraction, and it may disrupt any stage of the communication process. Noise may come in the form of conflicting messages, misunderstood terminology, inadequacies in the channel of communication, and so on. A listener might not hear a radio advertisememt because of loud traffic noises outside the car. In a cigarette advertisement, the Surgeon General's warning (a conflicting message) is noise. The sources of noise may be external to the individual, such as traffic noises, or internal, such as daydreaming that prevents a listener from concertrating on a sales presentation. Many advertising messages cause people to think of a competing product. Brand Loyalties and past learning are internal distractions that may interfere with the decoding process.

Noise In communication theory, any interference or distraction that disrupts the communication process.

The Hierarchy of Communication Effects

Ford has extolled the virtues of its "built to last" theme thousands of times. McDonald's has made hundreds of different advertisements for its burgers. Why are there so many commercials for the same products ? Creativity aside, the main reason is that a single communication, no matter how cleverly designed and implemented, may not be enough to persuade a customer to change an attitude or make a purchase. Promotion, as a rule, becomes more effective with repetition. Promotion usually seeks to change people, and people tend to change very slowly. Habits and beliefs developed over long periods of time will not be altered quickly by just a few messages. The presentaion of a message may be varied, as in the McDonald's example, because the effectiveness of a promotion wears out as the repetitive presentaiton becomes boring.

Marketers have come to expect various responses to their communicatons. To understand the different effects that promotion may bring about, it is useful to think of the promotion process as a staircase, or series of steps in a hierarchy.

The Promotion Staircase

Promotion can be thought of a force that moves people up a series of steps called the hierarchy of communication effects. This promotion staircase is shown in Figure 14.3.

1. On the bottom step stand potential purchasers who are completely unaware of the existence of the product in question. For *e.g.*, they might not know about Tide detergent powder.
2. Closer to purchasing, but still a long way from the cash register, are those who are merely aware of the product's existence. For *e.g.*, these people are aware of Tide name only.
3. Up one step are prospects who know what the product has to offer. They knew that Tide is a detergent powder that gives vibrant colours after the wash.
4. Still closer to purchasing are those who have favorable attitudes toward the product—those who like the product. They might have used a sample of Tide detergent at home and are satisfied with its performance.
5. Those whose favorable attitudes have developed to the point that they prefer the product in question over all other possibilities are up still another step. They will prefer over Surft, Ariel, etc.

6. Even closer to purchasing are consumer who couple preference with a desire to buy and the conviction that the purchase would be wise.

7. Finally, or course, is the top step, where consumers translate this intention into an actual purchase. The consumer will go to the retailer and place an order for Tide.

According to this somewhat idealized portrayal, consumers may move through the seven-step hierarchy, from total ignorance of a brand's existence to purchase of that brand. When the purchase decision leads to a reward, the result is a satisfied, or reinforced, customer.

The hierarchy model shown in Figure 14.3 suggests that communicationmay not be a one-step process. Marketers use promotion to induce buyers to change—that is, to moveup the staircase. Communication may be aimed at any step, depending on the objective of the communication. The question is "What step should the marketer aim at?"

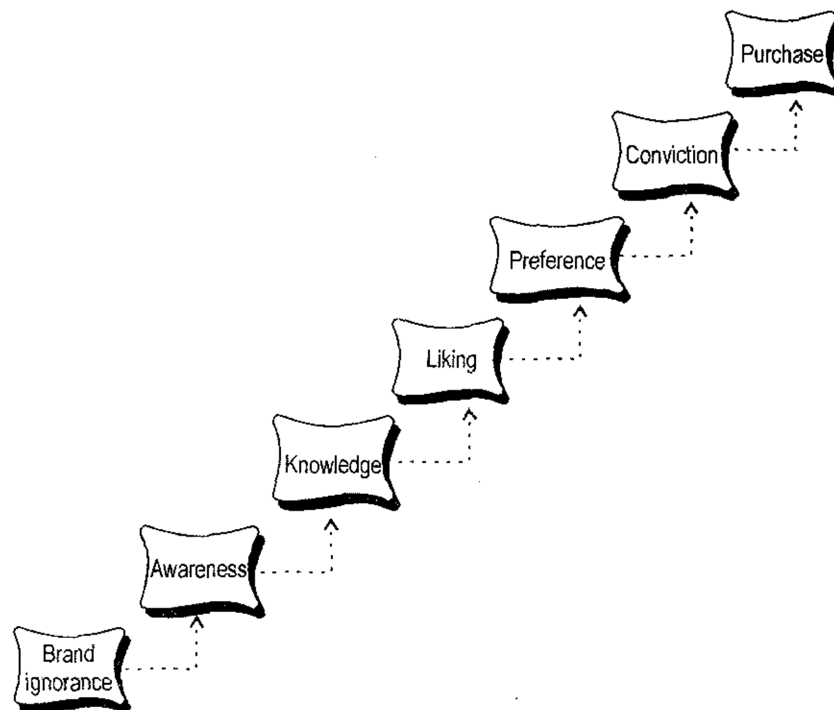


Figure14.3: Promotion Moves Customers Up the Seven Steps in the Hierarchy of Communication Effects

Part of the answer comes from the nature of the product. Marketers of a totally new product such as the Flashback electronic recorder—a miniature device that uses no tape, has no moving parts, and records digitally onto a flashmemory chip—face a different set of communication problems than marketers of Tide. Tide's communication need not include an extensive discussion of the fact that the product provides fast, easy, streak-free cleaning. Most consumers are already aware of Tide's benefits. In contrast, the seller of a near-revolutionary product may need to devote considerable effort to explaining what the product is, how it works, and even that it works.

Whatever the product, the nature of the market is the most impotant consideration in deciding what step to aim at. The organization seeking to create an effective promotional message must begin with one of marketing's most basic rules : identify the target market or, in this case, the target audience.

As discussed earlier, the whole communication process must be built around the intended receiver of the message. A key question, then, is "What is the target audience's psychological state ?" If the marketing organization is attempting to influence those who are currently on the Awareness and Knowledge steps, a primary promotional objective will be to provide factual information. For example, according to many petroleum companies, most citizens are totally unaware of how oil company revenues are allocated. Thus, some of these companies spend a good portion of their advertising budgets in an effort to inform people of the true nature of the oil business. They demonstrate that a large portion of

revenues are spent on additional exploration, on the development of products that enhance the lives of consumers, and on protecting the environment.

Appealing to consumers who are on the Liking and Preference steps calls for promotional messages aimed at encouraging existing favorable feelings toward the good or service offered. For example, advertisements for many cosmetics, fashion items, soft drinks, and airlines emphasize the fun or sophistication associated with the products. The target audiences in these cases already know about the brands and probably know that the company is a respected manufacturer or service provider. Thus, the advertisements stress emotional feelings toward the product offered.

Prospective customer who are on the Conviction step of the model are very close to action, but they may need a little shove to get them to act. A bit of encouragement may be all that is required. Being reminded that now is the time to buy warned that prices may go up, or notified that a two-for-one coupon is available may motivate these consumers to move up the staircase to the final step, the purchase.

Since the sale is not the end of the line. The marketer may continue to use promotional message to reinforce the buyer's belief that he or she made a good buy or, later on, to remind the customer of the product and its value or effectiveness. For example,the advertisers of frequently purchased products like energy drinks and tomato sauce often remind buyer how satisfied they have been with the product. A promotion for an infrequently purchased durable good might advise the buyer to tell a friend about the purchase or to remember that the company sells other fine products. Such efforts often reduce consumers' post-purchase dissonance.

Sophisticated consumer behavior research suggest that some consumer purchasing decisions, especially those made when consumers have low involvement with the product, do not follow the steps in the hierarchy of communication effects. Nevertheless, this approach is useful in understanding how any promotion work.

The Hierarchy of Effects and the Promotional Mix

	Steps in hierarchy of effects	*Stage in consumer decision making process*	*General purpose of promotion*	*Relative importance of advertising and personal selling*
Pretransaction	• Awareness • Knowledge • Liking • Preference	• Problem recognition • Search	Information to aid in recognition and under-standing information to create a positive feeling or affect	Personal selling Advertising
Transaction	• Conviction • Purchase	• Evaluation • Choice	Persuasion	Advertising
Postransaction		Post-purchase satisfaction	Reminder and reassurance	Personal selling Advertising

Figure 14.4: The Relative Importance of Advertising and Personal Selling Related to the Job to Be Done

As you have just seen, not all consumers are on the same step of the promotion staircase. Consumer on different steps will respond to different sorts of appeals. This suggests that different elements of the promotional mix may be more effective with different consumers.

To some extent they are, Figure 14.4 illustrates, in general terms, the relative importance of advertising and personal selling at different steps in the hierarchy of effects, classified as pretransaction, transaction, and post-transaction stages of the buying process. (The transaction may be roughly defined as the period in which the exchange agreement or the negotiation of the terms of sale becomes final.)

In the per-transaction stage, the consumer becomes aware of a brand, acquires knowledge, and formulates likes, dislikes, and preferences. The purpose of promotion at this stage is to inform, and advertising generally plays a larger role than personal selling. In the transaction stage, personal selling is important because the consumer must be persuaded to make a positive evaluation, develop a conviction, and actually make the purchase. In the post-transaction stage, advertising reminds and reassures consumers about their satisfaction.

These relationships are strongly influenced by many forces that contribute to the purchase decision. The characteristics of the marketplace, the state of the economy, the nature of the product, and the seller's overall marketing strategy vary from case to case, but these general statements illustrate the roles advertising and personal selling play at each stage.

Ideally, a promotional mix is planned to meet the information requirements of all target customers. That is the mix is not designed to satisfy only the new buyer or only the regular buyer. Some elements of the mix may be aimed at target customers at a lower stage of the hierarchy of communication effects, others at potential customers near the top of the staircase. Even marketers of new and innovative products, such as portable, battery-powerd global positioning systems, must keep this in mind. Although most customers are inexperienced, first-time buyers of this product, some people are computer and multimedia enthusiasts with a great deal of knowledge and experience with television, personal computers, and laser storage technologies. Potential buyers are to be found at all steps of the hierarchy staircase.

Let's consider how the promotional mix can work to move a consumer through several steps of the hierarchy. Suppose you want to purchase a laptop computer. You have probably advanced beyond total brand ignorance and are becoming increasingly aware of the different brand and their advertised benefits. Your interest in the product has led you to pay more attention to computer advertising and magazine stories about laptops. Newspaper columnists may be writing about their own personal experiences with computers, thus providing publicity for these brands. Your friend the computer expert may regularly read these columns and may talk to you about recent improvements in laptop. Sales promotions, such as the offer of a free software package or lessons in computer use, may ulimately bring you into a computer store, where personal selling communicates to you the benefits associated with a particular brand of computer. You may than decide to buy a particular brand, be it Macintosh, IBM, or Hewlett-Packard.

Which aspect of the promotional mix brought you to the decision to buy the brand of computer you chose? Perhaps one factor, such as the expertise of the salesperson, was a major influence, but the fact is that all elements of the mix did their parts in bringing about the sale. Each had a role to play and a function to perform. In this case, advertising proved effective in generating awareness and, perhaps, positive attitudes toward the brand. The sales promotion offer of software led to the decision to visit the store. Personal selling proved, as it usually does, most effective in consummating the sale.

Commonly, there is an important interaction among the variables within the promotional mix. Consumers may be strongly influenced by the advertising for cold remedies, for example, but in-store displays, packaging, sales promotions aimed at retailers, and the activties of a personal sales force may all play some role in the ultimate purchase of a given medicine. The interaction of promotional mix variables is even more obvious in the business market. Here, advertising alone is unlikely to sell many products, yet it performs an important function in supplementing and supporting the personal sales force. The salesperson will get nowhere at all with a tough organizational buyer unless the buyer is at least familiar with the salesperson's company or line of goods. In other words, companies dealing with organizational buyers had better advertise and use personal selling because these promotional elements support each other.

While each promotional element has its relative strenghts, any promotional element may be called on to accomplish a communication objective. Marketers select and combine the various promotional mix elements available to them as best they can. Some organization have considerable flexibility in developing a promotional mix. Others, usually small companies without many resuorces, are primarily limited to personal selling by employees whose chief responsibility is running the business.

Chapter 15

Advertising and Sales Promotion

INTRODUCTION

Advertising is one element of marketing mix. It is a paid form of mass communication and can be traced to an identified sponsor. It is in this sense that advertising is different from publicity, which is also a mass communication tool. Publicity is not paid for and its sponsor is not easily identified. Over the years, advertising has grown from being just another element in the marketing mix to a key strategic input in brand building and image creation. Its growth in size is reflected by the gross expenditure on advertising in a year, gross incomes of leading advertising agencies and the number of advertising agencies. The media too has expanded and offers significant opportunities to marketers. In terms of technology, too, the advertising industry in India has come a long way from the early 1930s and even 1980s. Exhibit 15.1 and Figure 15.1 summarize the developments in the advertising industry in India.

Exhibit 15.1: Advertising in India

> The advertising industry has come a long way. The industry grew at a frantic pace until the 1990s, after which the growth rate declined to 17.9 percent in 1998-99 and later to 12 percent in 2000, due to gradual slowing down of the economy. However the *dotcom boom once again saw the advertising industry grow. But in 2001 the industry seems to be heading for a slower pace*, settling down to under 15 percent growth. The changes in the advertising industry can be attributed to the opening of the Indian market and the emergence of middle class consumers. The industry today consists of about 200 large, medium and small sized advertising agencies. Besides, it consists of the media, where a major upheaval has been witnessed since 1985, and more particularly after 1991. This is especially true of the electronic media. What happened in this country is beyond imagination. In a quick succession, we moved from viewing programmes telecast on the state-owned television channel, Doordarshan, to home video viewing and then to cable TV. This scenario further changed with the introduction of satellite television which affected the viewership of Doordarshan's prime time programmes. Today, the average Indian viewer has a choice of more than 100 TV channels to choose from. In the print media, the total number of newspapers, as of December 31, 1992, were 35,096 which includes 3,139 miscellaneous publications. The number of daily newspapers increased from 30214 in 1991 to 44997 in 2000.

Coming back to advertising agencies, one observed that the capitalised billings of 100 agencies (who participated in the 10th Agency Survey by A & M) in 1998-99 grew to Rs. 9,146.20 million from Rs. 7,760.47 million in 1992-93, registering a growth of 17.87 percent. In 1994-95, the agencies were expected to register a growth of about 40 per cent over 1993-94. By 1999 the industry was poised to be a fat Rs. 10,000 crore and is expected to double upto Rs. 20,000 crores five years down the line. However the advertising industry growth which towered a high of 49 per cent in 1994-95 is now setling down to about 17 per cent. This clearly shows that advertising growth rate has reduced. This can be ascribed to the slow down in the manufacturing sector which has registered a negative growth rate over the last few years having now settled down to 2.5 per cent growth rate.

Figure 15.1. Shows these changes in the advertising industry.

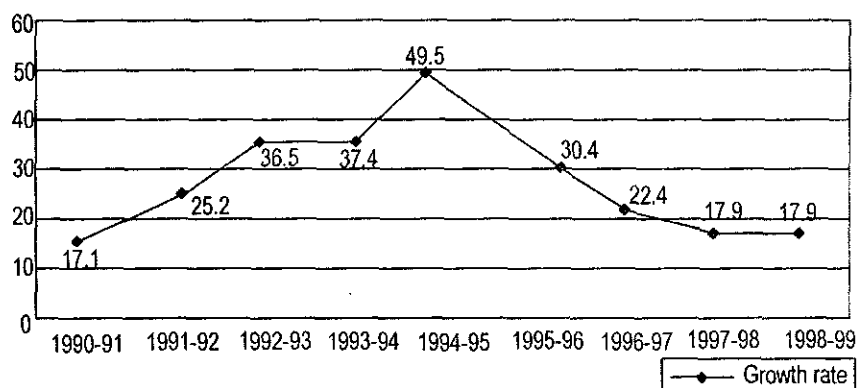


Figure 15.1: A[illegible] Advertising Growth Rate

In the last chapter we mentioned that the marketer has to choose the customer's response level to direct his or her communication. One of these levels is connative or behavioural. Obviously all marketers want consumers to buy their brand. Firms advertise with just this objective in mind. But, one has to remember that the final sale is dependent on many other factors.

Advertising plays a significant role in awareness creation and attitude formation. It can even generate a trial and purchase as long as all other elements of the marketing mix play a contributory role. Thus, it has to be appreciated that advertising has a limited role in marketing strategy. A marketing plan and strategy takes into account several marketing tools to achieve marketing objectives. These are product, packaging, customer service, pricing, sales promotion and channel relationships.

A marketing plan should be based on specific problems or opportunities uncovered by situation analysis, done by the brand manager. The marketing mix and the allocation of resources across different elements should reflect this perception of opportunities and threats. In other words, the marketing budget should reflect this market reality. Conceptually, the marketing budget should be split in such a way that the marginal value of an extra budget increment is the same across all elements of the marketing mix and hence money is put in that element which will produce the maximum incremental sales. This is more so for advertising. Any increment in the advertising budget should be carefully examined since there is no direct relationship between the firm's sales or advertising expenditure. This is in contrast to distribution and personal selling or even customer services, where one can establish a direct relationship between any of them and sales.

Hence the advertising role is limited to communication—awareness creation or providing information and favourable attitude development. While its role is limited, the marketer has to compare the costs of different elements of his or her communication mix. One such yardstick is the cost per exposure, per thousand people. This is the lowest in advertising. Personal selling is comparatively the most expensive route to communicating with the target audience.

Finally, we must also bear in mind that people are generally biased against advertising and many still believe it to be a waste of organizational resources, particularly in a country like India.

Hence advertising is important but it is as significant as any other element in the marketing mix.

Institutional Framework in Advertising

Before we turn to advertising decisions, let us consider the institutions involved in the advertising function. Aaker, Batra and Myer opine that the advertiser's decisions are influenced by controlling and facilitating institutions, as also the markets and consumer behaviour.

At the centre of an advertising campaign is the advertiser. The advertiser here refers to the organization that is interested in communicating its ideas and changing the attitudes of the target audience. Besides the corporate sector, which includes both public and private sectors, the government, non-profit organizations like educational institutions, UNICEF, cooperatives and even political parties are advertisers. The corporate sector, the most important and the largest spender in advertising, includes manufacturing and services firms. The latter consists of banks, the hospitality industry, airlines and telecommunications like the Mahanagar Telephone Nigam Ltd. and BSNL, as well as Cellphone companies like Airtel, Orange, BPL and Escotel. Over the last few years, the government has emerged a large spender of money trying to change peoples' values and attitudes towards issues like family planning, health care, immunisation, the female child and even national integration. The government and its agencies have been buying prime time slots on television and space in the print media. The same holds good for cooperative sector and invariably all other sections of the economy. The advertising spends of these sectors of the economy which have manifold are represented by Exhibit 15.2.

Exhibit 15.2: The Major AD Spenders

Over a period of time the top advertisement spenders have been the diversified companies followed by cosmetics and toiletries and consumer electronic companies. Tobacco products, mainly *pan masala*, continued a to be major advertiser in 2000. At the micro level, or at the firm level, Hindustan Lever continued to be the top advertising spender with an advertising spend of about Rs. 715 crore in 1999. In 1998-99 it spent Rs. 669 crore. Hindustan Lever was followed by Colgate Palmolive in 1999 with an advertising spend of Rs. 193.98 crore. ITC, which was a major advertising spender, as per A&M's Tenth Annual Survey report, does not figure in the subsequent research. This could be because of the increasing anti-smoking and anti-tobacco compaigns in the country. In fact, in 1998-99, ITC actually slashed its advertising expenditure by 16 per cent. Hindustan Lever has registered the maximum increase in its advertising spend. Its expenditure in 1998-99 grew by 46 per cent, followed by Colgate Palmolive with an increase of about 31 per cent and Bajaj Auto by 30 per cent. Overall one may conclude that the advertising business is getting dominated more and more by major consumer brands like Colgate Palmolive, Amul, Dettol, Britannia, Lifebouy, Lux, Lyril, Close Up, Surf and Titan. If one were to also look at advertising agencies that cater to these top advertisers, one would find that the top five advertising agencies today account for 51 percent of the industry's aggregate income. This trend has continued over a period of time and will only get further accelerated. India's big advertising spenders need advertising more than ever, mainly because they are today facing competition from global and local sources The advertising budgets of most companies are today much larger also because of the fragmentation of media audiences and hence the need for being present in all media vehicles.

Table 15.1: Top Advertising Spenders—Industry Segments (Source : A & M)

Rank	*Industry*	*Advertising spend (Rs. crore)*
1.	Diversified	648.79
2.	Cosmetics and toiletries	318.55
3.	Consumer electronics	265.11
4.	Tobacco products	233.34
5.	Drugs and pharmaceuticals	159.69
6.	Two and Three wheelers	131.39
7.	Air conditioners and Refrigerators	117.29
8.	Trading	115.27
9.	Dairy products	111.81
10.	Passenger cars and MUV's	93.71

Table 15.2: Top 20 Advertising Spend Hikers (*Source : A & M*)

Rank	*Company*	*Advertising spend*	*Rise in spend*
1.	Hindustan Lever	715.4	46.45
2.	Colgate-Palmolive (India)	193.98	31.36
3.	Bajaj Auto	90.24	30.21
4.	McDowell	108.94	22.89
5.	Hero Honda Motors	46.81	20.80
6.	Godfrey Phillips India	85.15	20.12
7.	Marico Industries	58.68	19.73
8.	Mahindra & Mahindra	34.92	19.09
9.	Britannia Industries	77.01	18.61
10.	Ranbaxy Laboratories	40.93	18.29

Table 15.3: Top 25 Marketing Spend Hikers (Source : A & M)

Rank	*Company*	*Market spend*	*Rise in spend*
1.	Tata Chemicals	103.48	66.14
2.	Core Healthcare	90.14	58.25
3.	Asian Paints (India)	142.41	36.97
4.	Ashok Leyland	154.71	33.53
5.	Larsen & Toubro	69.54	25.48
6.	Xerox Modicorp	35.75	23.10
7.	Satyam Infoway	24.38	22.28
8.	Reliance Industries	100.28	22.20
9.	Ceat	70.01	21.46
10.	Wipro	59.71	21.42

The advertisers role is to determine the communication objectives. These have to be in line with the overall organizational goals and strategy. Often in determining these objectives, industry conditions play a major role. Specifically, the intensity of inter-firm rivalry and demand and supply conditions within the industry play a major role in determining communication goals and strategy. For example, in the oil industry where demand outstrips supply, the goal of any oil company is to de-market oil and this involves educating customers on the need to conserve oil and save energy. But the same is not true in the case of the hospitality and air travel industry which has to even out the demand fluctuations. Hence, demand creating advertising in lean period becomes important for these firms.

The advertisers goals and strategy are influenced by government policy. For example, cigarette and liquor cannot be advertised in the mass media and hence companies making them find a new media or indirectly advertise the brand. Besides playing a regulatory role, the government may also play a facilitating role when it may decide to give prime time on its TV channel to companies advocating social issues like campaigns agaist AIDS, drugs or dowry. It may even sponsor news or films made by the corporate sector on television. Hence government rules and retulations and electronic media (TV, video, cable TV and radio) policies play a dominant role in the advertiser's decision-making.

The advertiser is facilitated by advertising agencies and the media in translating its goals into action. Marketing research in turn assists institutions, like the advertiser, advertising agencies and the media. Within the advertisers organization, it is the product manager, or the brand manager (as in soft drinks and personal products) whose task it is to co-ordinate between the advertising agencies and the organization. In fact, in many multinationals and large Indian firms, a product manager or brand manager is a strategist who is responsible for developing communication goals for the product or brand and evolving a marketing plan and strategy for it. The advertising campaign, which is a part of this overall marketing strategy, is often decided by the product manager. Where the product management structure does not exist, it is the marketing manager's job to evolve the advertising strategy and also liase with the advertising agencies.

While all large advertisers depend on advertising agencies to develop the campaign, smaller advertisers, have to depend on their own internal resources or take the services of freelance advertising personnel. Again, in a large advertiser, its the marketing personnel who are involved in the advertising campaign's development, but in smaller firms it's the owner or the entrepreneur who has to decide on it. Thus, when we refer to an advertiser, it is necessary to understand the decision making process in these organizations as also the controlling influence of government and competition. For, this will affect the quality of the advertising campaign.

Let's now turn to the facilitating institutions.

ADVERTISING AGENCIES

An advertising agency's major role is purchase of media time and space. Besides it is directly responsible for development of an advertising copy and/or the commercial. It should be noted that in both these tasks—purchase of media time and space, and copy development—the advertising agency is greatly assisted by market research. Many large advertisers like Hindustan Lever, Procter and Gamble, ITC and GTC have their own internal marketing research departments. With increasing competition and buyer behaviour and decision processes becoming more complex, many large industrial houses and companies are creating their own internal marketing research departments. Even large advertising agencies and media have their own research departments or affiliates. For example, Mudra Communications, one of the leading advertising agencies in the country, has an affiliate in SAMIR which does all the marketing research and provides inputs to Mudra and client advertiser.

In areas like copy development and media buying, generally advertising agencies act independently. In an increasing number of cases, agencies are going beyond their traditional role to get involved in a client firm's marketing planning and brand strategy development. The growing feeling among agencies is that since advertising plays an important role in attitude formation, they should take a strategic perspective of the brand and hence their involvement in brand strategy. Rasna's success is largely attributed to this strategic role of advertising agencies.

In terms of compensation, most agencies generally work on a commission and fee basis. They get a 15 per cent commission from the media in which advertisements are placed. On "non commissionable" services like brochure development and printing, agencies usually mark-up the suppliers invoice cost. The agencies also charge fees for creative copy development or, to put in commonly used term, the art work. A growing area of interest in agency compensation is whether agencies could be made to commit to a marketing goal in terms of market share or sale and then be given an incentive in the form of a bonus once that goal has been achieved This may help create advertising that works.

Over the years agencies have grown in size as shown in Exhibit 15.3 with Hindustan Thompson remaining in the lead even in 1998-99 with capitalised billings of Rs. 152.4 crore. It was followed by Lintas (Rs. 105.7 crore) and O&M. Exhibit 15.3 is based on A&M annual survey of advertising agencies and gives details within regard to the top 10 advertising agencies in India in 1998-99.

Exhibit 15.3: How Do Advertising Agencies Rank in 1999-2000 ?

Rank	*Agency*	*Gross Income 1998-99 (Rs. crore)*
1.	Hindustan Thompson Associates Ltd.	152.4
2.	Lintas India Ltd.	105.7
3.	Ogilvy & Mather Ltd.	77.2
4.	Mudra Communication Ltd.	71.8
5.	FCB Ulka Advertising Ltd.	58.4
6.	Rediffusion DY&R Ltd.	45.1
7.	RK Swamy/BBDO Advertising Ltd.	34.7
8.	McCan-Erickson (India) Ltd.	33.5
9.	Contract Advertising (India) Ltd.	26.7
10.	MAA Bozell Communications Ltd.	25.0

Source: A&M

Note: Gross Income-the total value of billings to clients less the total of payments to media owners, printers and other suppliers (film producers, typesetters, market research agencies, and so forth).

Another interesting development, following globalization and a free market economy, is the increase in mergers, acquisitions

and strategic alliances by leading advertising agencies world wide. For example, Mudra has a strategic alliance with DDB Needham and Trikaya with Grey Advertising. Some of the reasons for this "megacorporation" of advertising agencies is that their clients are also on a roller coaster in the game of mergers and acquisitions. Many of them are already operating in the world market, some of them are even market leaders in their spheres. To service these clients world wide, agencies also need a world wide network. Moreover, advertising agencies are evolving into full communication agencies as they realize that advertising is just one part of the client's communication mix. Other elements that are important and perhaps equal, are direct marketing, sales promotion and public relations. Today there is a growing movement in this direction. More and more agencies see their role in the total communication strategy of their client firms.

Organizationally, agencies have three groups of people working. One is the creative group whose job is to create advertising copies. As the title of this group suggests, it is the creative wing of the agency. The single most important factor in agency evaluation is its creativity. It is no wonder then that copy writers, art personnel and their like are the "blue-eyed" boys and girls in the advertising industry. The other group consists of account managers. These people are the client's product manager, brand manager or marketing manager's counterpart in the advertising agency. This group also performs the "selling" task as they liase with client firms. It is their responsibility to ensure that a particular account grows with them and also that the client remains satisfied. Over a period of time, client servicing and account management have come to acquire a significant position in the agencies' organization structure. The third group is the media executives. As media options increase and clients relook at the productivity of their rupees spent in advertising, media planning is going to become a complex task. Computer based media planning models are increasingly being used to enhance the yield of every rupee spent in advertising, hence the role of media planners. There is a fourth group emerging now mainly because of the changing role of advertising agencies. This is the marketing services group whose task is to examine and recommend the use of other communication tools to help the client achieve the brand's goals.

The Media

The media is another facilitating institution. Media refes to daily newspapers, magazines, technical journals (called the print media), hoardings, billboards, neon signs and so forth (called outdoor media) and cinema and television, video, cable TV and radio (called the electronic media). Media in India has come a long way, from advertising processions, well and roof paintings and also shop paintings as is shown in Exhibit 15.4 on media developments. The media choices have multiplied with the advent of colour television, commercialization of Indian TV, cable TV and the launch of STAR, Zee and other Hindi and regional language channels. Since rural markets are important to any advertisers, rural communications form an important part of an advertising agency's task. And this is where a rural media like video-on-wheels plays a major role.

Today the Indian TV covers almost 82.5 per cent of the Indian population and the radio reaches to almost 95 per cent of Indians. Zee TV has the maximum reach in India among the private channels.

Exhibit 15.4: Media Developments in India

The advertising scenario in India cannot be understood without considering the developments that have taken place in the media. This is one area in the advertising industry that has witnessed the maximum revolution, thus creating new challenges for the marketer. More so, a combination of entertainment, advertising and marketing will shape the new millenium. Due to the convergence of technologies like electronics, computer, telecom and broadcasting, newer media are bound to develop and this will bring about qualitative changes in conventional mass media like press, radio, television and cinema. In times to come the television will be one of the cheapest sources of entertainment. Cable TV has already become very popular as a mass medium but in future there is scope for more personalized and interactive services like direct broadcast satellites (DBS) and direct to home services gaining ground. Radio, though, not as prominent as TV, will remain an important source of information. Radio listenership is expected to grow with FM, as AIR will cover most districts in the country by 2005 with its FM network. The press may however experience a certain stagnation in circulation due to increased costs of production and logistics and also due to proliferating competition. Newspapers, by 2020, are likely to play only a "supporting and enforcing role". The print media is witnessing a change due to popularity of the internet. News and information are becoming available online with the presence of electronic magazines and digital newspapers on the web.

While reviewing the media developments, we will look at the electronic media, print media and the outdoor media.

Electronic Media

The developments in this media have greatly exceeded expectations, especially in India. While television started as a state owned medium in 1959, by 1985 the scenario had changed dramatically and by October 1992 the Doordarshan network (state owned television) included 22 programme-producing centres and 533 transmitters. The physical covereage of TV is 82.5 per cent of the total population in the country. It was estimated that in 1994 there were about 33 million TV sets, of which two-thirds were in the urban areas. The National Readership Survey IV and V has estimated that 77 per cent of the urban population and 30 per cent of the rural population has access to TV.

Urban India will continue to have more TV sets than in rural India even though by 2020, the share of rural viewership is expected to go up to 45-48 percent. However the TV programmes will continue to be dictated by the preferences of urban customers. It is anticipated that there will be a proliferation of channels to extent of 72 to 99 by 2001 and 200 by 2010.

As the number of TV sets increase, the Indian viewers' appetite for entertainment has increased dramatically and Doordarshan was not able to fulfill this appetite. In quick succession we saw the growth and demise of home video viewing and by 1992, cable TV emerged as the uncontested king. But it soon came under threat from satellite TV. The Gulf war in 1991 made it possible for satellite channels to enter the Indian home and in 1991. Star TV was launched and lapped-up by the elite upper class viewers in major cities, particularly Mumbai. Star TV programmes reached the houses of millions of viewers through local cable networking. Star TV has five channels including Star Plus, Star World, Star Movies. The Hindi Channel Zee was launched in 1992, and this was soon followed by ATN, CNN and several other channels. ATN introduced Sun TV for Tamil and Sunga for Malayalam programmes. In 1994 Zee TV introduced two more channels, namely EL TV and ZED Channel. EL TV is supposed to be a 100 per cent entertainment channel, while ZED Channel is for taking education to the masses.

The number of cable TV households and the satellite TV households in some of the major cities in India are shown in Table 15.4 below :

Table 15.4: Status of Cable TV in country

Figures in million

	1995	*1996*	*1997*	*1998*	*1999*	*2000 (estimate)*
Total households	167	170	175	176	179	183
Total TV households	52	58	65	72	80	85
Total cable TV households	18	22	27	32	39	40

Radio : The radio was not to be left behind. In 1994 the All India Radio introduced the FM Channel in the major cities like Mumbai and Delhi. This medium has gained popularity today, as reflected by the decision taken in June 1995 to make this a 24 hour channel in major cities.

Now the reach of channel has been initiated in several small cities. Times of India channel branded Radio Mirchi has been launched in cities likes Indore, Ahmedabad and Pune and even Mumbai. It is expected that the future competition in radio will be among FM channels as the Government of India has allowed private players to enter this market.

Multimedia : Research today indicates that it took almost 50 years for the radio to be adopted by 68 percent of the Indian households. In the context of television, it took 15 years to achieve 5 per cent penetration in the Indian market but post 1985 the growth rate was indeed far steeper. Within 5 years 15 per cent of the households had a television but the last decade saw a much higher growth rate as it grew from 15 per cent in 1990 to 45 per cent in 2000. Today according to statistics put up by Doordarshan

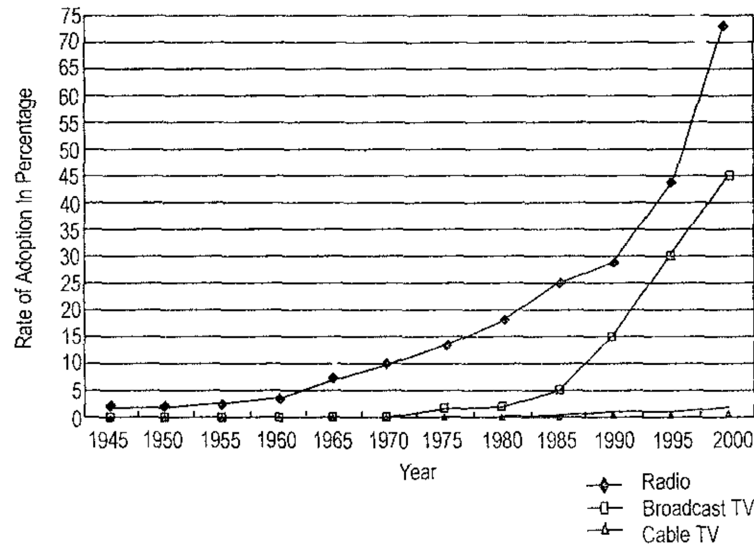


Figure 15.2: The Rate of Adoption of Radios, Broadcast Television, Cable Television by Indian Households

and several other researchers, almost 500 million Indians, (nearly 50 percent of the population) watch television regularly. On the other hand, cable television took much lesser time to penetrate. It took less than 10 years for cable television to achieve 21 percent adoption by the Indian household. Internet grew at a much faster pace as it took just 4 years to achieve a user/subscriber base of 1 million. As shown in Figure 15.2. (the graph below) the internet took the least time to get diffused, even in the Indian economy.

Further, a survey by NASSCOM indicates that there were 950,000 Internet subscribers in India as on May 31, 2000 and today this number stands at 1.8 million. The actual number of consumers who had a ready access to the Internet in May 2000 was almost 3.4 times that of the subscriber base which was 3.25 million. NASSCOM had predicted that by the end of march 2001 the number of Internet subscribers would go upto 1.6 million, which means about 5 million Internet users. Further, this subscriber base will go up to 3.5 million in 2002 or 10 million users. Such massive growth and in such a short time has never before been witnessed by any medium of communication and information in India. In less than seven years of its introduction in India, it is expected to be used by 10 million consumers ! Table 15.5 given below indicates this growth of the Internet in India.

Table 15.5: Growth of Internet User/Subscriber.

As on	*Internet Subscribers (million)*	*YoY Growth*	*Internet Users (million)*	*YoY Growth*	*Users/ Subscribers*
15-08-95	0.002		0.01		5
31-03-96	0.05	3840%	0.025	3840%	5
31-03-97	0.09	80%	0.45	80%	5
31-03-98	0.14	56%	0.7	56%	5
31-03-99	0.28	100%	1.4	100%	5
31-03-00	0.77	175%	2.8	100%	3.64
31-03-01	1.6	108%	5	79%	3.13
31-03-02	3.5	119%	10	100%	2.86
31-03-03	6	71%	16	60%	2.67

This has particularly happened after the emergence of cyber cafes in the semi urban areas. The net has also enabled several government initiatives to take off. Typically an Indian Internet user is young, educated generally a professional, urban (mostly a metro resident), who accesses the Internet either at his/her officer cybercafes/or at his educational institution. Males use the Internet more than the females. Irrespective of the sex, the Internet users generally uses the net for accessing information.

Print Media

According to the 1993 Annual Report of the Register of Newspapers (RNI) there has been a growth in the total circulation of dailies in 1998 over 1997. The number of newspapers went up by 48.9 percent from 30,214 in 1991 to 44,997 in 1998 and the circulation increased from about 5.3 crore copies in 1991 to about 10.6 crore copies in 1998, or in other words, an increase of 100 percent. The highest number of newspapers published were in Hindi (198,29,053), followed by English (64,04,774), Marathi (32,48,909) and Gujarati (28,52,023). The number of daily newspapers increased from 3,229 in 1991 to 4,719 in 1998. In other words an overall increase of over 46.1 percent. The newspapers were published in as many as 96 Indian languages and dialects. The following Table 15.6 gives the details of the press in India.

Table 15.6: Press in India at a Glance

Number of Newspapers in India		*Circulation of Newspapers*	
Dailies	4719	Dailies	4,59,14,327
Tri/Bi-weeklies	325	Tri/Bi-weeklies	5,37,554
Weeklies	14743	Weeklies	3,54,75,216
Fortnightlies	5654	Fortnightlies	85,02,140
Monthlies	11505	Monthlies	1,34,42,145
Others	4759	Others	18,36,809
Total	41705	Total	10,57,08,191
Miscellaneous publications	3292		
Total on record	44997		

Source: Press in India, 1998, Ministry of Information & Broadcasting.

Outdoor Media : Outdoor advertising has also changed dramatically in India. Although, still relatively behind countries like USA, UK and Japan, this media is also drawing the attention of industries. One of the latest forms of advertising is the three-dimension hoarding used by firms like the Lloyds Group.

Finally, the local area advertising on cable TV is also on the growth path. It has been reported that many cable advertising companies rake in Rs, 50,000—Rs. 3,00,000 per month, depending on their operation. Cable TV operators admit that they earn Rs. 20,000 extra every month without any extra effort. Firms like Hindustan Lever, Pioma Industries. Parle Exports and Kwality Ice Creams have been some of the major users.

With literacy increasing and a growth in the professional classes, specialised magazines for different market segments are now being published. Magazines like Business India, Business World, Business Today, India Today, Society, Savvy, Femina, Reader's Digest and their like are now read by middle and higher income families.

All these developments heralds a more complex task even for the media. Today large media houses, like the Times of India group, help advertisers buy the optional media mix. Media marketing is going to be on the increase as the target audience gets fragmented over multiple media choices. Figure 15.3 sums up these advertising institutions and their relationships in advertising management.

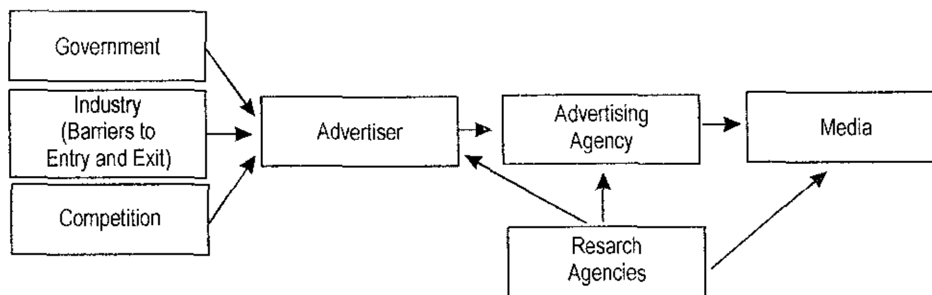


Figure 15.3: Institutional framework for advertising

The Nature of Advertising

Advertising is defined as a persuasive message carried by a non-personal medium and paid for by an identified sponsor. This definition indicates two basic parts of advertising : the message and the medium. The two work together to communicate the right ideas to the right audience.

Advertising promotes goods, services and ideas in mass media, such as television, radio, newspapers and magazines, to reach a large number of people at once. It serves as a substitute for a salesperson's talking to an individual prospect. Mass media advertising is one-way communciation and, unlike a salesperson, cannot receive direct feedback and immediately handle objections.

Advertisers, who must pay the mass media to present their advertisments, or commercials, control the exact nature of the one-way message that will be communicated to the target audience. The impersonal nature of advertising also allows marketers to control the timing and degree of repetition. These features often provide benefits that far outweigh the disadvantages associated with lack of feedback.

Marketers of soft drinks, cosmetics, soaps and many other products that do not require direct and immediate feedback often rely heavily on advertising. For these marketers, the challenge is to present messages effectively to an audience that may not be interested in seeing or hearing them. They must contend with readers who quickly turn the magazine page or viewers who tape-record television programs and then fast-forward through commercials. They must cope with competitors that use advertising to compare brands. Because of these demands, advertising is often highly creative and innovative.

Creative advertising can stimulate people to talk about products, services, and ideas. This word-of-mouth communication may be one of the most effective means of communicating a message to prospective customers. Advertising's power to influence word-of-mouth communication can be a great asset to a marketer.

Advertising supports other promotional efforts. It may communicate information about a sales promotion or announce a public relations event. Advertising helps the salesperson "get a foot in the door" by preselling prospects. A salesperson's job can be made much easier if advertising informs prospects about unique product benefits or encourages prospects to contact a salesperson. Without advertising, the salesperson's efforts may be hindered by the prospect's lack of knowledge about the company or its products.

Advertising can be subdivided into many different categories. A very basic scheme classifies advertising as product advertising or institutional advertising.

Product Advertising

Product advertisement : *An advertisement promoting a specific product.*

Advertisements for Liril, Home Trade, Oberoi Hotels, Colgate and many other brands are clearly intended to

persuade consumers to purchase a particular product—indeed, a particular brand. These are **product advertisements**. An advertisement for Maruti Suzuki that declares "Maruti Service Station near you. No matter where you go" and suggests that viewers go down to the Maruti dealership is a product advertisement because if features a specific product.

Direct-action advertisement : *An advertisement designed to stimulate immediate purchase or encourage another direct response also called a direct-response advertisment.*

If Hero Honda advertisement goes on to recommend that viewers go to the showroom for a test drive during an inventory reduction sale—that is, if it suggests an immediate purchase—it is also a direct-action advertisements, or *direct-response advertisement.* Many television advertisements and many direct-mail efforts are of this type. Those that include both direct-action advertising and a direct channel of distribution are a popular form of direct marketing. For example, record companies frequently urge consumers to order special albums by calling a toll-free number and using a credit card. The Book-of-the-Month Club by India Today Group mails announcements of its latest offering to club members' homes and includes a return envelope so that the customer can order the latest selections. Direct-action advertisements, in general, utilize coupons, toll-free telephone numbers, or invitations to call collect in order to facilitate action and encourage people to "buy now." Much retail and Internet advertising emphasizes direct action.

Indirect-action advertisement : *An advertisement designed to stimulate sales over the long run.*

Less assertive forms of product advertising are designed to build brand image or position a brand for an eventual sale rather than to sell merchandise right this minute. For example, consider an advertisement portraying the romance and adventure of Ladakh. The advertiser knows that the consumer is not going to run directly to a travel agency after seeing such an advertisement. The objective is to provide information so that the next time the family is considering a vacation, Ladakh will be among the spots considered. Such so-called **indirect-action advertisements** use a soft-sell approach calculated to stimulate sales in the long run.

Institutional Advertising

Institutional advertisement : *An advertisement designed to promote an organizational image, stimulate generic demand for a product, or build goodwill for an industry.*

Institutional Advertisements aim to promote an organizational image, to stimulate generic demand for a product category, or to build goodwill or an industry. "Sunday Ho Ya Monday Roz Khao Andey" is an institutional advertising slogan. So are Phillip's "Let's make things better" and United Artists' "Escape ..... to the movies." These institutional advertising slogans do not stress a particular product, brand, or movie. Instead, they accent the sponsoring institutions. The eggs advertisement, for example, attempts to build demand for the eggs as a whole. The advertisements paid for by Philip's and United Artists stress how wonderful, responsible, or efficient those companies are. Contrasting the "Drink milk campaign against the advertisements for Amul Milk or Vita Milk" makes the difference between institutional advertising and product advertising quite clear. Institutional advertising is often part of a larger public relations effort.

Planning and Developing Advertising Campaigns

Developing an effective advertising campaign requires a stream of interconnected decisions on such matters as budgeting and media, as well as a strong creative strategy. The process followed in planning and developing an advertising program is shown in Figure 15.4. The activities involved in the process are discussed in the following sections.

As you've seen throughout this book, goals and objectives must be established before work on specific plans and actions is begun. This relationship between objectives and plans holds true for advertising. Before developing a single advertisement, management must ask what the advertising is expected to do.

Of course, advertising is supposed to sell the product. That statement, however, is too broad to be truly useful

to marketing planners. Advertising is, after all, only one element of the marketing mix. It affects and is affected by the product, the price, the packaging, the distribution, and the other elements of promotion. All these elements combine to sell the product; advertising does not do the job alone. Regardless of the appeal and longevity of advertising campaigns, such as those of De Beers diamonds, BMW, or United Airlines, successful advertisements do not stand by themselves. Effective advertising campaigns are developed as part of an overall marketing strategy and are tightly coordinated with the other facets of the promotional mix.

Communication Goals for Advertising

Communication goals: *In the context of marketing, what the marketer wants a promotional message to accomplish; to gain attention, to be understood, to be believed, and to be remembered.*

What are appropriate goals for advertising? Because advertising is a method of communication, objectives directly related to advertising should be **communication goals.** In general, advertisers want to accomplish four broad communication goals :

Advertisements are expected to generate attention, to be understood, to be believed, and to be remembered. These goals relate to selling the product, but they are primarily matters of communication.

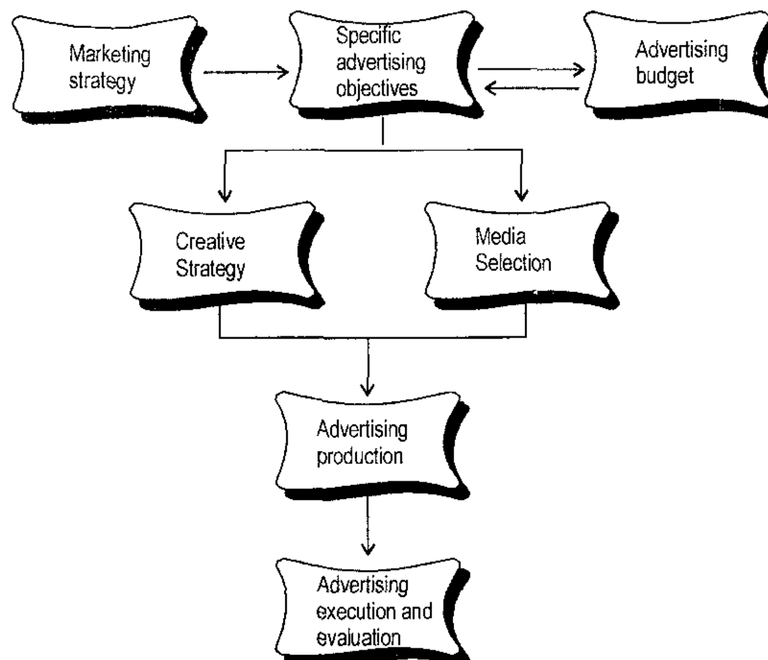


Figure 15.4: Advertising Planning and Development

If these broad communication objectives are not considered and met, more specific objectives will not be met either. For example, if no one pays attention to an advertisement, the advertisement cannot achieve its more specific objective of, say, enhancing a brand image. Likewise, an advertisement must be understood and believed if it is to reinforce or change perceptions and attitudes about a brand's characteristics. And if it is not remembered, an advertisement will have little effect on buyer behaviour. With these broad objectives in mind, marketers developing advertising campaigns can set more specific objectives.

Specific Advertising Objectives

Encouraging increased consumption of a product by current users, generating more sales leads, increasing brand awareness, increasing repeat purchases, and supporting the personal selling effort are typical specific objectives for advertisements. As Figure 15.4. illustrates, these objectives are developed from the marketing strategy and provide the framework for creative strategy and media selection.

Many advertisements have disappeared from the media, even though "everybody liked them," because they did not contribute to accomplishment of specific objectives. For example, almost everyone who saw it enjoyed a unique television advertising campaign featuring a bus in Rajasthan's rural area which was full of passengers, moves up and down on the road and an avertisement on the backside reads. "Fevicol Ka Majboot Jod Hai Tootega Nahin" However, some advertisements, while humorous and attention-getting, did not sell the product. Because the ultimate objective is to sell the product, the advertisements should be changed. A "great" advertisements that does not contribute to success in increasing market share, introducing a new product, or the like is only great in the creative sense. In the business sense, it is far from great.

Advertisements are expected to generate attention, to be understood, to be believed, and to be remembered

Opportunities in the marketplace, competitor's advertising campaigns, and prior marketing strategy decisions, such as selection of a target market segment, all influence the development of specific advertising objectives. An important influence is the product's stage in the life cycle.

Table 15.5: Illustrations of Specific Advertising Objectives

Type of Objective	*Illustrations*
Demand-Oriented	
Information	To create target market awareness for a new brand. (Samsung launching camera phone To acquaint consumers with new business or store hours (store opens from 9 A.M. to 9 P.M. To reduce the time salespeople take to answer basic questions (Routine questions answered in the advertisement).
Persuasion	To gain brand preference (Palmolive Da Jawab Nahin). To increase store traffic. (Benetton store launched buy 2 get one free on summer wear To achieve brand loyalty (Regular usage of Colgate will stop tooth decay).
Reminding (retention)	To stabilize sales (to ensure continuous profit's and growth). To maintain brand loyalty (Pepsi : Yeh Dil Mange More). To sustain brand recognition and image (TATA is easily recognised anywhere in India.
Image-Oriented	
Industry	To develop and maintain a favourable industry image (Intel inside on every computer To generate primary demand (Roz Piyo Doodh to increase milk consumption).
Company	To develop and maintain a favourable company image. (Videocon : Bring Home The Leader To generate selective demand. (Drink Amul Milk).

Advertising Objectives and the Product Life Cycle

Advertising objectives change with environmental conditions, as do all other aspects of marketing. Marketing is dynamic; advertising, as one of its most visible components, must be especially reflective of change.

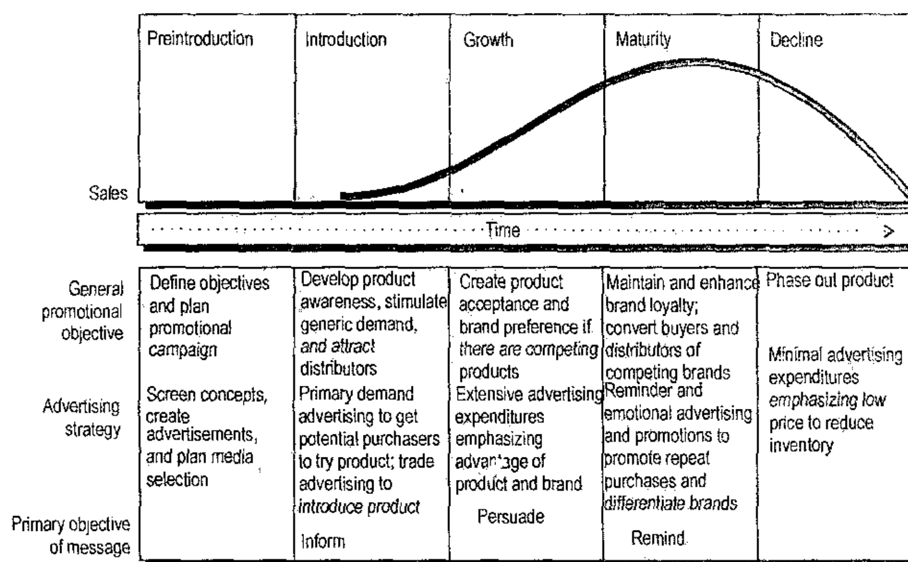


Figure 15.5: Objectives Change over the Product Life Cycle

Once again, the concept of the product life cycle can be used to illustrate the changes. Figure 15.5 shows how advertising objectives change over the course of a product's life. During the introductory stage of the cycle, developing consumer brand awareness and getting customers to try the product are normal advertising objectives. Trade advertising, which is aimed at attracting distributors and interesting them in carrying the product, is equally important, although less obvious, during this stage. Additional trade advertising may be developed later, with the objective of increasing the numbers of distributors and retail outlets.

Primary demand : *Demand for a product class as a whole, without regard to brand, also known as generic demand.*

Primary demand advertising : *Advertising aimed at stimulating primary demand; also known as pioneering advertising.*

At the start of the product life cycle, it may be necessary to develop **primary demand** or *generic demand*, for the product—that is, demand for the product class as a whole. This kind of advertising, which often must be so basic as to explain what a product is and how it works, is called **primary demand advertising**. It seeks to introduce the product rather than to make brand comparisons. Advertising of this sort is also called *pioneering advertising.*

Advertising for a mature brand, such as Lifebuoy, may be aimed at regular, brand-loyal users. Its purpose is substantially different from that of advertising used to introduce a new product. Promotion to loyal customers requires a campaign designed to remind them of the product's image and of their satisfaction with the product; regular buyers do not need detailed information about the product. In the case of mature products, then, advertisers give relatively little emphasis to explaining product features. Messages become increasingly symbolic as the product "ages". Partly, this reflect the fact that mature products have found their niche in the marketplace. They have been positioned, either by marketers or by the competitive forces of the market itself, to appeal to smaller and more specialized market segments than when they were new and lacked intense competition.

Selective demand advertising : *Advertising aimed at stimulating demand for a particular brand.*

An advertising campaign for a product in the maturity stage of the product life cycle may not explain anything about the characteristics of the product. Often the advertisements reflect the psychological or emotional dimensions of the brand or the situations in which it is consumed. Because most products on the market are in the maturity stage, much advertising uses psychological benefits to differentiate brands. Such advertisements stress the reasons a brand is better than its competitors, instead of emphasizing the newness or uniqueness of the generic product, as is done at the start of the product life cycle. Advertising of this kind is called **selective demand advertising.**

The most commonly encountered advertising objectives for mature products may be summarized as follows :

1. Increase the number of buyers
   - Convert buyers of competing brands by giving them strong reason to buy.
   - Appeal to new market segments by entering into foreign markets.
   - Reposition the brand by identifying some new use or more usage per occasion.
2. Increase the rate of usage among current users
   - Remind customers to use the brand more often. Drink orange juice three times a day.
   - Inform regular consumers of new uses to increase the consumption. Print new recipes on the pack to increase consumption of food products.
   - Enhance brand loyalty and reduce brand switching among current customers by making them club members or by supplying something of value to the loyal customers.

After determining the advertising campaign's objective, marketing managers begin to develop a creative strategy and to select advertising media. These activities are inter-related. In fact, the inter-relationship between advertisement and medium is so strong that it is often impossible to tell whether the selection of the medium or

the development of the advertisement comes first. For the purposes of our discussion, we will first examine how marketers create and produce advertisements and commercials.

Creative Strategy

Creative process : *In the context of advertising, the generation of ideas and the development of the advertising message or concept.*

In advertising, the generation of ideas and the development of the advertising message or concept make up the creative process. Actually, creativity is necessary to all aspects of the marketing mix, but the term has come to be particularly associated with the work of the people who actually develop and construct advertisements. Whether creative activity is based on information gathered by marketing research or on analysis by mangement, the basic thrust of an advertising message is developed primarily by the creative departments of advertising agencies.

Discussing creativity is a difficult task. It is possible to outline schematically the steps involved in the creative process, as illustrated in Figure 15.6. The role played by that elusive something called "creativity", however, can only be shown as a "creative spark." Advertising objectives provide a framework for creative efforts but the creative spark is probably what makes an advertisement persuasive.

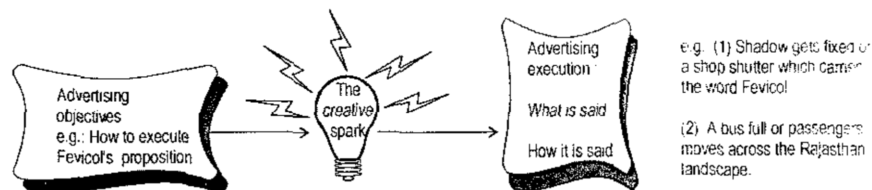


Figure 15.6: Creativity Is an Important Aspect of the Advertising Process

Advertising copy writers, art directors, and other creative people are responsible for the task of answering two questions : "What to say ?" and "How to say it ?" These questions reflect the two basic parts of the creative strategy.

What to Say—The Appeal

Advertising appeal : *The central theme or idea of an advertising message.*

The central idea of an advertising message is referred to as the **advertising appeal**. The purpose of the appeal, and of the advertisement, is to tell potential buyers what the product offers and why the product is or should be appealing to them. Thinking about advertisements you have seen will bring to mind the many kinds of appeals advertisers employ. It may be that the product has sex appeal, is compatible with the target customer's lifestyle (or desired lifestyle), or solves some particular problem such as "morning mouth," medicine breath," or the need for healthy gums. Commercial messages that make firm promises, like "NOKIA 1100 Made for India shock resistant and dust resistant" are not uncommon. Many advertisers believe that specifically describing the answer to a problem in this manner is the most effective approach. Other advertisements, such as those for cosmetics, bathing soap and motor bikes, are built around less straightforward appeals that stress brand image

"What to say?", and "How to say it?" These questions reflect the two basic parts of the creative strategy.

Advertising theme : *An advertising appeal used in several different advertisements to give countinuity to an advertising campaign.*

When the same advertising appeal is used in several different advertisements to provide continuity in an advertising campaign it is referred to as an **advertising theme.** The Indian Army, for exmple, uses the theme "Do you have it in you" in its advertising.

To get a feel for how creative advertising appeals vary across an industry, it is useful to consider several brands of the same product and the advertisements developed for each.

The Visa credit card is positioned and advertised as the most widely accepted card. Advertising communicates the message that, because Visa is accepted at more places, it is "Everywhere you want to be."

MasterCard takes a diferent approach, advertising itself as a smart payment method for almost every type of good or service. For instance, one MasterCard commercial shows a father and a son at a base ball game. It explains that tickets cost $28 and hot dogs, popcorn and soda cost $18, but "real conversation with an 11-year-old is priceless." The ad concludes : "These are some things money can't buy. For everythibng else there's MasterCard."

American Express reminds customers that its cards "Do more" It Blue Card includes a smart card feature that stores data.

The important thing to note here is that the advertisements for these products, as well as those for many others, feature different appeals. If every credit card company simply said, "Our credit card is more convenient than paying with cash," no brand's advertising would be unique or memorable. Creativity is responsible for this uniqueness.

But there is more to cretivity than that. Many advertising appeals, such as the appeals for credit cards just described, are part of positioning promotional campaigns. Advertisers create these appeals so that consumers will perceive their brand as holding a distinctive competitive position. This strategy may be so successful that perfectly true claims made by the producer of one brand are not believable because of the competitive positions other brands hold in consumers' minds. Creativity, then, is more than an advertising tool. It is a competitive tool.

How to Say It—Execution of the Appeal

Even when a copy writer or artist has an important and meaningful message to relate, its effect can be lost if it is not presented in the right way and in the right context. Marketing research can help in this regard. For example, an advertising agency's research indicated that many women who buy ready to cook dinners lead hectic lives and, because of time constraints, have trouble coping with everyday problems. So far so good. On this basis, the agency developed an advertisement for Swanson ready to cook dinners showing a rundown woman flopping into a chair just before her family is to arrive home demanding dinner. Suddenly realizing that she has a problem, the woman gets the bright idea of cooking a frozen dinner.

The problem was real enough, but the appeal was wrong. The last thing harried women want is to be reminded of how tired they are. Television viewers are fond of pointing out that married women in commercials are almost always smart and well groomed, even when they are doing the laundry or washing the floor. Advertisers use such images to focus the target customer's attention on the solution to a problem without making her feel like cursing the laundry or the dirty floor. Realizing this, Swanson changed its advertising appeal.

How to say something is as important as—and sometimes more important than—what to say. This is perhaps doubly true in advertising. The person delivering the message, the emotional tone, and the situation in which the action takes place all influence the effectiveness of the advertisement. Remember the ad for Britannia's 50–50 during the cricket matches, when the third umpire has to take the decision.

Although some advertisements are simple, straightforward statements about the characteristics of a product, creating advertisements that grab the intended audience's attention often requires some embellishment. Advertisements must say things to people both with and without words, and the creative spark clearly is vital to accomplishing this goal. The Fevicol's slogan "Fevicol Ka Majboot Jod Hai—Tootega Nahin" tells the target customer something about the brands glue ability. "I'm stuck on Band-Aid, and Band-Aid's stuck on me" is a catchy phrase. The Air India's Maharaja is a symbol rich in meaning; so are the Marlboro man's cowboy hat and horse. One mark of the talent and success of creative individuals is that much of their work is so powerful that it can be used effectively in advertisements for decades. Many slogans, pictures and other components of advertisements can be immediately identified with particular products by generations of consumers. Success depends on the creative person's ability to capture a feeling or fact with just the right phrase and the right symbols. Compare these common advertising phrases with the way they might have been written :

"Bharat Ka Namak—Dandi Namak"

"Ghari Detergent : Pehle Istemaal Karen, Phir Vishwas Karen"

"Colgate Ka Suraksha Chakra."

"Lifebuoy Hai Jahan, Tandurusti Hai Wahan"

Bajaj Auto's legendary "Hamara Bajaj Campaign".

***Creative platform :** The style in which the advertising message is delivered, also known as the execution format.*

How an advertisement says something is its **creative platform**, or *execution format.* The creative platform is influenced by the medium that is used to convey the message. Obviously, a newspaper advertisement cannot duplicate the sound of a railroad train, but that sound might be used effectively in a radio advertisement. Determining how to communicate the message, then, is interrelated with selecting advertising media. Nevertheless, advertisers can present or creatively implement a basic appeal in a number of ways.

Looking at some of the major creative platforms used in advertisements, especially TV commercials, helps put the creative strategies behind advertisements into perspective. The major creative platforms include storyline, product use and problem solution, slice of life, demonstration, testimonial and spokesperson, lifestyle, still life, association, montage and jingle.

***Storyline creative platform :** An advertising creative platform that gives a history or tells a story about a product.*

Storyline : The **storyline creative platform** gives a history or tells a story about the product. For example, the advertisement of Lux Soap focus on the concept of beauty soap for the heroines, since its launch. Similarly, certain European vacation spots are shown in all their historical glory from the Middle Ages to the present.

In television commercials that use the storyline creative platform, an unseen announcer (in a technique called *voice-over*) often narrates a story with a recognizable beginning, middle and end. Some copy writers attempt to make the product the "hero" of the story.

Product Use and Problem Solution : Straightforward discussion of a product's uses, attributes, benefits, or *availability is a creative platform frequently utilized in advertising. A unique selling proposition, is the central* focus of such an advertisement. Comparatively simple advertisements for products ranging from Colgate toothpaste to Eureka Forbes Vaccum cleaner explain uses of the product and how the product can solve a problem. Colgate toothpaste fights tooth decay. Eureka Forbes Vacuum cleaner keeps your home neat and clean. A maker of exercise equipment may point out that being fat and out of shape is a problem ("Your waist doesn't belong on your stomach") and may show that its product is a solution to the problems.

***Slice-of-life creative platform:** An advertising creative platform that dramatizes a "typical" setting wherein people use products.*

Slice of life: The slice-of-life creative platform dramatizes a "typical" setting wherein people use the product being advertised. Most of these commercials center on some personal, household, or business situation— for example, over worked husband asking for strong tea—"Tej Ho Chai, To Josh Aa Jaye", Kapil Dev during a net practice claiming—"Boost is the secret of my energy" or mother-in-law & daughter-in-law talking about a laundry problem.

The slice-of-life commercial often begins just before a character discovers an answer to a problem. Whether the trouble is dandruff, bad breath, or not being home for a holiday, emotions are running high. The protagonist may know of the problem or may be told about it by another character. The product is then introduced and recommended, and the needy person gives it a try. Just before the end of the commercial, we are told—and, indeed, we can see for ourselves—that the new user of the product is now a more satisfied, happier person. This creative platform is most common in TV commercials, but similar real-life stories can be developed in print media through the use of a series of pictures and in radio advertisements through the use of character voices. The slice-of-life creative

platform is essentially a dramatized variation on the problem-solution creative platform.

Demonstration : *An advertising creative platform in which a clear-cut example of product superiority or consumer benefits is presented.*

Demonstration : Certain products lend themselves to a **demonstration** creative platform. For example, a Master Lock advertisement in which bullets are repeatedly fired into a lock that does not open is suspenseful and self-explanatory. The demonstration creative platform makes its sales pitch by showing a clear-cut example of how the product can be used to benefit the consumer. It does this by either dramatically illustrating product features on proving some advertised claim. The Master Lock advertisement certainly seems to prove that product's claim to toughness.

Unusual situations, occasionally bordering on the fantastic, can draw attention to product benefits. The shadow of a walker gets pasted on a shop shutter which carries the name Fevicol or girl fell down in a ditch when the worker removes a can of Fevicol from the top of the television. These novel situations draw viewers' attention.

Infomercial : *A television commercial, usually 30 minutes long, that has the appearance of a program.*

Many demonstrations occur in infomercials. **Infomercials** are television commercials, usually 30 minutes long, that have appearance of regular programs, such as cooking shows or talk shows. The product is repeatedly demonstrated on the infomercial. Often, a telephone number flashes on the screen so that the viewer can order the item.

Comparative advertising : *A type of demonstration advertising in which the brand being advertised is directly compared with a competing brand.*

Comparative advertising, which directly contrasts one brand of a product with another, is a form of demonstration advertising. In a comparative advertisement, the sponsor's product is shown to be superior to other brands or to Brand X in a taste test, laundry whiteness test, toughness test, or other appropriate contest. This creative platform is somewhat controversial on two counts.

First, some advertisers believe that calling attention to another company's brand helps that competing product by giving it free exposure. Certainly, the comepting brand receives some attention, but this fact itself can be advantageous. Brands that do not have a high market share are intentionally compared with the best known poducts to suggest that the two brands are equal. Pepsi, the challenger, thus urges comparisons with market leader Coke. For example, in one television commercial, delivery-truck drivers for both Coca-Cola and Pepsi-Cola order a meal at a dinner. The Coca-Cola driver offers his competitor a sip from his Coke can. The Pepsi driver takes a sip, returns the Coke can, and then offers the Coke driver a sip of his Pepsi. After the Coke driver takes a single sip of Pepsi, he wants more. He refuses to return the Pepsi, causing a commotion at the dinner.

This commercial suggests a second point of controversy : Some people do not feel that such comparisons are fair or sporting. On the whole, however, advertisements using the direct-comparison creative platform have been increasing in number in recent years. The honest comparisons will help the consumer to make choices.

Testimonial : *A type of advertising in which a person, usually a well-known or public figure, states that he or she owns, uses, or supports the product being advertised.*

Testimonial : Testimonials and endorsements show a person, usually a prominent show business (Amitabh Bachchan) or sports figure (Sachin Tendulkar), making a statement establishing that he or she owns uses, or supports the brand (Reid & Taylor suitings or Victor motorcycle) advertised. The idea is that people who identify with the celebrity will want to be like that person and use the same product. Alternatively, the advertiser hopes that consumers will see the endorser as an honest person (Amitabh Bachchan) who would not lend his or her name to a product that (ICICI) is not good. Testimonials may also use speakers who, by virtue of their training or abilities, are seen as "experts" on the products being advertised. For *e.g.,* a Doctor recommending a particular brand of cough syrup.

Spokesperson: *A person who represents an advertiser and directly addresses the audience members to urge them to buy the advertiser's product. Using a spokesperson is a variation on the testimonial.*

A variation on the testimonial appeal is the use of a spokesperson. The spokesperson represents the company

and addresses the audience members directly, urging them to buy the company's product. The spokesperson is often the commercial's central character, need not be a real person.

Life style creative platform: *An advertising creative platform that reflects a target market's lifestyle or hoped-for lifestyle.*

Lifestyles: The lifestyle creative platform combines scenes or sequences intended to reflect a particular target market's lifestyle. Soft-drink and fast-food advertisements, as well as those for many other consumer goods, frequently show product users in a sequence of daily activities. Young people might be shown enjoying some extreme sports activitiy and topping off a perfect day with a Thums Up. Thus, the enjoyable aspects of teenage life are shown in association with the product usage. Important to such advertisements are the sorts of people actors portray.

Still-life creative platform : *An advertising creative platform that makes the product or package its focal point emphasizing visually attractive presentation and the product's brand name.*

Still Life : The still-life creative platform portrays the product in a visually attractive setting. The product or package is the focal point of the advertisement. Reminder advertising often uses a still-life creative platform because the most important purpose of the message is to reinforce the brand name. Absolute vodka and Bata's recently launched high priced casual shoes has used this creative platform with great success.

Association creative platform : *An advertising creative platform that uses an analogy or other relationship to stimulate interest and convey information.*

Association : The **association creative platform** concentrates on an analogy or other relationship to convey its message. This creative strategy often "borrows interest" from another, more exciting product or situation. Thrilling activities, such as skydiving or windsurfing, and scenes of beautiful places, such as the Kerala's backwaters or a mountain wilderness of Ladakh, are associated with a product in some way. The purpose of such analogies, which are often accompanied by music, is to create an emotional mood. The psychological benefits of the product are communicated through the associations drawn by the viewer. More everyday analogies are used to make a product and its benefits easier for the consumer to understand. For example, Lysol uses an analogy when it says, "It's like having a brush in a bottle."

Fantasy creative platform : *In the context of advertising, a type of association creative plateform used to link a product with the target buyer wildest dreams and hopes.*

Fantasy is a special associative creative approach. The long-lived series of advertisements for Axe deodorant is a perfect example of the use of the **fantasy creative platform**. The fantasy appeal seeks to associate the product not merely with a glamorous setting but with the target buyer's wildest dreams and hopes. This creative platform allows audience members to fantasize about themselves in the position of the rich, famous, or adventurous.

Jingle : *A song or other short verse used in an advertisement as a memory aid.*

Jingle : "Hamara Kal......Hamara Aaj, Buland Bharat Ki Buland Tasveer" Can you remember the rest of this jingle ? What event do you think of when you hear "Britannia Khao, ... Jao" ? What does one have to do if one wants to "Humko Binnies Mangta" ? Commercial jingles, many of them written by well-known composers, have what is termed "memory value." You literally cannot get them out of your head. You may find yourself thinking of them—or, at least, able to remember them almost word for word once your memory is jarred—years after they have been withdrawn from the market. People often remember product names, phone numbers, and addresses in jingle form. Thus, jingles serve best as a memory aid; they can have a significant effect on product recall.

Montage : *An advertising creative platform that blends a number of situations, demonstrations, and other visual effects into one commercial to emphasize the array of possibilities associated with product usage.*

Montage: The **montage** creative platform blends as number of situations, demonstrations and other visual effects into one commercial. The effect may be one of a swirl of colours or an exciting array of possibilities associated with product usage. Typical of such a creative platform are travel advertisements for places like Kerala or Singapore. In these TV spots, the varied sights and sounds of an island paradise are strung together not only to show the many activities that are to be found there but also to suggest the excitement of the place

and the sense that there is so much to do that the trip will surely be worth the investment. Several of Pepsi's Generation Next advertisements use this creative platform.

Other Creative Platforms: This short list of advertising creative platforms is far from exhaustive. Pure information, humour, sex appeal, computer graphics, and special effects, for example, have not been mentioned. However, the discussion should help you to think of other advertising creative platforms and of the ways they work in an effective marketing program.

Producing an Effective Advertisement

Advertisements can consist of verbal elements, graphic elements, and auditory elements. The exact combination of these elements depends on the people who design the advertisement—and, as suggested, their choices are strongly influenced by the advertising medium to be used. However, the ultimate consideration is that an advertisement must reflect the advertising objectives. The promotional mix should be a unified whole, employing all appropriate means of delivering a message. Thus, many TV, radio, and print advertisements for a product advance virtually the same message or appeal, even though each is constructed to fit the appropriate medium.

Copy—The Verbal Appeal

Copy : Any words contained in an advertisement.

The term copy refers to the words in an advertisement. The words may be printed or they may be spoken by a character in a commercial or by an announcer. In certain advertisements, such as radio advertisements, the copy makes the biggest contribution to the advertisement's effectiveness. Even in a visual medium, such as television, copy is likely to retain its supremacy, because many of the claims an advertiser makes must be supported by the comments of the announcers or the characters. For example, advertisements for laundry detergents may show two piles of wash, but it is the copy that assures viewers that the pile washed in Surf Excel is the whitest.

Some advertisements are loaded with copy and have few illustrations. For that type of advertisement to succeed, many members of the target audience must be so interested in the product's possible benefits that they are willing to read long paragraphs of information. This type advertisements are more suitable for print media for automobiles and electronic gadgets.

Art—The Visual Appeal

Art : Any aspect of an advertisement other than copy, including pictures, layout, and white space.

The term art is used broadly to mean all aspects of an advertisement other than its verbal portions. Thus, drawings, photographs, computer graphics, graphs and charts, layout (the arrangement of the graphic elements), and even white space fall in the category of art.

The function of pictures in an advertisement is to illustrate a fact or an idea or to attract attention. White space and layout have more subtle purposes. Layout can be used effectively to focus the viewer's attention on the picture of the product. It can also be used to draw attention to the brand name, the price, the place where, a product is sold, or the written portion of the ad. White space can be used in similar ways, but it is more commonly used to suggest high quality. Notice that many newspaper and magazine advertisements employ considerable white space to accent the product. A great deal of white space says that the pictured item is special, probably expensive, and certainly high quality. It implies that the product deserves the spotlight given it by a plain field that accents its appeal. Thus, many advertisements for expensive jewellry picture the item on a plain-coloured velvet cloth; only a few words are included so that consumers are not distracted from the beauty and perfection of the jewellry. In contrast, a busy advertisement featuring a jumble of words and pictures and a small amount of white space may suggest low price and low quality. Look closely at the avertisements in your newspaper or favourite magazines and notice how layout is used.

Copy and Art Working Together—The Aida Formula

AIDA : An acronym for attention, interest, desire *and action. The AIDA formula is a hierarchy of communication effects model used as a guideline in creating advertisements.*

Most advertisements, with the exception of radio advertisements, feature both copy and art. The two elements must work together to accomplish the communication objectives set by management. To ensure that copy and art complement each other, most advertisers follow a hierarchy of effects model known as the AIDA formula. AIDA stands for *attention, interest, desire* and *action.*

Attention: David Ogilvy, a famous advertising executive, once said, "When you advertise fire extinguishers, open with fire." He was speaking about getting the prospect's attention. An effective advertisement must draw the viewer's or listener's attention from the very first glance or hearing. Whatever follows will prove of little use if the member of the target audience has not first been influenced to pay attention to the message. Copy can be used to accomplish this, as when radio advertisements start out sounding like soap operas or mystery stories to draw attention. The copy can be enhanced by illustrations. Often people representing the target customers are shown in situations that make the viewers wonder. "What's going on here ?" or "What happened to these people ?" For example, to attract the attention of luggage users, the Samsonite luggage company has for years run advertisements showing suitcases falling out of airplanes or suitacases supporting automobiles that have flipped over on top of them. Humour is another attention-getting device.

When you advertise fire extinguishers, open with fire.

Interest: After the target consumer's attention has been attracted arousing interest is next. If the attention-getter is powerful enough, interest should follow fairly automatically. However, it may be necessary to focus the viewers' or listeners' attention on how the product or service being advertised actually relates to them.

Desires: Immediately following the arousal of interest is the attempt to create a desire for the product. In a TV commercial for ChemLawn, the viewer first sees a homeowner carrying tools and bags of lawn chemicals. One of the bags breaks, and the exhausted do-it-yourselfer looks on helplessly. The viewer at home sees, however, that the unfortunate fellow's neighbour has a very nice-looking lawn but does not look harried or sweaty. Certainly he has no piles of spilled lawn-care products around his property. The viewer is interested in this story : Why is one fellow miserable while his neighbour smilingly pities him ? The contented home-owner is a subscriber to the ChemLawn service, of course. The viewer is treated to some scenes of the ChemLawn man applying liquid lawn chemicals in one easy step. The ChemLawn people know what and when to spray—another load off the homeowner's mind. Thus, interest in and desire for the product are established in nearly simultaneous steps.

Action : Action is the last part of the AIDA formula. In the ChemLawn example, the commercial ends with a call to action. In effect, the advertisement urges viewers to phone their local ChemLawn dealer for an estimate of what it will take to make them as happy as the man who has been able to get a nice lawn with no effort. Thus, the means to act is provided. Usually, the advertiser makes the action seem as effortless as possible by giving a phone number or closing with a note that credit cards are accepted.

How the AIDA Formula Works : The AIDA formula is based on a consumer behaviour theory that closely parallels the hierarchy of communciation effects model. The formula describes consumers' behaviour and serves as a guideline for creating advertising. AIDA makes good sense as an advertising tool and is widely known and followed.

Understand that is may not be possible for every advertisement to move the reader or viewer through the four stages to action with a single exposure. Repetition is usually necessary so that the advertisement's message can "sink in." Repetition also increases the chance that the target customer will see or hear the message at a time when there are no distractions. Finally repetition recognizes the buyer's changing environment. An advertisement that he or she has seen before may be perceived in a different light by the target buyer who has just been paid or has received a tax refund. Eventually, if the advertisement is an effective one aimed at the

proper people, buyers are likely to move psychologically through the AIDA stages and then act.

As we have already seen, developing a creative strategy and developing a media selection strategy are interrelated processes, and the planning of these activities occurs simultaneously. We now turn our attention to the selection of media.

Media Selection

Media selection strategy *: Plan for determining which media are most appropriate for an advertising campaign.*

Suppose you are about to open a retail store. You have already decided to have a Yellow Pages advertisement but are undecided about whether to use radio, television, or newspaper advertising as well. This choice is a matter of selecting a communication channel for your message. In making the choice, you are determining a media selection strategy, which must take into account the message you wish to transmit, the audience you want to reach, the effect you want to have, and the budget you have to support this effort.

Developing a media strategy requires answering two questions : "Which media will get the message to the desired audience efficiently ?" and "What scheduling of these media will neither bore people with too-frequent repetition of the message nor let too many people forget the message ?" Before we address these questions, let's look briefly at what the term *media* includes.

Which Media

The various media lend themselves to sepecific tasks. If we assume, for the moment, that budget considerations can be set aside, certain factors become dominant in choosing the medium to carry a sales message. If demonstration or visual comparison of one brand with another (say Surf Excel v/s Some other brand) is the goal, television becomes the most logical contender. If a lengthy explanation of sales points (for automobiles etc.) is required, print advertisements (magazines and newspapers) and the Internet come to mind. If consumers need a message to remind them of package identification or convey a sho.. sales idea (Newport : Economy Jeans), outdoor advertising (hoardings) makes sense. Thus, before a marketing planner starts thinking about what medium to use, he or she must know what is to be said. Once the marketer has decided what is to be said, attention can turn to which medium can best say it. Ultimately, several different media may be selected to carry the multiple messages the marketer wants to communicate.

Several media may appear to be able to do a particular job. When this is so, the marketing planner can narrow the choice by considering which media will hit the all important target market. At this point, the media expert becomes a market expert. Knowing the target market (Kids 3–7 yrs.)—who the heaviest users (Maggie Noodles) are, what their demographic (Urban; Middle Income Groups and above) and psychographic (Avid watchers of cartoons) charactertistics are—leads to a determination of which media will deliver the message to these prospects. For example, a media planner in ICICI Prudential insurance may be trying to target young males between the ages of 18 and 34; Singapore Airlines may be targeting well-educated, high-income men and women between the ages of 25 and 49; the primary customers for a sun-screen cream may be youthful, fashion conscious urban women with family income Rs. 10,000 + per month. What media will reach each of these targets most effectively ?

Mass Media

Most products can be related to a demographic profile. Data pertaining to mass media are geared to that same profile information. Thus, if the target audience includes men and women and it has been decided that television will do the best job and that the media budget permits such an expensive choice, the media planner may go for prime-time television—from 8 p.m. to 11 p.m. or 7 p.m. to 10 p.m. depending on the time zone. The next question is "Which television shows have audiences whose profiles must clearly match those of the target customers ?"

Careful analysis of any organization's marketing communication efforts might show that what appears to be the most appropriate advertising medium is, in fact inappropriate.

Electonic Interactive Media

It has been said that "Computing is not about computers anymore. It is about living," This observation certainly holds true with respect to the media people use to gather information and entertain themselves. This discussion of electronic interactive media will focus on advertising on the Internet, but the same principles apply to other media.

Interactive media allow an individual to seek information, ask questions, and get answers without the direct assistance of a human being. We will focus our attention on Web sites.

A company Web site is one of the most common forms of Internet advertising. For instance, The Lakme Web site offers online consultations about skin type and the type of cream that is suitable. Consumers can find answers to frequently asked questions about colour and makeup and get tips on such topics as sun protection. As the consumer interactively learns about skin care, she, of course, also learns which Lakme cosmetic products are appropriate for her situation. A company Web site is an ideal way to reach consumers who want details about specific products, as interactive media can provide large amounts of information.

Of course, just because a company creates a Web site does not mean people will visit the site. When a content provider, such as India Today magazine, which also publishes on the Web, it faces three challenges; how to get viewers to the Web site, how to get viewers to stay long enough to view the content, and how to get viewers to return to the site. (If a Web site has the ability to retain visitors, it is said to be sticky).

One way to get people to visit a Web site is to advertise on another Web site. Advertising *banners*, another form of Internet advertising, are much like mass media advertising in the sense that a company purchases "space" on a search engine or on the commercial Web site of an information provider. A typical objective for a banner ad is to increase brand name recognition. However, banners can go beyond achieving brand awareness, because they are hypertext links to the advertiser's Web site. For example, a marketer of furniture or fabrics might work out an arrangement with the Yahoo ! search engine company to display its banner—which consists of a small flag-like rectangle—at the top of the result page whenever a user enters the word furniture or fabrics as a search term. The advantage of this type of Interest advertising is that the audience has self-selected the topic, so the marketer's message reaches an involved, highly targeted market.

Pop-up boxes are windows, a refined version of banner advertising. A visitor to the *Fortune* magazine Web site, for example, might find that a window providing subscription information pops up after the Web page loads. The viewer typically has to close the window or enter a response to the advertisement.

Streaming media : *Multimedia content, such as audio or video, that can be accessed on the Internet without being downloaded first*

Streaming Media : Certain software, such as Real Networks' Real Player and Apple's Quick Time, allows Internet users to access multimedia content such as audio or video without downloading it first. When visitors to a site use such software to view a program or an advertisement, they are said to be viewing **streaming media.**

Streaming ads may eventually prove to be more effective than current ad banners. One study co-sponsored by Intel and Excite@Home found that streaming-media advertisements provided 22 per cent higher recall and 35 per cent more chick-throughs (to the advertiser's Web site) than banner ads.

Today, three-dimensional computer-generated video can create photo-realistic results, which users can either watch linearly or interact with. Interactive animated environments will take advertising on the Internet to a whole new level. However, it will be some time before all Internet users have access to these technologies. Streaming-media ads are pexted to become more prevalent as broad-band technology with increased bandwidth become more available. Broadband refers to technology that allows for the transfer of data over media such as the Internet at high speeds.

Using Smart Agent Software to Reach Highly Targeted Audiences : Information technology [illegible] to deliver personalized content to a viewer's desktop. Computer shoftware programs known as [illegible] *intelligent agents*, find information without the user's having to do any searching; they then store that information [illegible]

sometimes entire Web sites, complete with images and links—on the user's computer for later viewing. Smart agent software that learns a user's preferences and searches out information is making advertising on the Internet and other interactive media more targeted and effective. Advertisers can have certain banners delivered to some target audiences, while other banners are served upto other users. An ad will appear only when someone with the appropriate demographics and entertainment preferences uses the service.

DIRECT MARKETING WITH DATABASES

Direct-marketing media, such as direct mail, can be very selective and can reach a clearly defined market, such as all families within a certain Pin Code area or all holders American Express cards or all the customers of Airtel. But direct mail can also end up in the wastepaper basket.

Direct mail has been in existence for more than a century; however, advances in digital technology have changed the nature of direct marketing in recent years. In particular, modern computer technology has improved the selectivity of this medium. Now computers can access databases to customize materials sent to different market segments and to personalize the message any individual consumer or household receives. For example, a personalized greeting may appear on a letter that, in addition to conveying an advertising message, indicates the name of a local retailer that sells the brand being advertised. If the database records the ages of the children in households, an advertiser using direct marketing can send coupons only to those households with, say, children in diapers. Furthermore, if the database also indicates the brand of diapers a consumer regularly purchases, an advertiser like Huggies can limit the mailing list to consumers who are loyal to Pampers or other competing brands.

E-MAIL AS AN ADVERTISING MEDIUM

The use of *e-mail advertising* as a promotional medium is growing because it has the advantages of speed, personalization, and interactivity. Advertising via e-mail has many things in common with traditional direct-mail campaigns : Database management and data mining are extremely important, as they allow marketers to create customer profiles and tailor messages and products to them. In addition, use of e-mail permits an advertiser to determine whether the customer responds to the communication and thus measure the effectiveness of a particular ad.

A major disadvantage of e-mail advertising is that the receiver of the message may not read it because he or she considers it *spam,* which is the term for unsolicited and unwanted e-mail. Furthermore, if a company sends too many e-mails to a customer, it may actually drive the customer away. Effective marketers send e-mail only to customers who ask for it. Some have called this approach "permission marketing." because the consumer consents to receive e-mail from the marketer. An executive at Williams-Sonoma explained the logic of permission marketing this way : "Our catalog can cost us a dollar. E-mail doesn't cost us anything, but it can cost us the relationship if we mail customers too much."

The general rule is to let the customer control what he or she receives. This means that, in addition to asking for permission to send e-mail advertising, marketers should provide an easy way for customers to opt out if they no longer wish to receive e-mail.

Each Medium has Advantages and Disadvantages

Newspapers have the advantages of mass appeal within selected geographical markets, a general respect in the community, and a short lead time (that is, newspaper advertisements can be inserted, withdrawn, or altered quickly). Magazines have relatively long lead times but offer the advantages of selectivity of audience and far better reproduction of print and pictures than can be found in newspapers. Radio provides geographic and demographic selectivity because the programming of different stations attracts different sorts of listeners. Its lead time is short, and its usefulness in exposing listeners to frequent messages is obvious.

Television reaches the mass audience. However, specialization by type of show is possible. For example, the

World Wrestling Federation appeals to boys and young men; serials like is Kusum, KSBKBT Friends appeal to a range of young to middle aged adults. Television allows advertisers to "show and tell" because television ads can involve sight, sound, movement, cartoons, actors and announcers. The strengths of television may be out-weighed by its expensiveness. Cable television, with advertising rates lower than network television's, can be a good alternative for many products because it offers the advantage of greater psychographic selectivity. Even when the advertising rates for a particular program or station are relatively low, however, the costs to develop and produce a commercial keep many potential users away from TV.

Media Schedule

Media schedule : *A document identifying the exact media to be used and the dates on which advertisements are to appear. Also known as the media plan.*

The **media schedule** is a time schedule identifying the exact media to be used and the dates on which advertisements are to appear. Media planners select not only the general media catagory (such as magazine and cable television) but also the specific media vehicles (such as Business Today and Z-Movies). Selecting the spec'fic media vehicles requires advertisers to consider reach, frequency, and timing.

Reach : *The number of people exposed to an advertisement carried by a given medium.*

Reach—that is, the percentage of people likely to be exposed to an advertisement in a given medium—is an important factor in determining which media to use. Obviously, the advertiser wishing to reach the largest number of people in the target audience must take costs into consideration. A major aspect of the media selection job is making cost comparisons—evaluating whether, for example, Frontline has a lower cost per thousand readers than India Today.

Frequency : *The number of times an advertisement is repeated in a given medium within a given time period, usually 4 weeks.*

Another factor with cost implications is the repetition, or frequency, of the advertising message in a given medium within a given time period, typically 4 weeks. **Frequency** reflects the average number of times an average individual is expected to be exposed to an advertiser's message. An advertiser may decide to trade off reach for frequency. Placing two advertisements in Frontline, for example, may be more cost-effective than placing a single advertisement in India Today.

Although cost is an important issue, strategy considerations may be equally important in choosing between reach and frequency. For example, frequency may be more important than reach when repetition will help the audience learn something new. If the advertising objective for a new brand is to establish awareness or to communicate a new product feature, the benefits of high frequency may outweigh the benefits of wide reach. Because the trade-off between reach and frequency is a complex issue, marketing managers often use marketing research to help them choose the best media schedule.

The timing of advertisements is another complex issue. Should advertising be spaced steadily throughout the year, concentrated in a particular season, or "pulsed" at regular or irregular intervals so that the company spends heavily during one period and then withdraws for a time ? These are important questions, and they require a great deal of research and analysis by media planners.

Advantages and Disadvantages of selected Advertising media

Medium	*Advantages*	*Disadvantages*
Newspapers	Geographic market selectivity Flexibility—easy to insert and change ads Editorial support (newspapers may write stories about paying advertisers)	Lack of permanence of advertising message Poor print/production quality Limited demographic orientation
Magazines	Demographic/psychographic selectivity Possibility of long life for ad Good print/product quality Editorial support	Lack of flexibility—difficult to make last-minute changes Expensive, especially for colour ads.
Radio	Geographic and demographic market selectivity Flexibility—easy to change Relatively inexpensive	Lack of permanence of advertising message "Clutter"—message may become lost in a group of several ads Lack of visual support Limited impact—radio is a background medium

Television	Advertiser can "show and tell"–demonstration is possible Geographic market selectivity Good market penetration because of large viewing audience	Lack of permanence of advertising message Expensive for national audience on major network Clutter Consumer videotape and skip ads
Direct mail/Catalogs	Highly selective Easy to measure result Lengthy copy possible Reader governs exposure	Expensive, especially on a cost-per-person basis Little or no editorial support Limited reader interest
Internet/e-mail	Easy to measure audience/response Lengthy copy possible Readers read and interact with what interests them Readers can request additional information Inexpensive, especially on a cost-per-person basis	Not everyone has internet access—cannot reach consumers who do not Difficult to gain advance knowledge of audience Unsolicited e-mail may be considered spam.
Point-of-purchase materials	Promotes impulse buying "Sells" in nonpersonal selling environment Ties together product and ads	Difficult to obtain desired placements Clutter Limited creative possibilities
Directory (the yellow pages)	Permanence of ad High reach and frequency potential	Limited customer usage Market coverage limited to phone customers
Outdoor (hoardings)	High reach and frequency potential Market selectivity High impact because of size Inexpensive	Message must be brief Image of hoardings is poor in some markets Location choices may be limited.

In summary, the characteristics of advertising media vary greatly, and these variations play an important role in the marketing manager's choice of media. Most important of all, however, are the advertising objectives the marketer determined at the start of the advertising planning process. These objectives dictate which media will have the optimal impact. Then the choices regarding reach, frequency, and timing must be evaluated in terms of the realities of the budget. Cost is always a consideration in any organizational decision. However, careful and effective marketing planning can yield a communications effort that is both creative and successful.

Measuring the Effectiveness of Advertising

An advertiser about to commit more than Rs. 3,00,000 for a 30-second television commercial to be aired during the one day cricket match or for the development of a series of advertisements created especially for the Diwali season will want some way to measure the effectiveness of those advertisements. Measuring the effectiveness of advertisements in terms of the sales rupees generated is difficult. Despite that fact, several approaches to measuring effectiveness have been developed. These research techniques do not provide exact measures of effectiveness, but they do provide a systematic way of developing and testing advertisements to determine whether they are accomplishing the intended objectives. Advertising research may be divided into two phases : (1) the pretesting stage of developing and refining advertising and (2) the posttesting stage of evaluating its effectiveness.

Developing Messages and Pretesting Advertisement

Pretesting : *In the context of advertising, research carried out beforehand on the effectiveness of an advertisement. It begins at the earliest stages of development and continues until the advertisement is ready for use.*

Effective marketers are reluctant to spend large sums of money running advertisements that have not been carefully pretested. Before advertisements are put on TV or in magazines, they may have gone through several stages of testing. The purpose of **pretesting** is to limit—or, even better, to eliminate—mistakes associated with concept, positioning or body copy.

Pretesting may be conducted in the earliest stage of the development of an advertisement, and it may continue virtually until the advertisement is printed or broadcast. First, the basic appeal of an advertisement or of the concept around which it will be built may be tested. Then a headline, picture, or slogan may be tested. A "rough" version of the advertisement, featuring still photos in the case of a television or print commercial or a story acted out by nonprofessional actors in the case of a television commercial or a story acted out by nonprofessional actors in the case of a radio advertisements, can be assembled rather inexpen-sively and shown to a sample audience to measure appeal and believability. It does no good to create a funny, clever, sci-fictional, fantasy or dramatic advertisement unless the impact of the advertisement comes through to the people it is supposed to affect.

Many of the marketing research tools are widely used to pretest advertisements. Focus groups, discussions with consumers in shopping malls, experiments and other techniques can all be helpful.

Rough or finished versions of television commercials may be shown in consumers' homes (in-home projector tests) or in specially equipped buses or trailers parked in shopping malls (trailer tests). After showing a commercial, advertisers use survey questionnaries or personal interviews to obtain viewers' reactions. No matter which method is used, pretesting attempts to evaluate the effectiveness of an advertisement before that advertisement is placed in the mass media.

Post Testing Advertisements

Posttesting : *In the context of advertising, testing that takes place after an advertisement has been run, to determine whether it has met the objectives set for it by management.*

Once an advertisement has been developed and has run in the chosen media, post-testing should be used to determine if it has met the objectives set by management. There are many different objectives for posttesting and hence many kinds of posttests. To determine whether objectives have been met, posttests usually measure brand awareness, changes in attitudes toward the brand, or the number of inquiries generated about the product.

Measuring Recognition and Recall : Because advertisers must gain the attention of buyers and get them to remember the names of brands or the stores in which the brands can be found, many posttests are designed to evaluate recognition or recall. This is important even to advertisers of well-known brands, because advertisements for such products are intended to reinforce previously established good images. At the very least, a test showing that consumers remember particular advertisements gives advertisers a feeling that the money devoted to the campaign had some impact in the marketplace.

Recall Test : *In the context of advertising, a research tool used to determine how much people remember about an advertisement.*

Recall tests can take many forms. For example, a telephone survey may be conducted during the 24 hour period following the airing of a television commercial to measure day-after recall. In such studies, the telephone interviewer first poses a question :

"Did you watch the serial Kusum last night ?"

It the answer is positive, the next question might be

"Do you recall whether there was a commerical on that program for a washing machine?"

If the answer is again positive, the interviewer might ask.

"What brand of washing machine was it ?"

Unaided recall Test : *In the context of advertising, a test of consumers' memories of an advertisement, in which no clues are provided as to the specific material to be remembered.*

To this point, what has been measured is **unaided recall.** The interviewer gives no clue as to the brand of washing machine advertised.

Aided recall Test : *In the context of advertising, a test of consumers' memories of an advertisement, in which clues about the specific material to be remembered are provided.*

In an **aided recall test**, the questions might be phrased differently, as in these examples:

"Do you recall the brand of washing machine advertised ? Was it an Indian washing machine ?"

"I'm going to read you a list of washing machine brand names. Can you pick out the name of the washing machine that was advertised on the program ?"

Aided recall is not as strong a test of attention and memory as unaided recall, but it still provides valuable information. After all, remembering the brand when you see it on the supermarket shelf may be all that is necessary.

Related recall Test : *In the context of advertising, a test of consumers' memories of an advertisement, in which recall of specific messages or images is required.*

Advertisers are also interested in **related recall**—the ability of a person who has seen an advertisement and can repeat, specific sales messages or images. Some advertisers set up booths in shopping malls and ask target customers to view one or more advertisements and then comment on or describe the advertisements. Researchers are thus able to determine which advertisements or portions thereof were most memorable to these subjects. This type of posttest allows researchers to determine if the advertisements accomplished their goals.

Another way to measure recognition involves showing an advertisement to a respondent and simply asking whether the respondent remembers having seen it before. If the answer is yes, the respondent is asked questions about particular portions of the advertisement. The Starch Advertisement Readership Service is a syndicated supplier of this type of information. It classifies readers into three types :

- "Noted" reader : a person who remembers having seen the advertisement in the magazine issue being studied.
- "Associated" reader : a person who not only noted the advertisement but also saw or read some part of it that clearly indicated the brand or advertiser.
- "Read most" reader : a person who read at least one-half of the written material in the advertisement.

Certainly, tests such as these are not perfect measures of recall and recognition. However, when they are conducted carefully, they provide marketing managers with helpful information.

Measuring Changes in Attitude about a Product : Effective advertisements can contribute to changing consumers' attitudes toward a brand. To measure and evaluate attitude change, researchers must record buyers' attitudes before and after they are exposed to the relevant advertisement. Thus, a two-part before and after study must be undertaken.

Suppose a new Nivea advertisement states the Nivea hand cream has great powers to heal badly irritated skin on hands and feet. The effectiveness of Nivea's new advertisement can be measured by before-and-after surveys among target buyers. Suppose the results of the first survey show that few consumers know the product heals hands and feet. The new advertisement is now shown to a sample of these target buyers. A second survey is conducted after the advertisement has run. If the results of this survey show increased recognition of the product's healing properties, some measure of success in affecting attitude change is credited to the advertisement.

Measuring inquiries about the Product : In certain situations, such as evaluation of one direct-mail piece versus another or evaluation of alternative Web pages, the generation of inquiries is a good measure of an advertisement's effectiveness. Advertisers of organizational products frequently compare the numbers of inquiries generated by different magazine advertisements to measure advertising effectiveness. Suppliers of such products often advertise in trade magazines that reach precisely those people and organizations most likely to be interested in their products. Many advertisements include a phone number readers can call or a coupon they can return for additional information. Certainly, the number of calls or coupons the advertiser receives suggests how effective the advertisement was.

Inquiries usually come primarily from persons who are actually interested in the products being offered. Therefore, they are of particular use to marketing organizations whose promotional mixes include personal selling. Such organizations can use these inquiries to focus their sales force's efforts on the customers most likely to buy. Thus, the number of inquiries provides a measure of an advertisement's pulling power, and the inquiries themselves are leads for the sales force.

Sales as a Measure of Advertising Effectiveness

After seeing some of the ways in which marketers try to measure the effectiveness of their advertising, you might ask, "Why not just use sales figures ?" Unfortunately, this is easier said than done. Advertisers other than direct marketers have difficulty using sales as a direct measure of advertising effectiveness because many factors other than advertising influence sales. It is nearly impossible to separate the effects of the

economy, the price, wholesaler and dealer activity, and so on from the effects of advertisements. Nevertheless most marketers ultimately do use this measure, even if sales changes are not scientifically "proven" to result from advertising. Many popular and memorable advertising campaigns were removed from circulation when they did not positively affect sales.

Test marketing research and laboratory experiments designed to simulate sales behaviour are the most sophisticated research tools available to evaluate advertising effectiveness when sales volume is the primary criterion. However because advertising effect on sales may not be immediate even the most elaborate research may not establish a relationship between advertising and sales. Advertising researchers are constantly trying to improve techniques in this area because sales remain the bottom line for all advertisements. However only in special cases, or when sales result from coupon or toll free-number offers, will sales be a reasonably accurate measure of advertising effectiveness. Marketers must recall that research techniques intended to measure advertising's effect should be used carefully and with the understanding that they are usually very far from perfect.

Sales Promotion

Sales promotion is a key ingredient in marketing campaigns. We define it as follows :

- ***Sales promotion*** consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.

Whereas advertising offers a *reason* to buy, sales promotion offers an *incentive* to buy. Sales promotion includes tools for *consumer promotion* (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays, and demonstrations); *trade promotion* (prices off, advertising and display allowances, and free goods); and *business- and sales-force promotion* (trade shows and conventions, contests for sales representatives and specialty advertising).

Sales-promotion tools are used by most organizations, including manufacturers, distributors, retailers, trade associations, and nonprofit organizations.

A decade ago, the advertising-to-sales-promotion ratio was about 60 : 40. Today, in many consumer-packaged-goods companies, sales promotion accounts for 65 to 75 per cent of the combined budget. Sales-promotion expenditures have been increasing as a percentage of budget expenditure annually for the last two decades mainly because of intense competition between products and services.

Several factors contribute to the rapid growth of sales promotion, particularly in consumer markets. Internal factors include the following : Promotion is now more accepted by top management as an effective sales tool; more product managers are qualified to use sales-promotion tools; and product managers are under greater pressure to increase current sales. External factors include the following : The number of brands has increased; competitors use promotions frequently; many brands are seen as similar; consumers are more price-oriented; the trade has demanded more deals from manufacturers; and advertising efficiency has declined because of rising costs, media clutter, and legal restraints.

The rapid growth of sales-promotion media has created a situation of *promotion clutter* similar to advertising clutter. *Consumers might start tuning out, in which case coupons and other promotion media will weaken in their* ability to trigger purchase. Manufacturers will have to find ways to rise above the clutter—for instance, by offering larger coupon-redemption values or using more dramatic point-of-purchase displays or demonstrations.

Purpose of Sales Promotion

Sales-promotion tools vary in their specific objectives. A free sample stimulates consumer trial, whereas a free management-advisory service aims at cementing a long-term relationship with a retailer.

Sellers use incentive-type promotions to attract new triers, to reward loyal customers, and to increase the repurchase rates of occasional users. New triers are of three types—users of another brand in the same category, users in other categories, and frequent brand switchers. Sales promotions often attract the brand switchers, because

users to other brands and categories do not always notice or act on a promotion. Brand switchers are primarily looking for low price, good value, or premiums. Sales promotions are unlikely to turn them into loyal users. Sales promotions used in markets of high brand similarity produce a high sales response in the short run but little permanent gain in market share. In markets of high brand dissimilarity, sales promotions can alter market shares permanently because customers might feel more satisfied with the brand under sales promotion.

Today, many marketing managers first estimate what they need to spend in trade promotion, then what they need to spend in consumer promotion. Whatever is left they will budget for advertising. There is a danger, however, in letting advertising take a back seat to sales promotion because advertising typically acts to build brand loyalty. But the question of whether or not sales promotion weakens brand loyalty is subject to different interpretations. Sales promotion, with its incessant prices off, coupons, deals, premiums, and blaring quality may devalue the product offering in the buyers, minds. Buyers learn that the list price is largely a fictions. But before jumping to any conclusion, we need to distinguish between *price promotions* and *added-value promotions*. These examples show how certain types of sales promotion can actually enhance brand image:

- Akai, a Japanese manufacturer of stereo equipment and TV sets, managed to become a TV set market leader in India by running value-added sales promotions. It offered good trade-in value on black-and-white TV sets at the purchase of a new colour TV set. At other times, it would offer a free watch, or calculator or radio, along with the purchase of a new TV set. This steady promotion made Akai a very popular brand in India, and competitors such as Sony were not free to compete in the same way. But in the long run Akai was not able to maintain its position in the Indian market, subsequently marketing rights were bought by Videocon.

But usually, when a brand is price promoted too often, the consumer begins to devalue it and buy it mainly when it goes on sale. So there is risk in putting a well-known brand leader on promotion over 30 per cent of the time. Dominant brands offer deals less frequently, because most deals only subsidize current users. Brown's study of 2,500 instant coffee buyers concluded that :

- Sales promotions yield faster and more measurable responses in sales than advertising does.
- Sales promotions do not tend to yield new, long-term buyers in mature markets because they attract mainly deal-prone consumers who switch among brands as deals become available on the different brands.
- Loyal brand buyers tend not to change their buying patterns as a result of competitive promotion because they are highly satisfied with their current brands or due to buying inertia.
- Advertising appears to be capable of deepening brand loaylty by consistently sending the message to their target audience.

There is also evidence that price promotions do not build permanent total category volume as the new customers are likely to shift toward other brands when they go on sales promotion.

Small-share competitors find it advantageous to use sales promotion, because they cannot afford to match the market leaders' large advertising budgets. Nor can they obtain shelf space without offering trade allowances or stimulate consumer trial without offering incentives. Price competition is often used by a small brand seeking to enlarge its share, but it is less effective for a category leader whose growth lies in expanding the entire category.

The upshot is that many consumer-packaged-goods compnies feel they are forced to use more sales promotion than they wish. Kellogg, Kraft, and other market leaders are trying to return to "pull" marketing by increasing their advertising budgets. They blame the heavy use of sales promotion for decreasing brand loyalty, increasing consumer price sensitivity, brand-quality-image dilution, and a focus on short-run marketing planning.

Farris and Quelch, however, dispute this conclusion. They counter that sales promotion provides a number of benefits that are important to manufacturers as well as consumers. Sales promotions enable manufacturers to adjust to short-term variations in supply and demand. They enable manufacturers to test how high a list price

they can charge, because they can always discount it. They induce consumers to try new products instead of never straying from current ones. They lead to more varied retail formats, such as the everyday-low-price store and the promotional-pricing store. They promote greater consumer awareness of prices. They permit manufacturers to sell more than they would normally sell at the list price. They help the manufacturer adapt programs to different consumer segments. Consumers themselves enjoy some satisfaction from being smart shoppers when they take advantage of price specials.

Major Decisions in Sales Promotion

In using sales promotion, a company must establish its objectives, select the tools, develop the program, pretest the programe, implement and control it, and evaluate the results.

Establishing Objectives

Sales-promotion objectives are derived from broader promotion objectives, which are derived from more basic marketing objectives developed for the product. The specific objectives for sales promotion vary with the target market. For consumers, objectives include encouraging purchase of larger-size units, building trial among nonusers, and attracting switchers away from competitor's brand. For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty, and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new product or model, encouraging more prospecting and stimulating off-season sales.

Selecting Consumer-Promotion Tools

The promotion planner should take into account the type of market, sales-promotion objectives, competitive conditions, and each tool's cost effectiveness.

The main consumer-promotion tools are summarized in Table 15.5. We can distinguish between *manufacturer promotions* and *retailer promotions*. The former are illustrated by the soap industry's frequent use of additional units free, to motivate trials and purchases. The latter include price cuts or buy two get one free offers (especially by garment retailers). We can also distinguish between sales-promotion tools that are "consumer-franchise building", which reinforce the consumer's brand understanding, and those that are not. The former impart a selling message along with the deal, as in the case of free samples, coupons when they include a selling message, and premiums when they are related to the product. Sales-promotion tools that are not consumer-franchise building include price-off packs, consumer premiums not related to a product, contests, consumer refund offers, and trade allowances.

Sales promotion seems most effective when used together with advertising. In one study, a price promotion alone produced only a 15 per cent increase in sales volume. When combined with feature advertising, sales volume increased 19 per cent; when combined with feature advertising and a point-of-purchase display, sales volume increased 24 per cent.

Many large companies have a sales-promotion manager whose job is to help brand managers choose the right promotional tool. The following example shows how one firm determined the appropriate tool :

> A firm launched a new product and achieved a 20 per cent market share within six months. Its penetration rate (the percentage of the target market that purcahsed the brand at least once) is 40 per cent. Its repurchase rate (the percentage of first-time triers who repurchased the brand one or more times) is 10 per cent. This firm needs to create more loyal users. An in-pack coupon would be appropriate to build repeat purchase. But if the repurchase rate has been high, say 50 per cent, then the company should try to attract more new triers. Here a mailed coupon might be appropriate.

Table 15.5: Major Consumer-Promotion Tools

Samples : Offer of a free amount of a product or service delivered door to door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer. For example a new brand of detergent or tea will offer free samples to induce trials.

Coupons : Certificates entitling the bearer to a stated saving on the purchase of a specific product mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads. Redemption rate varies with mode of distribution. Coupons can be effective in stimulating sales of a mature brand and inducing early trial of a new brand. *Example* : A water park offered 20% off to those customers who bought newspaper advertisement or information brochure.

Cash Refund Offers (rebates) : Provide a price reduction after purchase rather than at the retail shop; consumer sends a specified "proof of purchase" to the manufacturer who "refunds" part of the purchase price by mail. *Example* : Toro ran a clever preseason promotion on specific snowblower models, offering a rebate if the snowfall in the buyer's market area was below average.

Price Packs (rupees-off deals) : Offers to consumers of savings off the regular price of a product, flagged on the label or package. A *reduced-price pack* is a single package sold at a reduced price (such as three for the price of two). A *banded pack* is two related products banded together (such as a toothbrush and toothpaste) *Example :* Cadbury's pack different choclates in a single big packet and offer it at discounted price.

Premiums (gifts) : Merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. A *with-pack premium* accompanies the product inside or on the package. The package itself can serve as a premium. A *free in-the-mail premium* is mailed to consumers who send in a proof of purchase, such as a box top or package. A *self-liquidating* premium is sold below its normal retail price to consumers who request it. *Example* : Henko offered scratch and win cards in its 1 kg pack offering discounts from Rs. 3/- to Rs. 1 lac.

Prizes (contests, sweepstakes, games) : *Prizes* are offers of the chance to win cash, trips, or merchandise as a result of purchasing something. A *contest* calls for consumers to submit an entry to be examined by a panel of judges who will select the best entries. A *sweepstake* asks consumers to submit their names in a drawing. A *game* presents consumers with something every time they buy--bingo numbers, missing letters—which might help them win a prize. *Example :* A number companies run contest in which 2 or 3 questions were asked and the customer has to complete the slogan.

Patronage Awards : Values in cash or in other forms that are proportional to patronage of a certain vender or group of vendors. *Example* : Most airlines offer frequent flier plans which awards points on the basis of distance covered and the customers can get discount or other prizes on the basis of points scored.

Free Trials : Inviting prospective purchasers to try the product without cost in the hope that they will buy the product. *Example* : Motorcycle dealers encourage free test-drives to stimulate purchase interest; America Online offers free trials of its software.

Product Warranties : Explicit or implicit promises by sellers that the poduct will perform as specified or that the seller will fix it or refund the customer's money during a specified period. *Example :* Panasonic offers 7 year warranty on its television. Exide's offer of a lifetime warranty on its auto batteries "Freedom" certainly screams quality to the buyers.

Tie-in Promotions : Two or more brands or companies team up on coupons, refunds, and contests to increase pulling power. Multiple sales forces push these promotions to retailers, giving them a better shot at extra display and ad space. *Example* : Gillette offered shaving cream and Mach 3 Razor at reduced priced pack to attract customers.

Cross-Promotions : Using one brand to advertise another non-competing brand. *Example* : Computer brands are promoted with Intel Inside and offer discounts on the add-ons.

Point-of-Purchase (POP) Displays and Demonstrations : POP displays and demonstrations take place at the point of purchase or sale. Many retailers do not like to handle the hundreds of displays, signs and posters they receive from manufacturers. Manufacturers are creating better POP materials, tying them in with television or print messages and offering to set them up. *Example:* The Gillette products are displayed in special racks in the retail shops.

Selecting Trade-Promotion Tools

Manufacturers use a number of trade-promotion tools (Table 15.6). Surprisingly, a higher proportion of the promotion pie is devoted to trade-promotion tools (46.9 per cent) than to consumer promotion (27.9 per cent), with media advertising capturing the remaining 25.2 per cent. Manufacturers award money to the trade for four reasons :

1. *To persuade the retailer or wholesaler to carry the brand :* Shelf space is so scarce that manufacturers

often have to offer prices off, allowances, buyback guarantees, free goods, or outright [illegible] *slotting allowances*) to get on the shelf, and once there, to stay on the shelf.

2. *To persuade the retailer or wholesaler to carry more units than the normal amount* [illegible] will offer volume discount to get the trade to carry more in warehouses and stores. [illegible] believe the trade will work harder when they are "loaded" with the manufacturer's product.

3. *To induce retailers to promote the brand by featuring, display, and price reductions.* [illegible] might seek an end-of-aisle display, increased shelf facings, or price reduction stickers and [illegible] offering the retailers allowances paid on "proof performance."

4. *To stimulate retailers and their sales clerks to push the product*. Manufactures [illegible] sales effort by offering push money, sales aids, recognition programs, premiums, and [illegible]

Manufacturers spend more on trade promotion than they want to spend. The growing p[illegible] has increased their ability to demand trade promotion at the expense of consumer promotion [illegible] These retailers depend on promotion money from the manufacturers. No manufacturer could [illegible] offering trade allowances without losing retailer support.

The company's sales force and its brand managers are often at odds over trade promotion. [illegible] says that the local retailers will not keep the company's products on the shelf unless they [illegible] promotion money, whereas the brand managers want to spend the limited funds on consumer [illegible] advertising. Because the sales force knows the local market better than do the brand managers [illegible] headquarters, companies have given substantial funds to the sales force to handle the trade promotion.

Manufacturers face several challenges in managing trade promotions. First, they often find it difficult [illegible] retailers to make sure they are doing what they agreed to do. Manufacturers are increasingly insisting on [illegible] performance before paying any allowances. Second, more retailers are doing *forward buying* [illegible] greater quantity during the deal period than they can sell during the deal period. Retailers might respond [illegible] cent off-case allowance by buying a 12-week or longer supply. The manufacturer has to schedule more production than planned and bear the costs of extra work shifts and overtime. Third, retailers are doing more *diverting* [illegible] more cases than needed in a region in which the manufacturer offered a deal and shipping the surplus to [illegible] to non-deal regions. Manufacturers are trying to handle forward buying and diverting by limiting the [illegible] will sell at a discount, or producing and delivering less than the full order in an effort to smooth production.

All said, manufacturers feel that trade promotion has become a nightmare. It contains layers [illegible] complex to administer, and often leads to lost revenues.

Table 15.6: Major Trade-Promotion Tools

Price-Off (off-invoice or off-list) : A straight discount off the list price on each unit/pack purchased during [illegible] period. The offer encourages dealers to buy a quantity or carry a new item that they might not ordinarily buy. [illegible] use the buying allowance for immediate profit, advertising, or price reductions.

Allowance : An amount offered in return for the retailer's agreeing to feature the manufacturer's products in [illegible] *advertising allowance* compensates retailers for advertising the manufacturer's product at the local level. A *display allowance* compensates them for carrying a special product display in the shop.

Free Goods : Offers of extra units or packs of merchandise to intermediaries who buy a certain quantity or [illegible] flavour or size. Manufacturers might offer push money or free specialty advertising items to retailers that carry the [illegible] name. *Example* : Four square provided Pens, Key rings and lighters to its retailers who distribute them to loyal Four Square [illegible]

Selecting Business- and Sales Force Promotion Tools

Companies spend billions of dollars on business- and sales force promotion tools (Table 15.7). These tools are used to gather business leads, impress and reward customers and motivate the sales force to greater effort. Companies typically develop budgets for each business-promotion tool that remain fairly constant from year to year.

Table 15.7: Major Business- and Sales-Force Promotion Tools

Trade Shows and Conventions : Industry associations organize annual trade shows and conventions. Firms selling products and services to the particular industry buy space and set up booths and displays to demonstrate their products. Over thousands trade shows take place every year, drawing million of attendees. Trade show attendance can range from a few thousand people to over 70,000 for large shows held by International Trade Fair. Participating vendors expect several benefits, including generating new sales leads, maintaining customer contacts, introducing new products, meeting new customers, selling more to present customers, and educating customers with publications, videos and other audio visual materials.

Business marketers may spend as much as 35 percent of their annual promotion budget on trade shows. They face a number of decisions, including which trade shows to participate in, how much to spend on each trade show, how to build dramatic exhibits that attract attention, and how to follow up effectively on sales leads.

Sales Contests : A sales contest aims at inducing the sales force or dealers to increase their sales results over a stated period, with prizes going to those who succeed. A majority of companies sponsor annual or more frequent sales contests for their sales force; top performers may receive trips, cash prizes, gifts or points, which the receiver can turn into a variety of prizes. Incentives work best when they are tied to measurable and achievable sales objectives (such as finding new accounts or reviving old account) where employees feel they have an equal chance.

Specialty Advertising : Specialty advertising consists of useful, low-cost items bearing the company's name and address, and sometimes an advertising message that sales people give to prospects and customers. Common items are ballpoint pens, calendars, and memopads. Specialty items are most common in pharmaceutical industry.

Developing the Program

In planning sales-promotion programs, marketers are increasingly blending several media into a total campaign concept.

In deciding to use a particular incentive, marketers have several factors to consider. First, they must determine the size of the incentive. A certain minimum is necessary if the promotion is to succeed. A higher incentive level will produce more sales response but at a diminishing rate.

Second, the marketing manager must establish *conditions* for participation. Incentives might be offered to everyone or to select groups. A premium might be offered only to those who turn in proof-of-purchase seals or packages. Sweepstakes might not be offered in certain states or to families of company personnel or to persons under a certain age.

Third, the marketer has to decide on the *duration* of promotion. If the period is too short, many prospects will not be able to take advantage of it. If the promotion runs too long, the deal will lose some of its "act now" force. According to one researcher, the optimal frequency is about three weeks per quarter, and optimal duration is the length of the average purchase cycle. Of course, the optimal promotion cycle varies by product category and even by specific product.

Fourth, the marketer must choose a *distribution vehicle*. A 10 peercent off coupon can be distributed in the package, in stores, by mail, or in advertising. Each distribution method involves a different level of reach, cost, and impact.

Fifth, the marketing manager must establish the *timing* of promotion. For example, brand managers develop calendar dates for annual promotions. These dates are used by the production, sales and distribution departments.

Finally, the marketer must determine the *total sales-promotion budget*. The budget can be built from the ground up, with the marketer choosing the individual promotions and estimating their total cost. The cost of a particular promotion consists of the administrative cost (printing, mailing, and promoting the deal) and the

incentive cost (cost of premium or rupee-off, including redemption costs), multiplied by the expected number of units that will be sold on the deal. In the case of a coupon deal, the cost would take into account the fact that only a fraction of the consumers will redeem the coupons. For an in-pack premium, the deal cost must include the procurement cost and packaging of the premium, offset by any price increase on the package.

The more common way to develop the budget is to use a conventional percentage of the total promotion budget. For example, toothpaste might get a sales-promotion budget of 30 per cent of the total promotion budget, whereas shampoo might get 50 per cent. These percentages vary for different brands in different markets and are influenced by stage of the product life cycle and competitive expenditures on promotion.

Pretesting the Program

Although most sales-promotion programs are designed on the basis of experience, pretests should be conducted to determine if the tools are appropriate, the incentive size optimal and the presentation method efficient. Strang maintains that promotions usually can be tested quickly and inexpensively and that large companies should test alternative strategies in selected market areas with each national promotion. Consumers can be asked to rate or rank different possible deals, or trial tests can be run in limited geographic areas.

Implementing and Controlling the Program

Marketing managers must prepare implementation and control plans for each individual promotion. Implementation planning must cover lead time and sell-in time. *Lead time* is the time necessary to prepare the program prior to launching it : initial planning, design, and approval of package modifications or material to be mailed or distributed; preparation of advertising and point-of-sale materials; notification of field sales personnel; establishment of allocations for individual distributors; purchasing and printing of special premiums or packaging materials; production of advance inventories in preparation for release at a specific date; and, finally, the distribution to the retailer.

Sell-in time begins with the promotional launch and ends when approximately 95 per cent of the deal merchandise is in the hands of customers.

Evaluating Results

Manufacturers can use three methods to measure sales-promotion effectiveness : sales data, consumer surveys, and experiments.

The first method involves using scanner sales data, which are available from wholesalers, retailers or research companies. Marketers can analyze the types of people who took advantage of the promotion, what they bought before the promotion, and how consumers behaved later toward the brand and other brands. Suppose a company has a 6 per cent market share in the prepromotion period. The share jumps to 10 per cent during the promotion, falls to 5 per cent immediately after the promotion, and rises to 7 per cent in the postpromotion period. The promotion evidently attracted new triers and also stimulated more purchasing by existing customers. After the promotion, sales fell as consumers worked down their inventories. The long-run rise to 7 per cent indicates that the company gained some new users.

In general, sales promotions work best when they attract competitors' customers to try a superior product and these customers switch as a result. If the company's product is not superior, the brand's share is likely to return to its pre-promotion level. The promotion may have covered its costs, but more likely did not. One study of more than 1,000 promotions concluded that only 16 per cent paid off.

If more information is needed, *consumer surveys* can be conducted to learn how many recall the promotion, what they thought to it, how many took advantage of it, and show the promotion affected subsequent brand-choice behaviour. Sales promotions can also be evaluated through *experiments* that vary such attributes as incentive value, duration, and distribution media. For example, coupons can be sent to half of the households in a consumer panel. Scanner data can be used to track whether the coupons led more people to buy the product immediately and in the future. This information can then be used to calculate the increase in revenues that stemmed from the promotion.

Beyond the cost of specific promotions, management must recognize additional costs. First, promotions might decrease long-run brand loyalty by making more consumers deal prone rather than advertising prone. Second, promotions can be more expensive than they appear. Some are inevitably distributed to the wrong consumers. Third, there are the costs of special production runs, extra sales force effort, and handling requirements. Finally, certain promotions irritate retailers, who may demand extra trade allowances or refuse to cooperate.

Chapter 16

Personal Selling, Publicity and Public Relations

Personal Selling Defined

Personal selling is a person-to-person dialogue between the prospective buyer and the seller. Thus, it consists of human contact and direct communication rather than impersonal mass communication. Personal selling involves developing customer relationships, discovering and communicating customer needs, matching the appropriate products with these needs, and communicating benefits.

The salesperson's job may be to remind, to inform, or to persuade. In general the salesperson's responsibility is to keep existing customers abreast of information about the company's products and services and to convey a persuasive sales message to potential customers. Salespeople are also expected to be aware of changes in the markets they serve and to report important information to their home offices. Professional sales personnel are vitally important as a direct link to the company's customers. Salespeople communicate a company's offer and show prospective buyers how their problems can be solved by the product. They finalize the sale by writing orders.

Many different businesses—farms, factories, retailers, banks, transportation companies, hotels, and other enterprises—use personal selling. Each business faces personal selling tasks that are unique. Various methods of personal selling may be used to accomplish these tasks.

We are all familiar with retail selling—selling to ultimate consumers. In business-to-business transactions field selling telemarketing, and inside selling are the three basic methods of personal selling. Field selling is performed by an "outside" salesperson, who usually travels to the prospective account's place of business. Telemarketing involves using the telephone as the primary means of communicating with prospective customers. Inside selling is similar to retail selling by store clerks : a salesperson using this approach sells in the company's place of business and deals with customers face to face. For example, the typical hardware wholesaler employs inside sales personnel to assist customers—plumbers—who travel to the wholesaler's place of business to obtain fixtures, tools, or parts.

> ***Retail selling*** *Selling to ultimate consumers.*
>
> ***Field selling*** *Business-to-business selling that takes place outside the employer's place of business, usually in the prospective customer's place of business.*
>
> ***Telemarketing*** *Using the telephone as the primary means of communicating with prospective customers. Telemarketers often use computers for order taking.*
>
> ***Inside selling*** *Business-to-business selling in the salesperson's place of business.*

The Importance of Personal Selling

Personal selling is the means most widely used by organizations to communicate with their customers. In other words, it is the most commonly used promotional tool.

It is possible to find for-profit and non-profit organizations that make no use whatsoever of advertising. For example, small local level companies did not advertise. Certainly, there are companies so obscure that they get no publicity at all. It is, however, difficult to imagine any organization making no personal contact with its clients. Even the one person machine shop deals with clients through some kind of personal contact and sales effort. And although you may not have thought of them in this way, accountants, stockbrokers, dentists, lawyers, and other professionals are personal salespeople in that they deal with clients and sell a service. For example, when hard-working accountants (who generally were not marketing majors) get promoted to partnerships in accounting firms, many find they spend more time trying to generate new business than working out accounting problems. Robert Louis Stevenson was not far from the mark when he said, "Everyone lives by selling something."

In terms of rupees spent, personal selling is again the foremost promotional tool. Money spent on personal selling far

exceeds money spent on advertising, despite advertising's costs and visibility. This becomes clear if you consider the number of people engaged in selling and the costs of training, compensation and deployment of sales forces.

Personal selling is also the most significant promotional tool in terms of the number of people employed. It is estimated that at least 12 million people, or 10 per cent of the U.S. work force, are engaged in sales. In contrast, fewer than 200,000 people work in advertising. As impressive as these statistics are, they underestimate the importance of personal selling in the economy and in other aspects of social life. Professional selling is an activity of many individuals whose job titles may obscure this fact. For example, company presidents, advertising executives and marketing researchers are frequently engaged in personal selling.

Why is personal selling so important in the economy? The answer is that the salesperson is the catalyst that makes the economy function.

Why is personal selling so important in the economy ? The answer is that the salesperson is the catalyst that makes the economy function. The adage "nothing happens until a sale is made" reflects the importance of personal selling in all aspects of business. Few of us have ever purchased a car from a plant engineer or a financial manager : we buy cars from salespeople; build and maintain relationships that stimulate economic activity and produce revenue for the organisation. They keep the economy going.

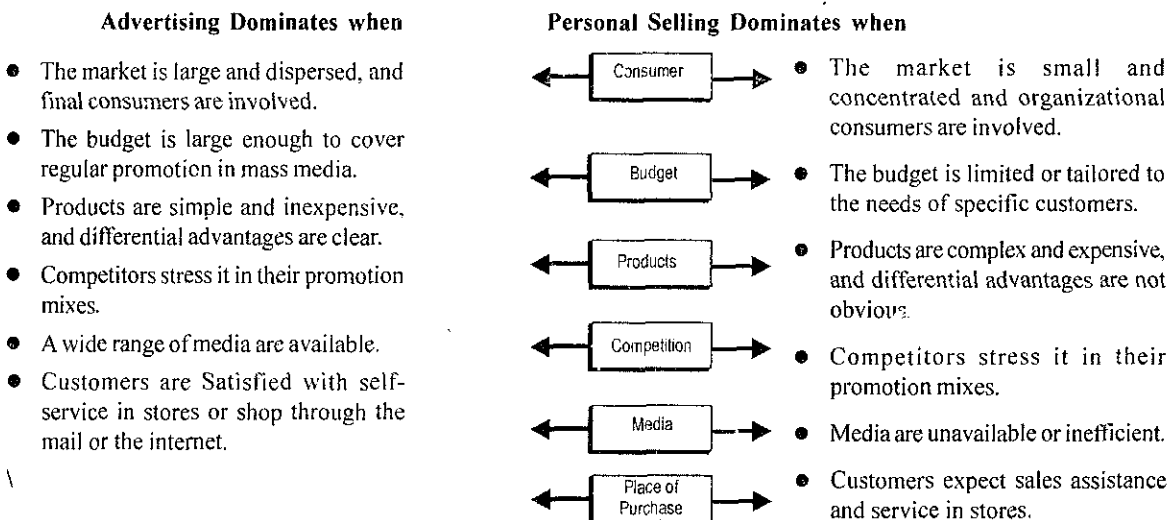


Figure 16.1: Contrasting Promotion Mixes

The Characteristics of Personal Selling

Two basic characteristics that contribute to the importance of personal selling are its flexibility in adapting to the prospect's needs and its value in building relationships. We will look more closely at these characteristics before discussing the disadvantages of personal selling.

Personal Selling is Flexible

The key to personal selling's advantage over other means of promotion is its flexibility. Personal selling is flexible because it allows the carrier of an organization's message to discover new sales prospects and concentrate on the best ones. In contrast, a television advertisement might be seen by just about anyone, including many people who will never be interested in the product offered for sale. This "waste circulation," as marketers call it, can be reduced or even eliminated by effective personal sellers. Salespeople can visit or call on large-volume buyers frequently. Personal selling allows efforts to be concentrated on the profitable accounts because it is a selective medium.

Another aspect of its flexibility is the salesperson's ability to adapt a sales presentation to a specific situation. When a sales prospect has a particular problem or unique series of problems to solve, the professional salesperson can adjust the presentation to show how the good or service offered can solve these problems and satisfy the individual needs of the potential customer. Similarly, the salesperson can answer questions and overcome

objections that may arise. The salesperson can even "read" the customer. Sensing that the client agrees with a certain aspect of the presentation or is not interested in a given point, for example, the salesperson can shift gears and move to another benefit or adjust the sales talk in some other way.

All this is possible because personal selling entails a two-way flow of communication. Listening is important. Direct and immediate feedback is elicited. Consider the following examples of how feedback allows the salesperson to gather information as well as to impart it.

- The salesperson discovers in casual conversation that potential buyers have specific problems that no products on the market can solve.
- A customer suggests how existing products can be modified to better suit customer needs.
- A customer provides the salesperson with new sales leads by mentioning other firms or friends that could use the salesperson's merchandise.
- The salesperson obtains a customer's view of the competition's sales message and uses it to good advantage.

Personal Selling Builds Relationships

The relationship between marketer and buyer does not end when the sale is made. Long-term success often depends on the sales force's ability to build a lasting relationship with the buyer. This is especially true in business-to-business marketing. For many business-to-business marketers, the relationship intensifies after the sale is made. How well the market manages the relationship becomes the critical factor in the buying decision the customer makes the next time around.

Relationship management *The sales function of managing the account relaionship and ensuring that buyers receive appropriate services.*

In the context of personal selling, relationship management is often called *relationship selling*. We prefer the term relationship management because it has a broader application, Relationship management refers to managing the account relationship and ensuring that buyers receive the appropriate services. The goal of relationship management is for the marketer to help customers expand their own organizational resources and capacities through the relationship. The salesperson is the key in relationship management, for it is the salesperson who makes sure the product solves the customer's problems and contributes to the success of the customer's organization. When a salesperson understands and solves a customer's business problem, the relationship will deepen.

Some Limitations of Personal Selling

Our emphasis on the advantages of personal selling as an effective communication tool should not overshadow its major limitations. Personal selling cannot reach a mass audience economically and therefore cannot be used efficiently in all marketing situations. For example, bathing soaps, such as Lux and Liril, may be used by tens of millions of people; millions more are potential users. Reaching these target customers by personal selling would be too expensive. Advertising via mass media is the appropriate tool in cases like this because it can reach a mass audience economically. (Personal selling does, however, play a role in marketing such products when sales representatives call on the major retailers and wholesalers that distribute them.)

Personal selling is expensive because it involves one-on-one communication. The cost per thousand viewers and cost per sale for a high-priced TV advertisement are quite small because the ad is seen by a vast audience. In contrast, the average cost per call for personal selling exceeds Rs. 1000/- for many organizational products. The high costs results from the fact that recruiting, training, and paying salespeople costs the marketer a great deal. Each salesperson, because of the nature of the job, talks to only one or a few people at a time. Furthermore, a great deal of time may be spent just driving to and from appointments and waiting in [illegible]. Because numerous sales calls may be needed to generate a single sale, you can see that the cost p[illegible] can be tremendously large. The many advantages of personal selling, however, often offset the high cost per sale.

In some cases, as in selling machinery that must be custom-made for the buyer, personal selling is the only way a sale can be made. Fortunately, fax machines, e-mail, company Web pages, and other advances in information technology are helping to counter the cost of in-person sales calls.

The Types of Personal Selling Tasks

The importance of personal selling varies considerably across organizations. Some organizations rely almost entirely on their sales forces to generate sales; others use them to support a pull strategy based on advertising. Some organizations employ salespeople who do little professional selling, such as store clerks others employ engineers and scientists as technical sales representatives. Clearly, these two types of sales representatives are not comparable.

Because of this diversity, it is useful to differentiate among selling tasks. The marketing manager must do this, for example, in deciding which selling skills and job descriptions are appropriate to the sales objectives to be accomplished. To assign a highly skilled salesperson to a task that could be accomplished as efficiently by a less skilled individual or an interactive data-based marketing system is a waste of an important resource. Here, we discuss three kinds of selling tasks : order taking, order getting, and sales support.

Order Taking

Millions of people are employed in routine sales jobs. These people, who do very little creative selling, are called order takers. They write up orders, check invoices for accuracy, and assure timely order processing. The term order taking is appropriate here, because the customer decides what products are to be purchased and then tells the salesperson what the order is to be. The order taker's job is to be pleasant and helpful and to ensure that the order truly satisfies the customer's needs. Further, the order taker should spend adequate time with the customer and go out of his or her way to solidify the long-term relationships between the company and the customer.

The order taker may engage in suggestive selling by suggesting that the customer purchase an additional item ("Would you like French fries with your hamburger ?"). Suggestive selling is important. However, the typical order taker's primary task is to keep selling existing products to well-established accounts.

In general, order-taking salespeople are divided into the "inside" sales group and the "outside," or field sales group. Inside order takers are exemplified by auto parts salespeople. The customer for auto parts comes to the shop seeking the part; the salesperson does not seek out the customer. The inside salesperson may provide some advice on product quality or installation and may even suggest that additional parts or tools would make the job easier or that the customer might as well change the oil filter while handling the other repairs. However, the order taker typically does not extensively modify the basic order presented by the customer.

Order taker *A salesperosn who is primarily responsible for writing up orders, checking invoices, and assuring prompt processing of orders.*

Suggestive selling *Suggesting to a customer who is making a purchase that an additional item or service be purchased.*

Telemarketing is becoming a major activity of many inside order-taking sales representatives. Telemarketing involves the use of telephone selling in conjunction with computers for taking orders. Of course, all salespeople telephone prospects and customers, and telephone selling is an important part of many order-getting sales jobs. However, here the term *telemarketing* means using the telephone as the primary means of communication. For *e.g.,* a telemarketing executive may try to persuade a prospect to open an account in ICICI Bank.

Outside, or field salespeople may also be order takers. Manufacturer or wholesaler representatives selling such well-known products as Maggie Noodles find themselves in this position. The question they ask their customer is essentially "How much do you want ?" Because nearly every general store stocks Maggie Noodles there is little need for aggressive selling. Some sales representatives in sales positions of this sort do a better job than others in enlarging order size, tying the product to special promotional opportunities, and so on. Such efforts are likely to be rewarded with a promotion or a bonus. Overall, however, taking orders requires less

persuasive skill than selling expensive computer systems to corporate executives or new airplanes to the transportation industry. Thus, order takers in general make less money than order getters.

In recent years a number of order taking tasks have been automated. Interactive Web sites often have order-taking software that performs this task more quickly than a salesperson and at a reduced cost to the organization.

Order Getting

In order getting—also called creative selling—the sales job is not routine. Order getters must seek out customers, analyse their problems, discover how the products for sale might solve those problems, and then bring these solutions to the customers' attention. Creative selling calls for the ability to explain the product and its auxiliary dimensions in terms of benefits and advantages to the prospective buyer and to persuade and motivate the prospect to purchase products of the appropriate quality and in the appropriate volume. Whereas the order taker's job is to keep the sale, the order getter's job is to make the sale. Put another way, the primary function of the creative salesperson is to generate a sale that might not occur without his or her efforts.

Creative salespeople generally invest far more time and effort in making a sale than do order takers. And although it is possible to engage in creative selling in either an inside or a field environment, it is far more common for creative salespeople to go to the customer's place of business to evaluate the needs to be addressed. This process can take a very long time. A salesperson for Being/McDonnell Douglas, attempting to demonstrate that a particular airplane is the best available to meet the needs of an airline, can literally spend years preparing to make a sale. This is because apart from the satellite and rocket, air plane is the most expensive product.

Order getters may specialize in certain types of selling. For example, some organizations have sales personnel, often called pioneers, who concentrate their efforts on selling to new prospects or selling new products. Selling an established product or service for the first time to a new customer or selling an innovative product new to the market to an existing customer generates new business for the organization. In contrast, account managers concentrate on maintaining ongoing relationships with existing customers and actively seek additional business for reorders or orders for other items in the product line. Although pioneering and account management activities may be carried out by separate salespeople in some organization. In many instances the creative salesperson is involved in both. Organizations that segment their markets based on account size often make a distinction between major accounts and smaller accounts. For major accounts, a field salesperson may spend a considerable amount of time at the client's headquarters. For small accounts, telemarketing is often the primary means of selling. For example, most private sector banks use telemarketing to obtain new accounts The sales representatives for these accounts never see customers. To monitor customers use of the company's service, they use a database that shows sales and telephone activity levels. Based on this information, they telephone clients with suggestions : Here's a better may to do it, here's a less expensive way to do it.

An order-getting salesperson's primary responsibility is of course, selling. However, order getters especially account managers may spend a great deal of time engaged in other activities. Table classifies the job activities of order getters.

Order getting *An adaptive selling process that tailors sales efforts and product offerings to specific customer needs; also known as* creative selling. *An order getter is primarily responsible for developing business for the firm. Order getters seek out customers and creatively make sales.*

Pioneer *A salesperson who concentrates on selling to new prospects or on selling new products.*

Account manager *A salesperson who concentrates on maintaining an ongoing relationship with existing customers.*

Table 16.1: Activities of Order Getting Salespeople

GENERAL ACTIVITY	*SPECIFIC ACTIVITIES*
Selling	Prospect for and qualify leads; prepare sales presentations, make sales calls, overcome objections.
Working with orders	Enter orders; expedite orders; handle shipping problems.
Servicing the product	Test equipment; teach safety guidelines; supervise installations; minor maintenance
Information management	Receive feedback from clients; provide feedback to superiors
Servicing the account	Perform inventory control; set up point-of-purchase displays; stock shelves
Conferences/meetings	Attend sales conferences; set up exhibitions. trade shows
Recruiting/training	Recruit new sales representatives; train new sales representatives
Entertaining	Take clients to lunch, sporting events, golfing, tennis, etc.
Travelling	Visit prospects in other cities, regions
Working with distributors	Establish relations with distributors; extend credit; collect past-due accounts.

Sales Support and Cross Functional Teams

Many salespeople hold jobs whose titles suggest that they are involved in special selling situations. One salesperson of this sort is the so-called missionary. Pharmaceutical manufacturers, for example, employ missionaries, called detailers, to call on doctors and provide them with information on the latest prescription and non-prescription products. Detailers do not take orders; sales occur only when the doctor prescribes medication for patients. Missionary sales personnel in fact rarely take or actively seek orders; their primary responsibility is to build goodwill by distributing information to customers and prospective customers and by "checking in" to be sure that buyers are receiving satisfactory service from company representatives and other relevant channel members such as wholesalers.

Even missionary salespeople working for consumer goods companies and calling on retailers do not sell anything directly. If a retailer insisted on placing an order, the missionary would not refuse to accept it but would simply pass it on to the salesperson who regularly handles the retailer's account. Missionaries are, in effect, employed by the manufacturer to perform a public relations function. In some industries, scientists and engineers serve as specialized sales support people : these technical specialists support the regular field sales force. The credentials and expertise of these sales engineers, applications programmers, and other technical support personnel are often helpful in concluding sales of complicated products such as nuclear reactors, computer installations, and advanced jet engines.

Some firms, especially those whose customers may require a little extra push at some point in the selling process, have master salespeople or sales experts on their selling staffs. These salespeople are held in reserve until less senior or less capable salespeople need help. Real estate sellers frequently find a sales expert helpful when, for example, a customer on the verge of buying a new house gets cold feet because of financing worries. At that point, the salesperson may call on the owner of the agency to "clinch" the sale by working through contacts at the bank or simply lending a hand in moving the customer to the purchase point. Car dealers and retailers of major appliances also use this approach at the consumer level. Suppliers of organizational goods adapt the technique to their selling situations.

[***Missionary*** *A salesperson who visits prospective customers, distributes information to them, and handles questions and complaints but does not routinely take orders. Missionaries really serve as customer relations representatives.*]

Cross-functional sales team *The sales representative and those who support his or her efforts in making sales and servicing accounts. Support personnel may include technical specialists and missionary salespeople.*

In many organizations, the salesperson in contact with the customer is supported by a cross-functional sales team. A creative salesperson who is trying to close a deal may call on a technical specialist in engineering or logistics or a master salesperson for aid. Or, the path to a successful sale may have been made easier by a missionary salesperson. After the sale, the missionary may play a further role in keeping the buyer content and certain that he or she made the best choice. Order takers, whether in the field or at the home office, may see

to it that orders are handled promptly and without error. The customer may be provided with the name and phone number of an account service representative, someone at company headquarters who can answer questions about delivery, post-sale service, installation, and repair parts when the salesperson is away from the home office. The company may also have a toll-free number for customers to use.

The effective cross-functional sales team is a good illustration of the marketing concept in action. It reflects an effort to satisfy customers, not just sell products. Many people in the organization, from accountants to engineers, engage in a unified effort to build relationships.

Account service representative *A sales employee at company headquarters or at a branch office who corresponds with clients and provides customer service to established accounts; sometimes called a sales* correspondent.

The Creative Selling Process

Creative selling process *The six-step process by which creative selling is carried out : (1) locating and qualifying prospects, (2) approaching the prospect, (3) making the sales presentation (4) handling objections, (5) closing the sale, and (6) following up.*

As you have seen, some salespeople do little true selling. Perhaps the least creative selling situation involves the "canned presentation." The salesperson memorizes a descriptive or persuasive speech and is directed to give that speech without any variation to all potential customers. Such an approach is common in many door-to-door and telemarketing selling situations. Although such a strategy may have little appeal for most customers, telemarketers and door-to-door sales organizations frequently devote much time and effort to developing what is thought to be the "best" sales talk. These organizations obviously believe that the method's likelihood of success justifies the lack of individual selling creativity.

Except perhaps for the person whose job is to deliver a canned sales talk, all salespeople can benefit from knowledge of the **creative selling process.** These series of steps provides guidelines to help the salesperson satisfy the prospect's needs. It suggests that professional selling is an adaptive process that begins with the identification of specific potential customers and tailors the sales dialogue and product offering to each prospect's needs. The salesperson sells a solution to the customer's problem. The ultimate goal is customer satisfaction.

Professional selling is an adaptive process that begins with the identification of specific potential customers and tailors the sales dialogue and product offering to each prospect's needs. The salesperson sells a solution to the customer's problem.

The creative selling process includes the following steps : (1) identifying and qualifying prospects, (2) approaching the prospect, (3) making the sales presentation, (4) handling objections, (5) closing the sale, and (6) following up. These steps are portrayed in Figure 16.2. Again, the steps represent guidelines to help salespeople think about the tasks that face them. Unlike the canned sales presentation they are not to be followed slavishly.

Step One : Identifying and Qualifying Prospects

Identifying Prospects Identifying prospects is called prospecting. Lists of previous customers, referrals, trade association lists, advertising inquiries from postcards or coupons, records of visitors to company Web sites, and other sources may provide the names of prospects. While each industry or line of business has its traditional means of generating "leads," such as membership lists published by trade associations, good salespeople are prepared to dig harder for prospects. Government publications providing breakdowns of business patterns in particular states and counties can be used, and perhaps even cross-referenced with other sources, to develop lists of likely buyers. Some salespeople spend considerable time on the telephone screening possible clients. Others talk with organization that supply or buy from firms that seem like possible customers. The number of prospecting tools is nearly unlimited.

Established sales representatives may rely on regular customers for most of their business, but a successful

salesperson is not content to service only existing accounts. Sales calls to regular customers are only part of the sales job. New customers or new accounts must be sought. However, making a sales persentation to someone who has no need for the product, who cannot pay for it, or who is not empowered to purchase it is not an efficient use of time unless the person being addressed may become a customer at some time in the future. The salesperson must thus identify likely customers, or prospects.

Prospecting *Identifying likely customers. In prospecting, the salesperson may search lists of previous customers, trade association lists, government publications, and many other sources.*

Qualifying *Evaluating a prospect's potential. Key questions are whether the prospect needs the product, can pay for it, and has the authority to make—or at least contribute to —a decision to buy.*

Qualifying Prospects. Identifying prospects is only the beginning. Prospects must need the product, must be able to pay for it, and must be in a position to make—or at least contribute to—the buying decision. Determining that a prospect meets these conditions is called **qualifying** the prospect. Another part of the qualifying process is determining whether the prospective buyer's order will be of sufficient size—that is, whether the account has an adequate sales potential. On the basis of the qualification process, a potential customer may be assigned to a qualified group, a nonqualified group, or a group falling somewhere in between. Thus, careful consideration of a prospect may lead a salesperson to conclude either that the prospect has insufficient potential and should receive no further attention, that the prospect is worthy of close attention and a series of sales calls and presentation or that the prospect is worth a phone call or two but not a full presentation. Care must be taken to assure that a highly qualified prospect is not relegated to the wrong category because of inadequate investigation.

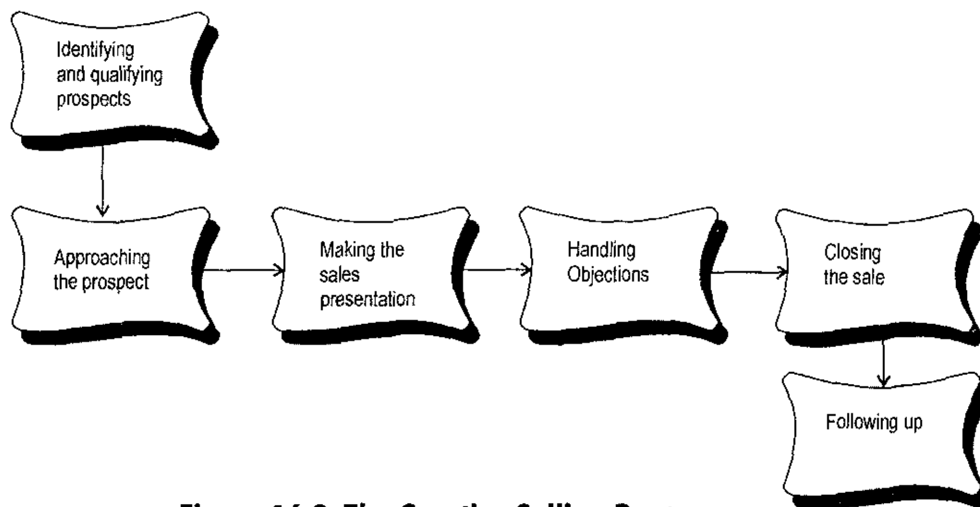


Figure 16.2: The Creative Selling Process.

Another important fact to be learned through qualifying is what member of an organization should be contacted. Who has the authority to make the purchase decision ? Who else strongly influences the purchase decision ? A plant superintendent may be a "boss," but calling on only the superintendent is the wrong tactic if the vice president makes all the buying decisions.

The process of qualifying is difficult and may require considerable tact and effort. Qualifying is sometimes called the preapproach, because the information gained in this step, especially information about the prospect's requirements, lays the foundation for planning the other steps in the selling process, including the next step, the approach itself.

Step Two: Approaching the Prospect

Approach *The step in the creative selling process wherein the salesperson makes initial contact and establishes rapport with a prospect.*

The approach involves making an initial contact and establishing rapport with the prospect. If the prospect is already familiar with the salesperson and the company, the approach may be as simple as making a telephone call to request an appointment or knocking on the prospect's door with a friendly greeting. In other situations, the salesperson may

have to be more creative to obtain an appointment with the prospect or get past the prospect's secretary.

The salesperson may approach the prospect by mentioning an offer that can benefit the prospect. What better way to persuade a prospect to grant time for a sales presentation than to offer a benefit that will save the prospect money, make the company's products more attractive, or add prestige to the customer's good name

The approach is intended to make a good impression and to solidify the prospect's willingness to listen to the sales presentation. Effective sales personnel recognize the importance of making a good impression during the first few seconds of the approach. Experience is a great asset in this matter, but research and caution can serve the seller well too. For example, smoking a cigar or cigarette in a nonsmoker's office may doom a sale before the presentation has even begun. Not wearing a hard hat in a location where protective gear is required may undermine the salesperson's credibility. If the salesperson is so unfamiliar with the situation, how is he or she going to solve the clients problem ? The importance of making a good impression should not be underestimated. The best way for a salesperson to build a creative sales approach is to do some homework on the prospect, gathering specific information about the prospect's needs for the products being offered..Once these needs have been identified, they can provide the basis for effective personal communication by phone, letter, or direct personal contact.

Salespeople engaged in international sales must be aware of cultural differences in the way prospects are approached. For example, customs concerning the exchange of business cards vary around the world. Although the exchange itself may seem of trivial importance, observing a country's customs for card giving is a key part of business protocol. In Japan, the Western practice of taking a business card and pocketing it at once is considered rude. The proper approach is to look at the card carefully after accepting it, observe person's title and organization, acknowledge with a nod that the information has been understood, and perhaps make a relevant comment or ask a polite question.

Step Three: Making the Sales Presentation

Sales presentation: *The step in the creative selling process wherein the salesperson attempts to persuasively communicate on products benefits and to explain appropriate courses of action.*

The sales presentation is the salesperson's attempt to persuasively communicate the product's benefits and to explain appropriate courses of action to the potential buyer. Typically, effective presentations tell the product's story

The presentation begins by focusing the prospect's attention on the story. Some salespeople do this by producing a physical object—the product itself (if it is both portable and eye-catching), a model of the product or something that relates to the product in an interesting or even humorous way. It is more common, however to use an opening statement designed to attract attention. Thus, salespeople often begin with opening lines such as "I'm here to show you how we can save Rs. 20,000/- a week in your factory" or "I've got a computer networking system that everyone in your organization will consider user-friendly."

After focusing the prospect's attention, the salesperson must generate interest in the product being offered. An opening comment that the salesperson can save the client a great deal of money in income taxes may gain attention, but it must be followed by development of interest in the product that is designed to save the money. Describing the product's benefits in an interesting way, explaining how it works and demonstrating its use can all be part of an effective presentation.

Arousing interest in the product itself is still not enough to make a sale. A desire to purchase the product must also be generated. A scale model of an executive jet plane may be interesting, but it is of little use if it does not help bring about a desire to own the plane itself.

In formulating an effective sales presentation, the salesperson may find visual ads such as Power Point graphics and video recording helpful in illustrating a product's benefits. In recent years many salespeople have come to rely on computers in their presentations. They may use laptop units to illustrate some aspect of the product or offer computer-generated data to answer the customer's "what if" questions. For example, a representative of an industrial rebates firm may bring a laptop computer into the prospect's office; ask for information such as

production schedules, delivery requirements, and so on; and enter that information into the computer. Within minutes, the computer can yield output that shows exactly how the salesperson's product will affect the prospect's business operations.

Note that some of the communication in the sales presentation may not be verbal. Many successful salespeople use body language, seating arrangements, and clothing colours to communicate important non-verbal messages to their clients.

Step Four : Handling Objections

Most sales presentations do not involve the salespersons making a one-way presentation while the customer passively listens. The customer, no matter how friendly or interested in the product, may have reservations about committing money or other resources in a purchase agreement. Questions or strong objections are likely to arise. Because objections explain reasons for resisting or postponing a purchase, the salesperson should listen and learn from them.

Indeed, the sales call should be a dialogue or conversation in which objections are expected to arise. It is undesirable to have the prospect sit quietly until the end of the talk and then say "No" without any explanation. Effective salespeople encourage prospects to voice their reasons for resisting the purchases. Even though the well-prepared sales presentation covers such topics as the quality of the product, the reputation of the seller, post-sale services, and the like, objections or questions tell the salesperson which points are most important to the customer.

Occasionally, an objection comes as a surprise to the salesperson. For example, a representative of a pest-control company may launch into a lengthy discourse on his company's reputation and demonstrate the product by poisoning a bug right before the prospect's eyes. It may take an objection for him to discover that the prospect is quite willing to buy the exterminator's services but is concerned that neighbours will see the pest-killer's truck parked in front of the house or place of business. In such a case, the salesperson might promise to have a nonuniformed exterminator drive to the client's location in an unmarked truck. Such a response is a means of **handling objections.**

There are many ways to handle objections. When an objection indicates that the prospect has failed to fully understand some point that was made, the salesperson can explain the area of uncertainty. A question about a product characteristic may mean that the prospect has not grasped how the product works or seen the benefits it can provide. A salesperson who encounters an objection of this type can provide additional persuasive information, clarify the sales presentation, or offer the basic argument for the product in a different manner.

Objections can also be turned into counter arguments by experienced sales representatives. A stockbroker might say, "you're right, Dr. Johnson. The price of this stock has dropped one-third in the last six months. That is exactly why I am recommending it to you. At this low price, it is now under priced and is an excellent investment opportunity, in the opinion of our analysis."

One tactic for handling objections, then, is to agree with the prospect, accepting the objection but with reservation. This is consistent with the marketing concept's prescription to sell the product from the customer's point of view. The salesperson's counter arguments is intended to refute the objection : "Yes, that is true, but this is also the case." The purpose of this method of dealing with objections is to avoid getting into an argument with the prospect. If the customer says the price is high and the salesperson says it is low, the discussion goes nowhere fast. But if the salesperson responds, "Yes, it is priced higher than many, but our product's quality is higher than our competitor's, so you get more for your money," the salesperson has agreed and counterargued at the same time. More importantly, the seller has given a reason for the higher price.

The prospect's questions, objections, and other comments may reveal how close the prospect is to making a purchase decision. Good sales people use such clues to determine whether they should attempt to enter the closing stage of the sales presentation.

Handling objections *The step in the creative selling process wherein the salesperson responds to questions or reservation expressed by the prospect.*

Closing *The step in the creative selling process wherein the salesperson attempts to obtain a prospect's commitment to buy.*

Closing signals *Signs from the prospect revealing that he or she is ready to buy.*

Trial close *A personal selling tactic intended to elicit from a prospect a signal indicating whether he or she is ready to buy.*

Step Five : Closing the Sale

Ultimately, a salesperson must make the sale. In selling, the term closing indicates that the sale is being brought to a finish. The main advantage of personal selling over other forms of promotion is that the salesperson is in a position to conclude negotiations by actually asking for an order. Unfortunately, many salespeople are knowledgeable and convincing when making sales presentations, but they never get around to asking for the order. Sometimes this failure is due to the presenter's genuine belief in the product being offered—a belief so strong that he or she can barely stop talking about it. In other cases, worry about receiving a negative answer or misreading the client's willingness to deal may be the cause. (Experienced salespeople know that they will hear the word no most of the time—or at least more than they hear yes. Rejection is never a source of enjoyment, but there are many times when the sales representative is better off accepting a negative response gracefully and moving on to prospects who may be more likely to buy.) In any case, there comes a point when the salesperson must draw the presentation to its logical conclusion. Because closing the sale is so vital, experienced sales personnel constantly try to read prospects' reactions to the presentation for signs that a conclusion is in order. Signs revealing that prospects are ready to buy are called closing signals. For example, a comment such as "These new machines should reduce the number of breakdowns we've been having" may indicate a readiness to purchase. Should the prospect offer a signal like this, the sales representative should quickly respond and ask for the prospect's signature on the order. When the prospect's willingness to close is not clearly revealed, the salesperson may utilize what is called the trial close. A trial close is a tactic intended to draw from the prospect information that signal whether a sale is imminent. For example the salesperson may attempt to focus the conversation on closing the sale by asking which model the customer prefers. If the customer indicates a preference in a positive way, a the sale may almost be made. If the customer is unable to decide or if he or she asks for another comparison of the two models more information is necessary. Closing techniques include the following:

1. Narrowing the alternatives to a choice. The salesperson asks,"Do you want the deluxe model or the standard model ?"
2. The direct, straight forward approach, The salesperson requests the order.
3. The assumptive closing technique. The salesperson takes out the order forms or in some other way implies that an agreement has been reached, saying something like "Let's see here, you'll need 20 units by the first of the month.
4. The "standing room only" closing technique. The sales representative indicates that time is an important factor and perhaps that supply is limited. Typical phrases used are "We've been selling a lot of these lately, and I want to make sure that you get what you need" and "This offer will be withdrawn soon and then it's back to the old higher prices."
5. The summative approach. The salesperson summarizes, usually on paper, the benefits of buying the product, perhaps mentioning some disadvantages that are outweighed by the advantages. When the product's benefits have been summarized, the salesperson asks for the order.

Step Six : Following Up

Follow-up *The final step in the creative selling process, wherein the salesperson, after the sale has been made, contacts the buyers to make sure every aspect of the sale was handled properly.*

Organizations that have truly adopted the marketing concept do not view getting an order as the end of the selling process. It can in fact, be seen as a beginning. Satisfied customers will return to the sales organization if they need to repurchase the same product at some time in the future or need a related item. A happy customer may even recommend the sales representative to new sales prospects. The professional salesperson, knowing these things, does not neglect the follow-up.

During the follow-up, salespeople make sure that everything was handled as promised and that the order was shipped promptly and received on schedule. Few things are worse than promising a delivery date and having the goods arrive week or months late. Sales personnel should also check with the customer to determine whether there were any problems such as missing parts or damage to the merchandise during shipping. The customer, once in possession of the product, may need additional help in integrating it into company operations. Post-sale services such as repairs or returns may also be necessary.

In a sense, how well the follow-up is performed differentiates between a simple selling job and marketing. After all, if customer satisfaction is not achieved or if the organization appears not to even try to achieve it, the company is unlikely to enjoy anything more than a one-shot sale. When the possibility of repeat purchase or expanded business seems strong, a single follow-up call after the transaction may not be enough. In many situations, the salesperson, with the help of others in the organization, must initiate a relationship emphasizing ongoing follow-up. Buyers—especially buyers of technically complex products—may expect salespeople and their companies to offer continuous, long-term help in solving problems and contributing to organizational success. If a marketer does not meet a buyer's expectations with excellent service, the buyer may terminate its relationship with the seller. And in many situations, if an account is lost, it is lost for good.

There are many ways a salesperson can foster an ongoing relationship : showing appreciation for an order, expediting delivery, and resolving complaints are but a few.

Publicity

Publicity when properly managed by a public relations department, can serve many purposes. Marketers often hope to attract the public's attention or maintain public visibility. Many organizations wish to provide consumer or public interest groups with useful information. Others use public relations to change attitudes or to combat negative publicity from another source. Here are some examples :

- Nissan Motor Company, a company that recently developed a fuel-efficient engine system combining an electric motor with a gasoline engine, may use publicity to attention to its hybrid electric engine system, which cuts exhaust emissions dramatically.
- Political candidates and social activists routinely use "photo opportunities" to maintain visibility among general public.
- The well known doctors uses publicity to inform the public about the dangers of smoking and drinking.

In general, no matter what the marketer's purpose, the information offered must be timely and interesting—that is newsworthy—if it is to result in publicity for the marketer. Usually, the more engrossing and captivating the material , the more likely it is to be publicized. Celebrities like Aishwarya Rai are often asked asked to work with charity organizations (Eye Donate Campaign) because their fame and personalities help get the much-needed "free" publicity. Information offered by public relations departments often takes the form of news release and press conferences.

__News release__ A brief written statement sent to the press or others describing a new product, a product improvement, a price change, or some other development of interests. The release is intended to be newsworthy.

News Releases : Marketers may spend considerable time and effort in getting news releases and interviews with company spokespersons placed in newspapers and on television news broadcast, to promote a favourable corporate organizational image.

Well-executed news release are written in a form that a news paper, magazine, or broadcast editor can easily incorporate into a news story. Photographs, films, and videotapes of company operations and interviews with company spokespersons are often distributed to television broadcasters. Organizations often post their press releases on their Web site after the releases have been distributed to the media.

__Press conference__ A meeting called by an organization to announce a newsworthy event to the press.

Press conferences The press conference is another form of publicity that can create goodwill and positive

relations between an organization and the public. When an organization wishes to make a specific announcement it may schedule a press conference so that company officials can make a statement and reporters can ask questions. For example, Pepsi and Coca-Cola when hit by the newspaper reports commenting on the presence of pesticides in their soft drinks. They immediately called a press conference in which they explained the steps taken by them to minimize the amount of pesticides in their raw materials, water.

Appearances : Talk shows are known for inviting guests who promote their books, CDs, and concerts. The entertainment business is one of the most extensive users of public relations. Performers' appearances are often part of wellplanned marketing strategies. For example, HMV brings out exclusive albums of singers and music directors of yester years to provide high quality audio casettes to the music lovers and to attract the young generation by carefully organising the events. All the actors and creative persons associated with a particular film are present when the music of that movie is released.

Sports figures, politicians, environmentalists, and activists for social causes use their guest appearances on television programs to promote their agendas. Personal marketing is a term sometimes used to describe marketing when the product is a person. If Cricket star Yuvraj Singh wishes to promote his image, appearances are a very cost-effective medium. Further, viewers do not perceive his appearance on a television show as an advertisement.

Company Web Sites Many organizations provide considerable company product, and service information on company Web sites. Internet visitors may find information about the organizational mission, company history, investor relations, financial statements, and other company news. A company Web site is a perfect repository for recent, and even old, articles and press releases about the company. Customer service and e-mail features may also be incorporated into the company site. The company Web site provides a golden opportunity for public relations.

Public Relations

Not only must the company relate constructively to customers, suppliers, and dealers, but it must also relate to a large number of interested public. We define a public as follows :

> A *public* is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. *Public relations* (PR) involves a variety of programs designed to promote or protect company's image or its individual products.

A public can facilitate or impede a company's ability to achieve its objectives. PR has often been treated as a marketing stepchild, an afterthought to more serious promotion planning. But the wise company takes concrete steps to manage successful relations with its key public. Most companies operate a public-relations department. The PR department monitors the attitudes of the organization's public and distributes information and communications to build goodwill. When negative publicity happens, the PR department acts as a troubleshooter. The best PR departments spend time counselling top management to adopt positive programs and to eliminate questionable practices so that negative publicity does not arise in the first place. They perform the following five functions :

1. *Press relations :* Presenting news and information about the organization policies, products/services and social activities in the most positive light.

2. *Product publicity :* Sponsoring efforts to publicize specific products which are entirely new or modified or altered to deliver more value to the customers.

3. *Corporate communication :* Promoting understanding of the organization through internal and external communications, so that the general public knows about the role of organization in their daily lives.

4. *Lobbying :* Dealing with legislators and government officials to promote or defeat legislation and regulation related to their specific industry. For *e.g.,* Tax Department is planning to levy taxes on foreign companies who are out sourcing the services from India, so all the BPO firm's will join hand and resist the proposal

5. *Counselling* : Advising management about public issues and company positions and image. This includes advising in the event of a product mishap. For *e.g.*, reports on the presence of pesticides in the soft drinks compelled Pepsi and Coke to quickly initiate damage control excercise.

Marketing Public Relations

Marketing managers and PR specialists do not always talk the same language. Marketing managers are much more bottom-line oriented, whereas PR practitioners see their job as preparing and disseminating communications. But these differences are disappearing. Many companies are turning to *marketing public relations* (M P R) to directly support corporate or product promotion and image making. Thus M P R, like financial PR and community PR, serves a special constituency, namely the marketing department.

The old name for MPR was publicity, which was seen as the task of securing editorial space—as opposed to paid space—in print and broadcast media to promote or "hype" a product, service, idea, place, person, or organization. But MPR goes beyond simple publicity and plays an important role in the following tasks :

- *Assisting in the launch of new products* : The amazing commercial success of gave such as Nintendo owes a great deal to clever publicity.
- *Assisting in repositioning a mature product* : New York City had extremely bad press in the 1970s until the " I Love New York" campaign began.
- *Building interest in a product category* : Companies and trade associations have used MPR to rebuild interest in declining commodities such as eggs & milk and to expand consumption of such products as natural/organic products and orange juice.
- *Influencing specific target groups* : A number of MNCs and big Indian companies are taking community welfare projects like helping in rain-harvesting, developing sewage disposal system, recharging water levels etc. in various areas to build goodwill.
- *Defending products that have encountered public problems* : Cadvbury's masterly use of MPR was a major factor in saving its choclate brands from poor performance following (a few) incidents in which insect infested choclates were found.
- *Building the corporate image in a way that reflects favourably on its products.*

As the power of mass advertising weakens, marketing managers are turning more to MPR. In a survey of 286 U.S. marketing managers, three-fourths reported that their companies used MPR. They found it particularly effective in building awareness and brand knowledge, for both new and established product. MPR is also effective in blanketing local communities and reaching specific ethnic and other groups. In several cases, MPR proved more cost effective than advertising. Nevertheless, it must be planned jointly with advertising. MPR needs a large budget, and the money might have to come from advertising. In addition, marketing managers need to acquire more skill in using PR resources. Gillette is a trendsetter here : Each brand manger is required to have a budget line for MPR and to justify not using it.

Clearly, creative public relations can affect public awareness at a fraction of the cost of advertising. The company does not pay for the space or time obtained in the media. It pays only for a staff to develop and circulate the stories and manage certain events. If the company develops an interesting story, it could be picked up by the news media and be worth millions of dollars in equivalent advertising. The Body Shop, for example, has spent very little money on advertising; its success has been almost entirely due to publicity. MPR carries more credibility than advertising. Some experts say that consumers are five times more likely to be influenced by editorial copy than by advertising.

Here are two examples of the creative use of MPR :

- **Intel and the Pentium Chip :** When users of Intel's Pentium computer chip began to notice a problem with it in 1994, the company refused to replace the chip unless the computer users could prove they needed

their computers for complex mathematical operations (the only operations affected by the flaw). Following an uproar of consumer dissatisfaction, Intel's MPR people came to the rescue by using a "one-two punch," following up intense one-on-one marketing to corporate and retail Pentium users with the introduction of a worldwide network of Pentium-replacement service centers (offering free replacements on request). Intel tried to reach customers one-on-one, whether they were large customers or individual users. The company did this by mobilizing huge numbers of people inside the company, putting them on phone lines to talk to anybody concerned, and by flying marketing teams all over the country to visit corporate accounts and replace Pentium chips. To reach individual consumers, Intel even placed its own employees inside retail stores in the weeks before Christmas of 1994. As a result of the intense MPR campaign, Intel was able to rescue its reputation, which had been seriously jeopardized just a few weeks earlier.

- **Microsoft and Windows 95 :** Microsoft's campaign launching Windows 95 was an MPR success story. No paid ads for Windows 95 had appeared by August 24, 1995, the launch day. Yet everyone knew about it! The *Wall Street Journal* estimated that 3,000 headlines, 6,852 stories, and over 3 million words were dedicated to Windows 95 from July 1 to August 24. Microsoft teams around the world executed attention-grabbing publicity. Microsoft hung, a 600-foot Windows 95 banner from Toronto's CN Tower. The Empire State Building in New York was bathed in the red, yellow, and green colours of the Windows 95 logo. Microsoft paid The London Times to distribute free its entire daily run of 1.5 million copies to the public. By the end of the first week, U.S. sales alone were $108 million, not bad for a $90 product. The lesson is clear : Good advance PR can be much more effective and millions of dollars spent on advertising.

Major Decisions in Marketing PR

In considering when and how to use MPR, management must establish the marketing objectives, choose the PR messages and vehicles, implement the plan carefully, and evaluate the results. The main tools of MPR are described in Table 16.2.

Establishing the Marketing Objectives

MPR can contribute to the following objectives :

- *Build awareness :* MPR can place news worthy stories in the media to bring attention to a product, service, person, organization, or idea.
- *Build credibility :* MPR can add credibility by communicating the message in an editorial context which has more believability than advertising.
- *Stimulate the sales force and dealers :* MPR can help boost sales force and dealer enthusiasm. Stories about a new product before it is launched will help the sales force sell it to retailers and the retailers in turn can sell it effortlessly to the customers.

Table 16.2: Major Tools in Marketing PR

Publications : Companies rely extensively on published materials to reach and influence their target markets. These include reports, brochures, articles, company newsletters and magazines, and audiovisual materials which describe the performance and recent activities under taken by the company.

Events : Companies can draw attention to new products or other company activities by arranging special events like news conferences, seminars, outings, exhibits, contests and competitions, anniversaries, and sport and cultural sponsorship that will reach the target public in a given geographical area.

News : One of the major tasks of PR professionals is to find or create favourable news about the company its products, and its people. News generation requires skill in developing a story concept, researching it, and writing a press release. But the PR person's skill must go beyond preparing news stories. Getting the media to accept press releases and attend press conferences calls for marketing and interpersonal skills.

Speeches : Speeches are other tool for creating product and company publicity. Lee Iacocca's charismatic talks before large audiences helped Chysler sell its cars. Increasingly, company executives must field questions from the media or give talks at trade associations or sales meetings, and these appearances can build the company's image.

Public-Service Activities : Companies can build goodwill by contributing money and time to good causes. Large companies typically ask executives to support community affairs. In other instances, companies will donate an amount of money to a specified cause. Such *cause-related marketing* is used by a growing number of companies to build public goodwill and it pays back in handsome manner. The general public gets the impression that the company not only care for its profits but also for them.

Identity Media : In a society marked by sensory overload, companies compete for attention. They need visual identity that the public immediately recognizes. The visual identity is carried by company logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and dress codes. Whenever the public see a visual identity they can instantly relate it to the company.

- *Hold down promotion costs :* MPR costs less than direct mail and media advertising. The smaller the company's promotion budget, the stronger the case for using PR to gain share of mind.

  Specific objectives should be set for every MPR campaign :

Whereas PR practitioners will continue to reach their target public through the mass media, MPR is increasingly borrowing the techniques and technology of direct response marketing to reach target audience members one to one. PR expert Thomas L. Harris offers suggestions for how PR and direct-response marketing can work together to achieve specific marketing objectives :

- *Build marketplace excitement before media advertising breaks :* For example the announcement of a new product offers a unique opportunity for obtaining publicity and for dramatizing the product. The more the talk about the product in the media, the more will be the chances of great success, provided that the product meets the requirements of the customers.
- *Build a core consumer base :* Marketers are increasingly recognizing the value of maintaining consumer loyalty, because it costs far less to keep a consumer than to get a new one. Research suggest that it cost five times more to attract a new customer than to retain one.
- *Build a one-to-one relationship with consumers :* Marketers can use telephone hot lines and toll-free numbers, plus the Internet, to build and maintain relationships with individual consumers. The company can easily get the complaints and suggestions about their products or services.
- *Turn satisfied customers into advocates :* Customer database and profiles can yield satisfied customer who can become role models and spokespeople for the product and they will have more believability than any other promotional tool.
- *Influence the influentials :* The influencer may be an authority figure like a teacher, doctor, or pharmacist, but it can also be someone who has a different kind of one-to-one relationship with consumer, such as a hair stylist or personal trainer. These people can help in influencing the purchase decision of the customers.

Choosing Messages and Vehicles

The manager must identify or develop interesting stories to tell about the product. Suppose a relatively unknown college wants more visibility. The MPR practitioner will search for possible stories. Do any faculty members have unusual backgrounds, or are any working on unusual projects ? Are any new and unusual courses being taught ? Are any interesting events taking place on campus ?

If the number of interesting stories is insufficient, the MPR practitioner should propose newsworthy events the college could sponsor. Here the challenge is to create news. PR ideas include hosting major academic conventions, (seminar/conference) inviting expert or celebrity speakers (press will love to cover it), and developing news conferences. Each event is an opportunity to develop a multitude of stories directed at different audiences.

Event creation is a particularly important skill in publicizing fund-raising drives for non-profit organizations. Fund-raisers have developed a large repertoire of special events, including anniversary celebrations, art exhibits, auctions, benefit evenings, book sales, contests, dances, dinners, fairs, fashion shows, parties in unusual places, tours etc. No sooner is one type of event created, such as a movie awards, than competitors spawn new versions.

For-profit organizations also use events to call attention to their products and services. Manikchand sponsor film fare awards, Gladrags organise mega-model contest, Grasim organise Grasim Mr. International contest to gain free space in the media.

Implementing the Plan

Implementing public relations requires care. Consider placing stories in the media : A great story is easy to place, but most stories are less than great and might not get past busy editors. One of the chief assets of publicists is their personal relationship with media editors. PR people look at media editors as a market to satisfy so that these editors will continue to use their stories.

Evaluating Results

MPR's contribution to the bottom line is difficult to measure because it is used along with the promotional tools. If it is used before the other tools come into action, its contribution is easier to evaluate. The three most commonly used measures of MPR effectiveness are number of exposures; awareness, comprehension, or attitude change; and contribution to sales and profits.

The easiest measure of MPR effectiveness is the number of exposures carried by the media. Publicists supply the client with a clippings book showing all the media that carried news about the product and a summary statement such as the following ;

Media coverage included 3,500 column inches of news and photographs in 350 publications with a combined circulation of 79.4 million; 2,500 minutes of air time of 290 radio stations and an estimated audience of 65 million; and 660 minutes of air time on 160 television stations with an estimated audience of 91 million. If this time and space had been purchased at advertising rates, it would have amounted to Rs. 3 crore 50 lacs

The exposure measure is not very satisfying because it contains no indication of how many people actually read, heard, or recalled the message and what they thought afterward. Nor does it contain information on the net audience reached because publications overlap in readership. Because publicity's goal is reach, not frequency, it would be more useful to know the number of unduplicated exposures.

A better measure is the change in product *awareness, comprehension, or attitude* resulting from the MPR campaign (after allowing for the effect of others promotional tools). For example, how many people recall hearing the news item ? How many told others about it (a measure of word of mouth) ? How many changed their minds after bearing it ? In a Potato Board campaign, the board found that the number of people who agreed with the statement "Potatoes are rich in vitamins and minerals" went from 36 per cent before the campaign to 67 per cent after the campaign, a significant improvement in product comprehension.

Sales and profit impact is the most satisfactory measure, if obtainable. For example, A company's sales had increased 43 per cent by the end of the PR campaign. However, advertising and sales promotion had also been stepped up, and their contribution has to be allowed for. Suppose total sales have increased $1,500,000, and management estimates that MPR contributed 15 per cent of the total sales increase. Then the return on MPR investment is calculated as follows :

Total sales increase	$1,500,000
Estimated sales increase due to PR (15 percent)	225,000
Contribution margin on product sales (10 percent)	22,500

Total direct cost of MPR program		–10,000
Contribution margin added by PR investment	$	12,500
Return on MPR investment ($12,500/$10,000)		125%

In the years ahead, we can expect marketing public relations to play a larger role in the company's communication efforts.

Table 16.3: Public Relations-Related Situations and How a Firm Could Respond to Them

Situation	*Poor Response*	*Good Response*
Fire breaks out in a company plant	Request for information by media are ignored.	Company spokesperson explains the fire's causes and the precautions to avoid it, and answers questions.
New product intro-duced	Advertising is used without publicity.	Pre-introduction news releases, product samples, and testimonials are used.
News story about product defects	Media requests for information are ignored, blanket denials are issued, and there is hostility to reporters.	Company spokesperson says tests are being done, describes the procedure for handling defects, and takes questions.
Competitor introdu-ces new product	A demand-oriented advertising campaign is stepped up.	Extensive news releases, statistics, and spokespeople are made available to media to present firm's competitive features.
High profits repor-ted	Profits are justified and positive effects on the economy are cited.	Profits are explained, comparative data are provided, and profit uses are noted: research and community development.
Overall view of public relations	There is an infrequent need for public relations; crisis fighting is used when bad reports are circulated.	There is an ongoing need for public relations, strong planning, and plans to counter bad reports.

Chapter 17

Marketing Research

What is Marketing Research ?

Any discussion of the importance of information to the marketer must include a discussion of marketing research. Marketing research allows managers to make decisions based on objective data, gathered systematically, rather than on intuition.

What is the distinction between marketing research and other forms of marketing information ? Even without a formal research program, a manager will have some information about what is going on in the world. Simply by reading the newspaper or watching TV, he or she may discover that a competitor has announced a new produced, that the inflation rate is stabilizing, or that a new highway will be built and a shopping mall erected north of town. All of these things may affect the marketer's business, and this information is certainly handy to have, but is it the result of marketing research ?

The answer to this question is no. Marketing research is the systematic and objective process of generating information for use in making marketing decision. This process includes defining the problem and identifying what information is required to solve the problem, designing a method for collecting information, managing and implementing the collection of data, analyzing the result, and communicating the findings and their implications.

Marketing research : *The systematic and objective process of generating information for use in marketing decision making*

This definition suggests that marketing research is a special effort rather than a haphazard attempt at gathering information. Thus, glancing at a news magazine on an airplane or overhearing a rumor is not conducting marketing research. Even if a rumor or a fact casually overheard becomes the foundation of a marketing strategy, that strategy is not a product of marketing research because it was not based on information that was systematically and objectively gathered and recorded. The term *marketing research* suggests a specific, serious effort to generate new information. The term *research* suggests a patient, objective, and accurate search.

Although marketing managers may perform the research task themselves, they often seek the help of specialists known as marketing researchers. The researcher's role requires detachment from the question under study. If researchers cannot remain impartial, they may try to prove something rather than to generate objective data. If bias of any type enters into the investigative process, the value of the findings must be questioned. Yet this sort of thing can happen relatively easily. For example, a developer who owned a large parcel of land on which she wanted to build a high-price, high-prestige shopping center conducted a survey of customers' buying habits to demonstrate to prospective mall occupants that there was an attractive market for such a center. By conducting the survey only in elite neighbourhoods, she generated "proof" that areas residents wanted a high-prestige shopping center.

Misleading "research" of this kind must be avoided. Unfortunately, business people with no knowledge of proper marketing research methods may inadvertently conduct poorly designed, biased studies or may be sold such work by marketing research firms. All business people should understand marketing research well enough to avoid these mistakes

Scope of Marketing Research

The scope of marketing research is very wide and it provides useful information about all the aspects of marketing, for instance :

1. **Product or service features desired by the customers :** This information can be collected from the customers through a well defined research instrument. Furthermore the relative importance of various features can also be obtained.

2. **Pricing :** The information regarding the prices charged by the competitors for the same and nearly same products or services can be obtained by market survey.

3. **Consumer Behaviour :** The research can be conducted to know about buying habits of the consumers. Information can be obtained regarding why consumers buy something; when do they buy it; from where they buy; how much do they buy; who accompanies them during the shopping etc. Information to these key question will help the marketer in improving his offering.

4. **Distribution :** The information can be obtained about the effectiveness of channel member their motivation level and what needs to be done to improve their motivation level, in identifying the training needs etc.

5. **Promotion :** Vital information can be obtained regarding the media habits of consumers which can provide vital inputs for the media planning. Advertising effectiveness can also be measured by pre and post testing techniques which can help in identifying the best advertisement and its impact on the consumers. The consumers response both qualitative and quantitative can help in identifying the best sales promotion technique for ones product or service.

The Stages in the Research Process

Marketing to not an exact science like physics, but that does not mean that marketers and marketing researchers should not try to approach their jobs in a scientific manner. Marketing research is a systematic inquiry into the characteristics of the marketplace, just as astronomy is a systematic investigation of the stars and planets. Both use step-by-step approaches to gain knowledge.

The steps in the research process are highly interrelated and one step leads to the next. Moreover, the stages in the research process often overlap. Disappointments encountered at one stage may necessitate returning to previous stages or even starting all over again. Thus, it is something of an oversimplification to present marketing research as a neatly ordered sequence of activities. Still, marketing research often follows a generalized pattern of seven stages. These stages are (1) defining the problem, (2) planning the research design, (3) selecting a sample, (4) collecting data, (5) analyzing data, (6) drawing conclusions and preparing a report, and (7) following up.

Again, these stages overlap and affect one another. For example, the research objectives outlined as part of the problem definition stage will have an impact on sample selection and data collection. In some cases, the "later" stages may be completed before the "early" ones. A decision to sample people of low educational levels (stage 3) will affect the wording of the questions posed to these people (stage 2). The research process, in fact, often becomes cyclical and ongoing, with the conclusions of one study generating new ideas and suggesting problems requiring further investigation. Within each stage of the research process, the researcher faces a number of alternative methods, or paths, from which to choose. In this regard, the research process can be compared to a journey. On any map, some paths are more clearly charted than others. Some roads are direct; others are roundabout. Some paths are free; others require the traveler to pay a toll. The point to remember is that there is no "right" or "best" path. The road taken depends on where the traveler wants to go and the amounts of time, money, ability and other resources available for the trip.

Although there is no "right" path, the researcher must choose an appropriate one—that is, one that addresses the problem at hand. In some situations, where time is short, the quickest path is best. In other circumstances, where money, time, and personnel are plentiful, the chosen path may be long and demanding.

Exploring the various paths marketing researchers encounter is the main purpose of this section, which describes the seven stage of the research process. Figure 17.1. illustrates some choice researchers face at each stage.

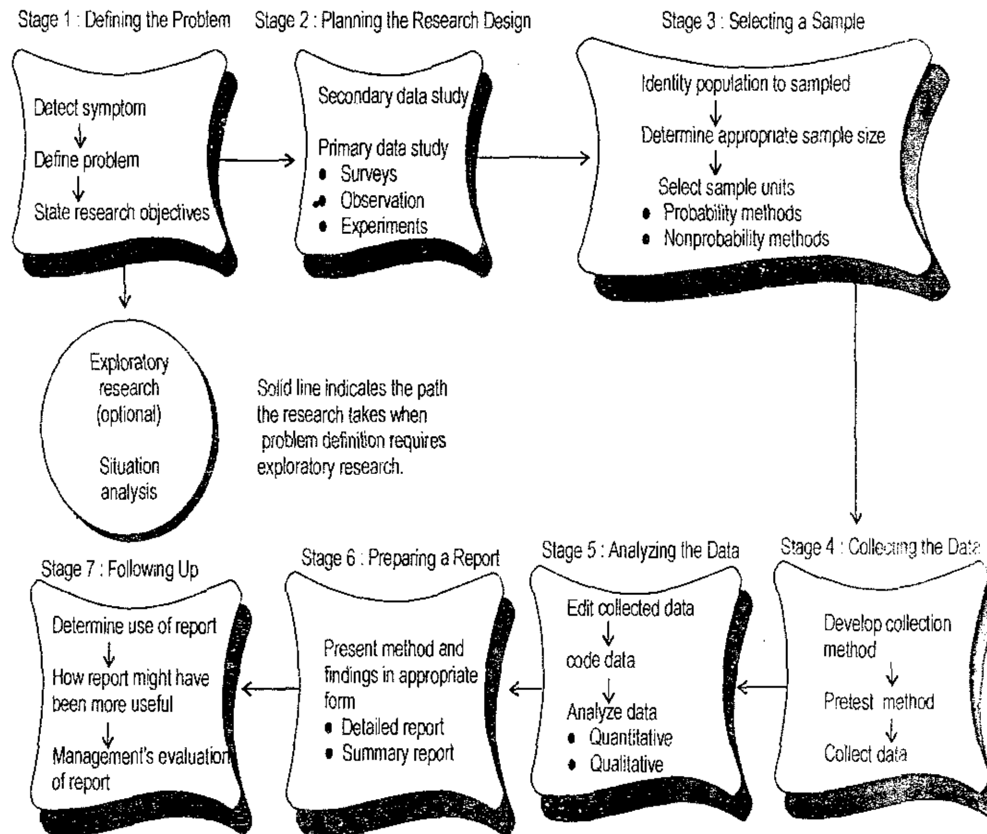


Figure 17.1: The Marketing Research Process

Stage 1 : Defining The Problem

The idea that **problem definition** is central to the marketing research process is so obvious that its importance is easily overlooked. Albert Einstein noted that "The formulation of a problem is often more essential than its solution." This is valuable advice for marketing managers and researchers who, in their haste to find the right answer, may fail to ask the right question. Too often, data are collected before the nature of the problem has been carefully established. Except in cases of coincidence or good luck, such data will not help resolve the marketer's difficulties. Researchers are well advised to remember the adage "a problem well defined is a problem half solved."

Problem definition : *The crucial first stage in the marketing research process—determining the problem to be solved and the objectives of the research.*

Problems Can Be Opportunities : On many occasions, the research process is focused not on a problem but on an opportunity. For example, a toy maker who has developed a fabulous new item might face the "problem" of determining what age groups will most likely want the toy or which advertising media are the best to use. In this happy circumstance, the problem definition stage of the research might well be called the "opportunity definition" stage. The point is that the problems addressed by marketing research are frequently "good" problems and not disasters.

Don't Confuse Symptoms with the Real Problem : There is a difference between a problem and the symptoms of that problem. Pain, for example, is the symptom of a problem. The cause of the pain, perhaps a broken leg, is the problem. In marketing, falling sales are a symptoms that some aspect of the marketing mix is not working properly. Sales may be falling because price competition has intensified or because buyer preferences have changed. Defining the general nature of the problem provides a direction for the research.

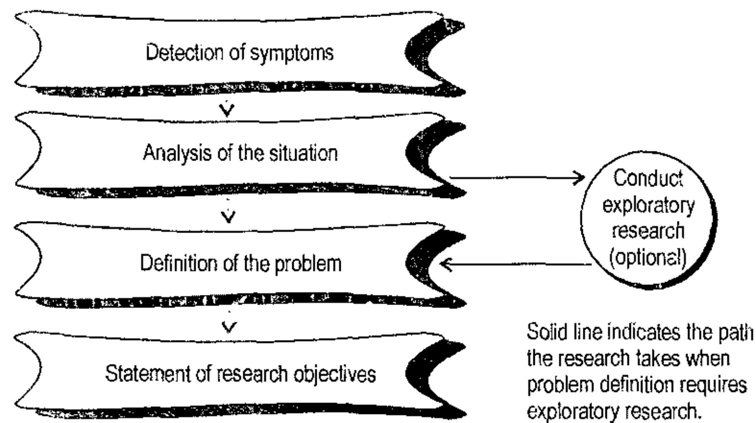


Figure 17.2: Stage 1. Defining the problem. Results in Clear-Cut Research Objectives

As Figure 17.2. shows, defining the problem begins with the detection of symptoms. If managers are uncertain about the exact nature of the problem, they may spend time analyzing and learning about the situation. For example, they may discuss the situation with others, such as sales representatives, who are close to the customers. They may conduct exploratory research to shed more light on the situation and reveal more details about the problem. Exploratory research is optional and is not used in all research projects.

Finally, as Figure 17.2. shows, the problem is defined, and a series of research objectives related to the problem are stated. No decisions about the remaining stages of the marketing research process should be made until managers and researchers clearly understand the objectives of the research about to be undertaken.

Exploratory research : *Research to clarify the nature of a marketing problem.*

Exploratory Research : Exploratory research is sometimes needed to clarify the nature of a marketing problem. Management may know, from noting a symptom such as declining sales, that some kind of problem is "out there" and may undertake exploratory research to try to identify the problem. Or, management may know what the problem is but not how big or how far-reaching it is. Here too, managers may need research to help them analyze the situation.

Providing conclusions is not the purpose of exploratory research. Its purpose is simply to investigate and explore. Usually, exploratory research is undertaken with the expectation that other types of research will follow and that the subsequent research will be directed at finding possible solutions.

In any research situation, it is generally best to check available secondary data before beginning extensive data collection. Some work at a library, on the Internet, or with an internal database may save time and money. However, there isn't any set formula that outlines exactly how to analyze a situation.

Sometimes checking secondary sources may not be the appropriate first step. Instead, a short series of interviews with a few customers may be in order. Exploratory research in this case could serve to identify problem areas or points to a need for additional information.

Although there are many techniques for exploratory research, our discussion will highlight one popular method—the focus group interview—to illustrate the nature of exploratory techniques.

Focus group interview : *A loosely structured interview in which a group of 6 to 10 people discusses a product or focuses on some aspect of buying behaviour.*

Focus group interviews are loosely structured interviews with groups of 6 to 10 people who "focus" on a product or some aspect of buying behaviour. During a group session, individuals are asked to comment on and react to new product ideas or explain why they buy (or do not buy) certain products. Researchers later analyze those comments for useful ideas, such as that a product is "too

high priced" or "looks like it would break easily." Focus group research is extremely flexible and may be used for many purposes—for example, to learn what problems consumers have with products. During one of Rubbermaid Inc.'s focus groups on housewares, a woman accused the industry of sexism. "Why do companies continue to treat brooms and mops like they were 'women's tools'?" she complained. "They're poorly designed and second class to hammers and saws, which are balanced and molded to fit men's hands. Brooms and mops make houseworks more miserable, not easier." At the time, Rubbermaid did not make cleaning products, but the woman's remarks eventually convinced the company that an opportunity awaited. After five years of research and development, Rubbermaid introduced a line of about 50 cleaning products and brushes designed to make cleaning easier, with handles that fit comfortably in consumers hands and bristles angled to reach tight spaces.

What is "Good" Research Objectives ? Marketers contemplating a research project must decide exactly what they are looking for. The end of Stage 1 of the research process must be a formal statement of the problem(s) and the research objetive(s). These provide the framework for the study.

Hypothesis : *An unproven proposition that can be supported or refuted by market research. Research objectives are often stated as hypotheses.*

The best way to express a research objective is as a well-constructed, testable hypothesis. A **hypothesis** is an unproven proposition or a possible solution to a problem, a statement that can be supported or refuted by empirical data. In its simplest form, it is a guess. In times of inflation or economic recession, an auto manufacturer might hypothesize that lower-income families were cutting back on car purchases more than wealthy families were. This is a hypothesis that can be tested.

STAGE 2 : PLANNING THE RESEARCH DESIGN

After researchers have clearly identified the research problem and formulated a hypothesis, the next step is to develop a formal research design. The **research design** is master plan that identifies the specific techniques and procedures that will be used to collect and analyze data about a problem. The research design must be carefully compared to the objectives developed in Stage I to assure that the sources of data, the data collected, the scheduling and costs involved, and so on are consistent with the researchers' goals.

At the outset, the researchers should determine if the data they need have already been generated by others or if primary research is required. In other words, as Figure 17.3. suggest, researchers planning a researcher design must first choose between using secondary data and using primary data.

Research design : *A master plan that specifically identifies what techniques and procedures will be used to collect and analyze data about a problem.*

Research Design Using Secondary Data : As we have mentioned, data already in the researcher's decision support system or in the library may provide an adequate basis for a formal research effort. For example, a marketer of mobile phones might know that sales of this products showing regular increase in the numbers. A comparison of past sales record will verify it. In this case, the research design involves the analysis of secondary data only.

Meaningful secondary data may come from internal sources, such as company databases, or external sources such as government agencies, trade associations, and companies that specialize in supplying specific types of data Figure 17.3 shows some examples of the types of secondary data that are available.

The biggest advantages of secondary data are that (1) they are always less expensive to collect than primary data and (2) they can be obtained rapidly.

Secondary sources must be used with care however as they have certain disadvantages:

- Secondary data are "old" and possibly outdated, so the prediction for the future on the basis of past rather than present can turn out to be off the mark.

- Some data are collected only periodically. For examples, the population census is taken only once a decade. Comparatively up-to-data estimates if available in such cases must be used to predict the consumption of child related products.

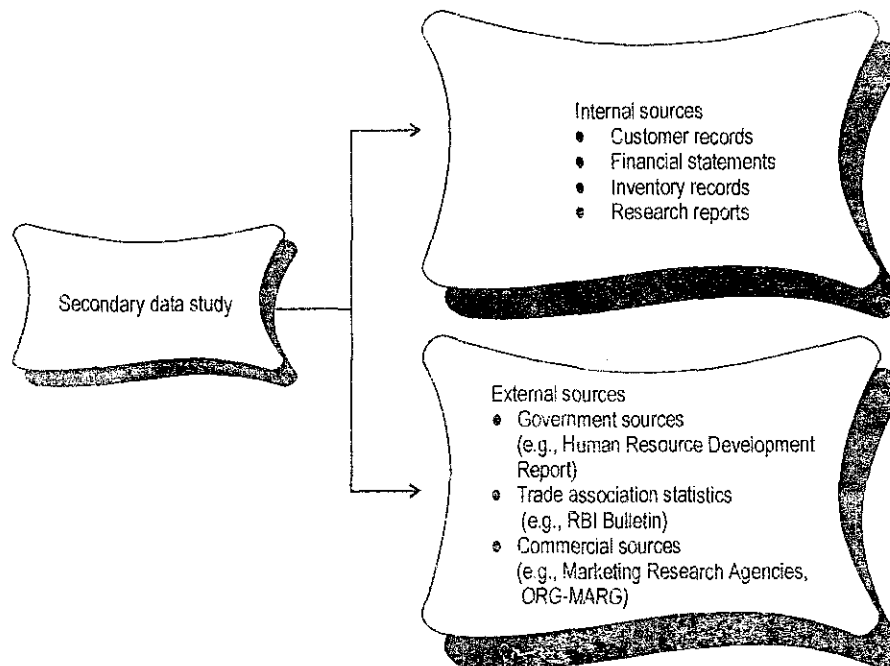


Figure 17.3: Secondary Data Sources

- Data may not have been collected in the form preferred. Sales figures may be available for a country but not for a particular town within that country. Similarly total sales data may be available but the product or brand wise sales data may not be available.
- Users of secondary data may not be able to assess the data's accuracy. For example, previous researchers may have "bent" the data to "prove" some point or theory. So there will be in-built error in the research that used the secondary data.

In general, a basic disadvantage of secondary data is that they were not collected specifically to meet the researcher's needs. The manager's task is to determine if the secondary data are pertinent and accurate.

The Internet as a Source of Secondary Data : The Internet is a worldwide network of computers that gives users access to information and documents from distant sources. Many managers see the Internet as the world's largest public library, because both noncommercial and commercial organizations post secondary data there. A wealth of data from reliable sources is available. For example, most of the companies provide complete details about their products and services which are accurate.

The Internet is very user-friendly; information can be viewed using a mouse and menu-based software system called a Web browser. Netscape and Microsoft Explorer are two popular Web browsers that allow the user to enter a uniform resource locator, or URL.

A search engine is a computerized directory that allows users to search the Internet for information indexed in a particular way. Most portals, such a Yahoo!, Rediff, Google etc. contain comprehensive and accurate Internet search engine. All a researcher has to do is type the search term in plain English or click on key words and phrases.

Anyone can access most Web sites without previous approval. However, many commercial sites require that the users have a valid accounts and password to access a site. For example, the Dalal Street Journal Interactive is a valuable [illegible]; however, only subscribes who pay a fee can read it via the Internet.

Research Design Using Primary Data : Researchers who find that no appropriate secondary data are available can choose from three basic techniques for collecting primary data; surveys, observation, and experiments.

Survey : *Any research effort in which data are gathered systematically from a sample of people by means of a questionnaire. Surveys are conducted through face to-face interviews, telephone interviews, and mailed questionnairs.*

Survey : Primary data are commonly generated by survey research. Survey results on one topic or another are reported almost daily by the news media. Most adult Indian have been stopped by interviewers at shopping centers or voting places or have received mailings or phone calls from survey takers. In general, a **survey** is any research effort in which data are gathered systematically from a sample of people by means of a questionnaire. Researchers using surveys may collect data by means of telephone interviews, mailed questionnaires, personal interviews (either door-to-door or in shopping malls or some other public place), or some other communication method such as fax or the Internet.

Survey research has several advantages. For one thing, surveys involve direct communication. How better to provide buyers with what they want is to first ask them what they want ? For example, U.S. automobile makers operate style research clinics to appraise consumer reactions to car designs. First, mock-ups of proposed designs are constructed; then consumers, or respondents, are recruited through short telephone interviews. These respondents are brought in to a showrooms and shown a carbon mock-up along with competing autos from around the world. As the "buyers" look over the cars, professional interviewers ask for their reactions to virtually every detail. The survey results are then given to designers.

Systematic bias : *A research shortcoming caused by flaws in the design or execution of a research study.*

When surveys are properly planned and executed, they are quick, efficient, and accurate means of gathering data. Survey research can involve problems, however. Careless researchers may design or conduct surveys improperly and thus produce incorrect and worthless results—that is results marked by **systematic bias.** The survey questions might be poorly worded, respondents might be reluctant to provide truthful answers, the sample may not be representative, or mistakes might be made entering data into the computer.

Tables 17.1, summarizes the advantages and disadvantages of the most popular types of surveys. You can see from this exhibit that choosing one method over another involves trade-offs. For instance, a low-cost mail survey takes more time and is less versatile than a highest-cost personal interview at the consumer's doorstep.

How does the researchers choose the appropriate survey technique ? The marketing problem itself generally suggests which technique is most appropriate. A manufacturer of industrial equipment might choose a mail survey because the executives it wishes to question are hard to reach by phone. A political party might prefer to employ a door-to-door personal survey so that voters can formulate and voice their opinions on current issues. In these examples, the cost, time, and perhaps accuracy involved vary. It is the researcher's job to weigh the advantages and disadvantages of each method and find the most appropriate way to collect he needed data.

Table 17.1: Characteristics of Survey Methods.

	PERSONAL INTERVIEW				
	Door-to Door	*Shopping Mall*	*Mail-In Questionnaire*	*Telephone Interview*	*Internet Survey*
Speed of data collection	Moderate to fast	Fast	Researcher has no control over return of questionnaire.	Very fast	Instantaneous
Respondent cooperation	Good	Moderate	Moderate—poorly designed questionnaire will have low response rate	Good	Varies depending on Web site
Flexibility of questioning	Very flexible	Very flexible	Highly standardized format is very inflexible	Moderately flexible	Extremely flexible
Questionnaire length	Long	Moderate to long	Varies depending on purpose	Moderate	Modest
Possibility for respondent mis-understanding	Low	Low	Highest—no interviewer to clarify questions	Moderate	High
Influence of interviewer on answers	High	High	None	Moderate	None
Cost	Highest	Moderate to high	Low	Low to moderate	Lowest

Wording survey questions appropriately is a skill that must be learned. The questionnaire writer's goals are to avoid complexity and use simple, accurate, conversational language that does not confuse or bias the respondent. The wording of questions should be simple and unambiguous so that the questions are readily understandable to all respondents.

Consider, for example, the following question:

Should The Limited continue its excellent gift-wrapping program?

- Yes
- No

The gift-wrapping program may not be excellent at all. By answering "yes," a respondent is implying that things are just fine as they are. But by answering "no," she implies that The Limited should discontinue the gift wrapping. Question should be worded so that the respondent is not put in this sort of bind.

Many respondents are susceptible to leading questions, such as "You do agree that U.S. automobiles are a better value than Japanese automobiles, don't you?" Leading questions should be avoided.

Sometimes rating scales are used to measures consumers' attitudes. Two of the most common attitude scales are the Likert scale and the semantic differential. A Likert scale asks respondents to indicate the degree of agreement with a statement, as in the following example:

Timberland boots are expensive.

Strongly agree   Agree   Undecided   Disagree   Strongly disagree

A semantic differential identifies a company, store, brand, or the like and asks the respondent to place a check work on a bipolar rating scale as in the following example:

Timberland boots

Expensive__:__:__:__:__:__:__Inexpensive

Observation research: *The systematic recording of behvior, objects, or events as they are witnessed.*

Observation : If the purpose of a research effort is to note actions that are mechanically or visually recordable, observation techniques can form the basis of that effort. Observation research involves the systematic recording of behaviour, objects, or events as they are witnessed. Companies that sell space on outdoor hoardings are interested in traffic patterns—specifically, the numbers of cars and people passing the hoarding installations each day. Mass transit organizations may want to know how many people ride each bus and where most of them get on or off. In both cases, the information could be recorded either by human observers or by mechanized counters.

Observation can be more complicated than these simple head-counting examples might suggest. For example, Fisher-Price's Play Laboratory is a well-stocked day-care center where toy designers and marketing researchers sit behind a one-way mirrors to observe children who are trying out new toys. They observe how long children play with various toys and evaluate whether prototype toys catch children's interest.

"Mystery shoppers" can be used to check on salespeople's courtesy or product knowledge. Researchers disguised as customers, store employees, or product demonstrators might subtly observe consumer reactions to prices, products, package designs, or display cases, leaving the consumers unaware that their behaviour was being observed.

The greatest strength of observation is that it permits the recording of what actually occurs in a particular situation. It biggest weakness is that the observer cannot be sure *why* the observed behaviour occurred. Still, in some cases, it is enough to know *that* something happened.

Experiment : *A research method in which the researcher changes one variable and observes the effects of that change on another variable*

Experiment : Experiments have long been used by scientists attempting to discover cause-and-effect relationships. Almost every day, you can read news stories about experimental groups of white mice that were exposed to some substance and then developed more cancers than mice in groups not exposed. The assumption, of course, is that the substance involved increased the chance of developing cancer. A properly run **experiment** allows an investigator to change one variable, such as price, and then observe the effects of the change on another variable, such as sales. Ideally, the experimenter holds all factors steady except the one being manipulated, thus showing that changes are caused by the factor being studied.

Marketing researchers use experimental techniques both in the marketplace ("in the field") and in controlled, or laboratory, situations. For example, McDonald's conducted experiments in the marketplace to determine if it should add a single-slice McPizza to its menu. The company sold the product in *test markets*—cities where a test products is sold just as it would be if it were marketed nationwide. Test markets provide a trial run to determine consumers' reaction and actual sales volume. For McDonald's, sales of the pizza slices were disappointing, and the company discontinued its plans to market pizza to adults. The company test marketed pizza in children's Happy Meals, finding the response favourable, it was introduced nationwide.

In contrast, advertisers often use laboratory settings to test advertising copy. One group of subjects is shown a television program that includes one version of an advertisement. A second group views the same program with a different version of advertisement. Researchers compare the group responses. Research like this is conducted in a controlled setting, rather than a natural setting, to increase researchers' control of environmental variables. Such an experiment is known as laboratory experiment.

Laboratory experiment : *An experiment in a highly controlled environment.*

Selecting the Research Design : After considering research alternatives, a marketing researcher must pick one. Because there are many ways to tackle a problem, there is no one "best" research design. Certain techniques are simply more appropriate than others.

For example, what technique should the "Gwalior's Museum of Royal Scindia family" use to determine which of its exhibits is the most popular ? A survey ? (Could you really expect visitors to remember and rate all the museum's exhibits ?) Experimentation? (Would you close off the exhibits one at a time and count the complaints associated with each closing ?)

Secondary data ? (That might tell you what exhibits are most popular at other museums.) The Gwalior Museum's researcher actually suggested the simple and inexpensive observation technique of keeping track of how frequently the wooden floor tile had to be replaced in front of each exhibit—indicating which exhibit drew the heaviest traffic. Of course, had the museum been in a hurry for information, another method would have been more appropriate, but the wooden floor tile approach gave museum operators a good measurement over time at a low cost.

Stage 3 : Selecting a Sample

Once a researcher has determined which research design to use, the next step is to select a sample of people, organization, or whatever is of interest. The methods for selecting the sample are important for the accuracy of the study.

Sampling : *Any procedure in which a small part of the whole is used as the basis for conclusions regarding the whole.*

Sample : *A portion or subset of a larger population.*

Though sampling is a highly developed statistical science, we all apply its basic concepts in daily life. For example, the first taste (or sample) of a bowl of vegetable may indicate that the vegetable needs salt, is too salty, or is "just right." **Sampling,** then, is any procedure in which a small part of the whole is used as the basis for conclusions regarding the whole.

Population *in marketing research, any complete group of people or entities sharing some common set of characteristics the group from which a sample is taken.*

A sample is simply a portion, or subset, of a larger **population.** It makes sense that a sample can provide a good representation of the whole. A well-chosen sample of lawyers in New Delhi should be representative of all New Delhi lawyers making surveying all of them unnecessary. A survey of all the members of a group is called a **census.** For a small group—say, a group comprising the Vice Chancellors of all universities in India—sampling is not needed. All the VCs can easily be identified and contacted.

Census : *A survey of all the members of a group (an entire population).*

Target population : *The population of interest in a marketing research study; the population from which samples are to be drawn.*

Sampling essentially requires answering these three questions :

1. *Who is to be sampled ?* Specifying the **target population**, or the total group of interest, is the first aspect of sampling. The manager must make sure the population to be sampled accurately reflects the population of interest. Suppose a Maruti Service Station manager wants to analyze the service station's image among the Maruti car owners collects information about the customers from the dealer and vehicle registration office or insurance companies. Next step is to, identify who will be surveyed ? All the owners of Maruti cars or those customers who gets their cars serviced at his service station or the customers who get their cars serviced at other service stations.

   Lists of customers, telephone directories, membership lists, and lists of automobile registrations are a few of the many population lists from which a sample may be taken. Selecting a list from which to draw a sample is a crucial aspect of sampling. If the list is inaccurate, the sample may not be representative of the larger population of interest

2. *How big should the sample be ?* The traditional tongue-in-check response to this question—"big enough"—suggests the true answer. The sample must be big enough to properly portray the characteristics of the target population. In general, bigger samples are better than smaller samples. Nevertheless, if appropriate sampling techniques are used a small proportional of the total population will give a reliable measure of the whole. For instance the Nielsen

TV ratings survey, which appears to be highly accurate involves only a few thousands of the 103 million U.S. households. The keys here are that most families TV viewing habits are similar and that the Nielsen families are selected with meticulous care to assure the representativeness of the sample.

Pre-poll and post-poll surveys conducted by different media groups often go wrong in correctly predicting the outcomes even though the surveys were spread over around 20 states 150 cities and thousands of respondents. This is because these surveys are not representative of rural population. Data is collected only from the cities and the predictions were made on the basis of urban respondent's responses.

3. *How should the sample be selected?* The way sampling units are selected is a major determinant of the accuracy of marketing research. There are two major sampling methods; probability sampling and nonprobability sampling.

Probability sample: *A sample selected by statistical means in such a way that all members of the sampled population had a known, nonzero chance of being selected.*

When the sampling procedures are such that the laws of probability influence the selection of the sample, the result is a **probability sample.** A *simple random sample* consists of individual names drawn according to chance selection procedures from a complete list of all people in a population. All these people have the same chance of being selected. The procedure is called *simple* because there is only one stage in the sampling process.

Nonprobability sample: *A sample chosen on the basis of convenience or personal judgment.*

When sample units are selected on the basis of convenience or personal judgment (for example, if New Delhi is selected as a sample city because it appears to be representative of Indian population), the result is a **nonprobability sample.** In one type of nonprobability sample, a *convenience sample,* data are collected from the people who are most conveniently available. A professor or graduate student who administers a questionnaire to a class is using a convenience sample. It is easy and economical to collect sample data this way; but unfortunately, this type of sampling often produces unrepresentative samples. Another nonprobability sample, the *quota sample*, is often utilized by interviewers who intercept consumers at shopping malls. Within this type of sampling, people are chosen because they appear to the interviewers to be of the appropriate age, sex, race, or the like.

Stage 4: Collecting Data

Once the problem has been defined, the research techniques chosen, and the sample to be analyzed selected, the researcher must actually collect the needed data. Whatever collection method is chosen, it is the researcher's task to minimize errors in the process—and errors are easy to make.

Pretesting: *Conducting limited trials of a questionnaire or some other aspect of a study to determine its suitability for the planned research project.*

Generally, before the desired data are collected, the collection methods is pretested. A proposed questionnaire or interview script might be tried out on a small sample of respondents in an effort to assure that the instructions and questions are clear

and comprehensible. The researcher may discover that the survey instrument is too long, causing respondents to lose interest, or too short, yielding inadequate information. The **pretesting** provides the researcher with a limited amount of data that will give an idea of what can be expected from the upcoming full-scale study. In some cases, these data will show that the study is not answering the researcher's questions. The study may then have to be redesigned. After pretesting shows the data collection method and questionnaire to be sound, the data can be collected.

Stage 5 : Analyzing the Data

Editing : *Checking completed questionnaires or other data collection forms for omissions, incomplete or otherwise unusable responses, illegibility, and obvious inconsistencies.*

Once a researcher has completed what is called the *fieldwork* by gathering the data needed to solve the research problem, those data must be manipulated, or processed. The purpose is to place the data in a form that will answer the marketing manager's questions.

Processing requires entering the data into a computer. Data processing ordinarily begins with a job called editing, in which surveys or other data collection instruments are checked for omissions, incomplete or otherwise unusable responses, illegibility, and obvious inconsistencies. As a result of the editing process certain collection instruments may be discarded. In research reports, it is common to encounter phrase, like this "One thousand people were interviewed, yielding 856 usable response." The process may also uncover correctable errors, such as the recording of a usable response on the wrong line of a questionnaire.

Coding : *Establishing meaningful categories for responses collected by means of surveys or other data collection forms so that the responses can be grouped into usable classifications.*

Once the data collection forms have been edited, the data undergo **coding.** That is, meaningful categories are established so that responses can be grouped into classification usable for computer analysis. For example, for a survey focusing on response differences between men and women, a gender code, such as 1 = male and 2 = female, might be used.

Data analysis : *Statistical and/or qualitative consideration of data gathered by research.*

After editing and coding, the researcher is ready to undertake the process of analysis. **Data analysis** may involve statistical analysis, qualitative analysis, or both. The type of analysis used should depend on management's information requirements, the research hypothesis, the design of the research itself, and the nature of the data collected.

A review of the many statistical tools that can be used in marketing research is beyond the scope of this book. They range from simple comparisons of numbers and percentages ("100 people, or 25 percent of the sample, agreed") to complex mathematical computations requiring a computer. Statistical tools such as the t-test of two means, the chi-square test, and

correlation analysis are commonly used to analyze data. It may be surprising, in light of the availability of these and many other techniques, that a great number of studies use statistics no more sophisticated than averages and percentages.

Stage 6 : Drawing Conclusions and Preparing a Report

Remember that the purpose of marketing research is to aid managers in making effective marketing decisions. The researcher's role is to answer the question "What does this mean to marketing managers?" therefore, the end result of the research process must be a report that usefully communicates research findings to management. Typically, management is not interested in how the findings were arrived at. Except in special cases, management is likely to want only a summary of the findings. Presenting these clearly, using graphs, charts, and other forms of artwork, is a creative challenge to the researcher and any others involved in the preparation of the final report. If the researcher does not communicate the findings so that marketing managers can understand them, the research process has been, in effect, a total waste.

Stage 7 : Following Up

After the researcher submits a report to management, he or she should follow up to determine if and how management responded to the report. The researcher should ask how the report could have been improved and made more useful. This is not to say that researchers should expect that managers will always agree with a report's conclusions or pursue its suggested courses of action. Deciding such things, is, after all, the role of managers, not of researchers. Marketing management, for its part, should let researcher know how report could be improved or how future reports might be made more useful.

Chapter 18

Marketing Organization and Marketing Control

Trends in Company Organization

Companies often need to restructure their business and marketing practices in response to significant changes in the business environment, such as globalization, deregulation, computer and telecommunications advances, and market fragmentation. The main responses of business firms to a rapidly changing environment have included these :

- *Reengineering* : Appointing teams to manage customer-value building *processes* and trying to break down department walls between *functions.*
- *Outsourcing* : A greater willingness to buy more goods and services from outside vendors when they can be obtained cheaper and better this way. A number of multinational companies are outsourcing a number of services from India.
- *Benchmarking* : Studying "best practice companies" to improve the company's performance. Best practices in different functional areas must be identified and implemented in the company.
- *Supplier partnering* : Increased partnering with fewer but larger value-adding suppliers. This will ensure right quality in right quantity at the right price and at the right time.
- *Customer partnering* : Working more closely with customers to add value to their operations, by suggesting the right solutions (products or services) for their problems.
- *Merging* : Acquiring or merging with firms in the same industry to gain enconomies of scale and scope in manufacturing and marketing activities. It also calls for concentrating on what you do best.
- *Globalizing* : Increased effort to both "think global" and "act local", because the world is moving towards global village where the products, services and people will flow across the borders.
- *Flattening* : Reducing the number of organizational level to get closer to the customer so that communication and decision making are faster. Speed is the way of winning marketing war.
- *Focusing* : Determining the most profitable businesses and customers and focusing on them and continuously delighting them with superior products and services.
- *Empowering* : Encouraging and empowering personnel to produce more ideas and take more so that the executives can focus more on forward planning rather than sending time on routine decision making.

All these trends will undoubtedly have an impact on marketing organization and practices.

The role of marketing in the organization will also have to change. Traditionally, marketers have played the role of middlemen, charged with understanding customer needs and transmitting the voice of the customer to various functional areas in the organization, who then acted upon these needs. Underlying this conception of the marketing function was the assumption that customers were hard to reach and could not interact directly with other functional areas. But in a networked enterprise, every functional area can interact with customers,

especially electronically. Marketing no longer has sole ownership of customer interactions; rather, marketing needs to integrate all the customer facing processes so that customers see a single face and hear a single voice when they interact with the firm.

Marketing Organization

Over the years, marketing has grown from a simple sales department into a complex group of activities. We will examine how marketing departments have evolved in companies, how they are organized, and how they interact with other company departments.

The Evolution of the Marketing Department

Marketing departments have evolved through six stages. Companies can be found in each stage.

Stage 1 : Simple Sales Department

Small companies typically appoint a sales vice president, who manages a sales force and also does some selling. When the company needs marketing research or advertising, the sales vice president hires help from the outside [Figure 18.1(*a*)]. This type of structure in the small companies operating in a local market whose customers are located in the diameter of 100 kms.

Stage 2 : Sales Department with Ancillary Marketing Functions

As the company expands, it needs to add or enlarge certain functions. For example, an South Indian firm that plans to operate in the North India will need to conduct marketing research to learn about customer needs and market potential. It will have to advertise its name and products in the area. The sales vice president will hire a marketing research manager, an advertising manager or some other marketing specialists to handle these activities. He might hire a *marketing director* to manage these and other marketing functions [Figure 18.1(*b*)]. "Nirma detergent brand when tyring to penetrate North Indian market used this structure very effectively.

Stage 3 : Separate Marketing Department

The continued growth of the company will warrant additional investment in marketing research, new-product development, advertising and sales promotion, and customer service. Yet the sales vice president normally focuses time and resources on the sales force. Eventually the CEO will see the advantage of establishing a separate marketing department headed by a marketing vice president, who reports, along with the sales vice president, to the president or executive vice president [Figure 18.1(*c*)]. At this stage, sales and marketing are separate functions that are expected to work closely together to gain maximum advantage from the marketing opportunities.

This arrangement permits the CEO to obtain a more balanced view of company opportunities and problems. Suppose sales start slipping. The sales vice president might recommended hiring more sales-people, raising sales compensation, running a sales contest, providing more sales training or cutting the price so the product will be easier to sell. The marketing vice president will want to analyze the forces affecting the market place. Is the company going after the right segments and customers ? Do the target customers have a changing view of the company's and competitors' products? Are changes in product features, styling, packaging, services distribution, or promotion warranted ?

Stage 4 : Modern Marketing Department

Although the sales and marketing vice presidents should work together, their relationship is often strained and marked by distrust. The sales vice president resents efforts to make the sales force less important in the marketing mix, and the marketing vice president seeks a larger budget for non-sales force activities.

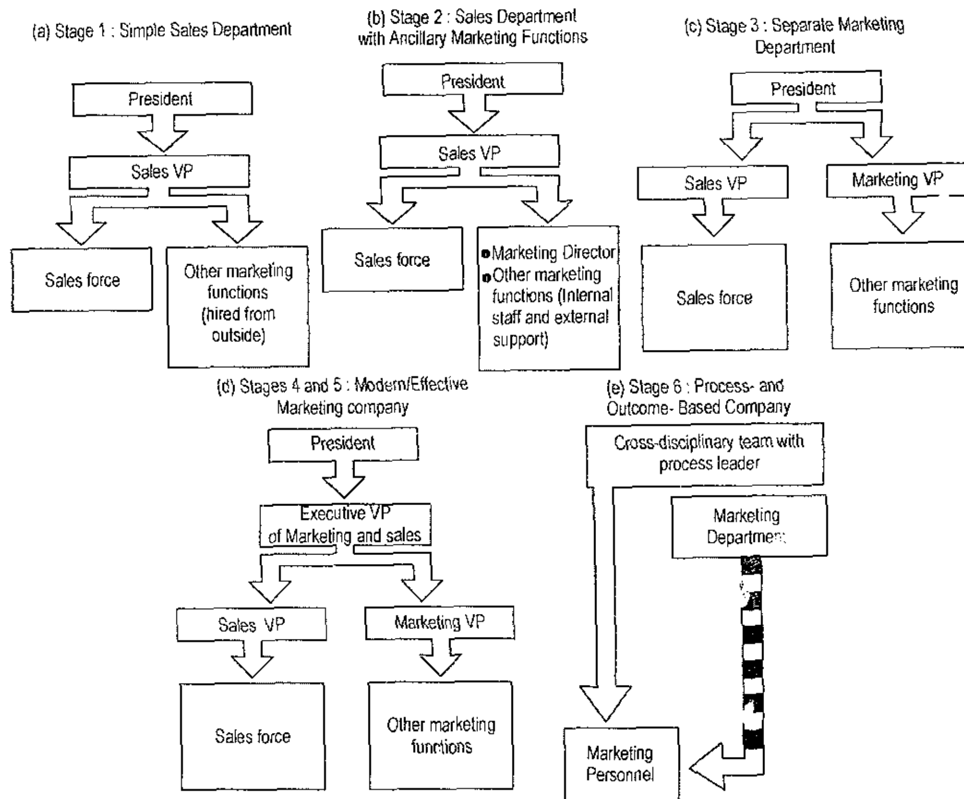


Figure 18.1: Stages in the Evolution of the Marketing Department

The marketing manager's task is to identify opportunities and prepare marketing strategies and programs. Salespeople are responsible for implementing these programs. Marketers rely on marketing research, try to identify and understand market segments, spend time in planning, think long term, and aim to produce profits and gains in market share. Salespeople, in contrast, rely on street experience, try to understand each individual buyer, spend time in face-to-face selling, think short term, and try to meet their sales quotas. There is a conflict of long term goals and short term goals between marketing and sales functions.

If there is too much friction between sales and marketing, the company president might place marketing activities back under the sales vice president, instruct the executive vice president to handle conflicts, or place the marketing vice president in charge of everything, including the sales force. This last solution is the basis of the modern marketing department, a department headed by a marketing and sales executive vice president with managers reporting from every marketing function, including sales management [Figure 18.1(*d*)].

Stage 5 : Effective Marketing Company

A company can have an excellent marketing department and yet fail at marketing. Much depends on how the other departments view customers. If they point to the marketing department and say, "They do the marketing," the company has not implemented effective marketing. Only when all employees realize that their jobs are created by customers does the company become an effective marketer. They must also realize they need the customer, customer don't need them (unless the company has monopoly).

Stage 6 : Process- and Outcome-Based Company

Many companies are now refocusing their structure on key processes rather than departments. Departmental organization is increasingly viewed as a barrier to the smooth performance of fundamental business processes such as new-product development, customer acquisition and retention, order fulfilment, and customer service. In the interest of achieving customer-related process outcomes, companies are now appointing process leaders who manage cross-disciplinary teams. Marketing and salespeople are consequently spending an increasing percentage of their time as process team members. As a result, marketing personnel may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department. Each team sends periodic evaluations of the marketing member's performance to the marketing department. The marketing department is also responsible for training its marketing personnel, assigning them to new teams, and evaluating their overall performance [Figure 18.1(e)].

Organizing the Marketing Department

Modern marketing departments take numerous forms. The marketing department may be organized by function, geographic area, products, or customer markets.

Functional Organization

The most common form of marketing organization consists of functional specialists reporting to a marketing vice president, who coordinates their activities Figure 18.2, shows five specialists. Additional specialists might include a customer-service manager, a marketing-planning manager, and a market-logistics manager.

It is quite a challenge to develop smooth working relations within the marketing department. Cespedes has urged companies to improve the critical interfaces among field sales, customer service, and product management groups, because they collectively have a major impact on customer satisfaction. He has proposed several ways to form tighter links among these three key marketing groups.

The main advantage of a functional marketing organization is its administrative simplicity. However, this form loses effectiveness as products and markets increase. First, a functional organization often leads to inadequate planning for specific products and markets. Products that are not favoured by anyone are neglected. Second, each functional group competes with the other functions for budget and status. The marketing vice president constantly has to weigh the claims of competing functional specialists and faces a difficult coordination problem.

Geographic Organization

A company selling in a national market often organizes its sales force (and sometimes other functions, including marketing) along geographic lines. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, who in turn supervise eight district sales managers, who supervise ten salespeople.

Several companies are now adding *area market specialists* (regional or local marketing managers) to support the sales efforts in high-volume, distinctive markets.

Several factors have fueled the move toward regionalization and localization. The Indian mass market has slowly subdivided into a profusion of minimarkets along demographic lines : senior citizens, dual role females, youngsters, teenagers, Tibetians—the list goes on. In India each state has its own distinct culture, life style, food habits, thus making it more like a regional market rather than national market. Data from retail-store scanners allow instant tracking of product sales, helping companies pinpoint local problems and opportunities. Retailers themselves strongly prefer local programs aimed at consumers in their cities and neighbourhoods. To keep retailers happy, manufacturers now create more local marketing plans.

Companies that have shifted to regional marketing are McDonald's, which now provides different types of menus for different Indian states. Private banks providing various types of services to the customers at their

doorsteps in Metropolitan cities but not in other cities. Hindustan Lever Limited running different advertising compaigns in North and South India.

Regionalization may be accompanied by a move toward branchising. *Branchising* means empowering the company's districts or local offices to operate more like franchises. IBM told its branch managers to "make it your business." The branches resemble profit centers and local managers have more strategy latitude and incentive.

Product or Brand-Management Organization

Companies producing a variety of products and brands often establish a product (or brand-) management organization. The product-management organization does not replace the functional management organization but rather serves as another layer of management. A product manager supervises product category managers, who in turn supervise specific product and brand managers. A product-management organization makes sense if the company's product are quite different, or if the sheer number of products is beyond the ability of a functional marketing organization to handle. Hindustan Lever Limited uses a product-management organization structure. Separate product category managers are in charge of detergents, cosmetics, food products etc.

Product and brand managers have these tasks :

- Developing a long-range and competitive strategy for the product category and subcategories.
- Preparing an annual marketing plan and sales forecast for each product and brand.
- Working with advertising and Merchandising agencies to develop copy, programs, and campaigns for different brands.
- Stimulating support of the product among the sales force and distributors to maximise everyone's returns and to increase company's.
- Gathering continuous intelligence on the product's performance, customer and dealer attitudes, and new problems and opportunities to keep the products and brands updated according to the needs and requirements of the customers.
- Initiating product improvements to meet changing market needs to keep the products and brands relevant in the changing conditions.

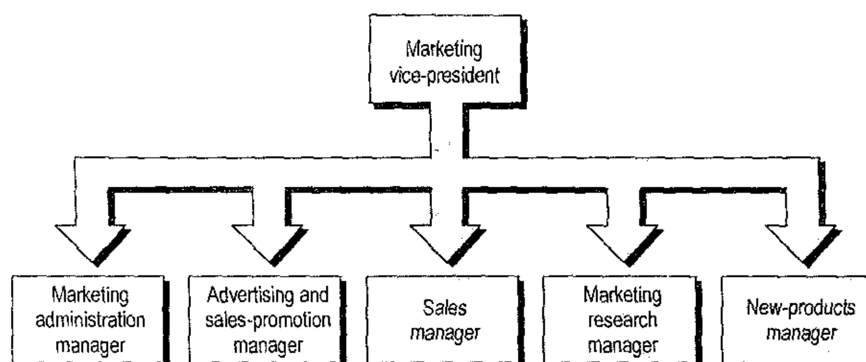


Figure 18.2: Functional Organization

These tasks are common to both consumer- and industrial product managers. However, consumer-product managers typically manage fewer products and spend more time on advertising and sales promotion. They are often younger and MBA-educated. Industrial product managers spend more time with customers and laboratory and engineering personnel, think more about the technical aspects of their product and possible design improvements, and work more closely with the sales force and key buyers because they handle a few

customers who place large orders.

The product management organization introduces several advantages. The product manager can concentrate on developing a cost effective marketing mix for the product. The product manager can react more quickly to problems in the marketplace than a committee of functional specialists can. The company's smaller brands are less neglected, because they have a product advocate. Product management also is an excellent training ground for young executives, because it involves them in almost every area of company operations (Figure 18.3), be it production or personnel or finance.

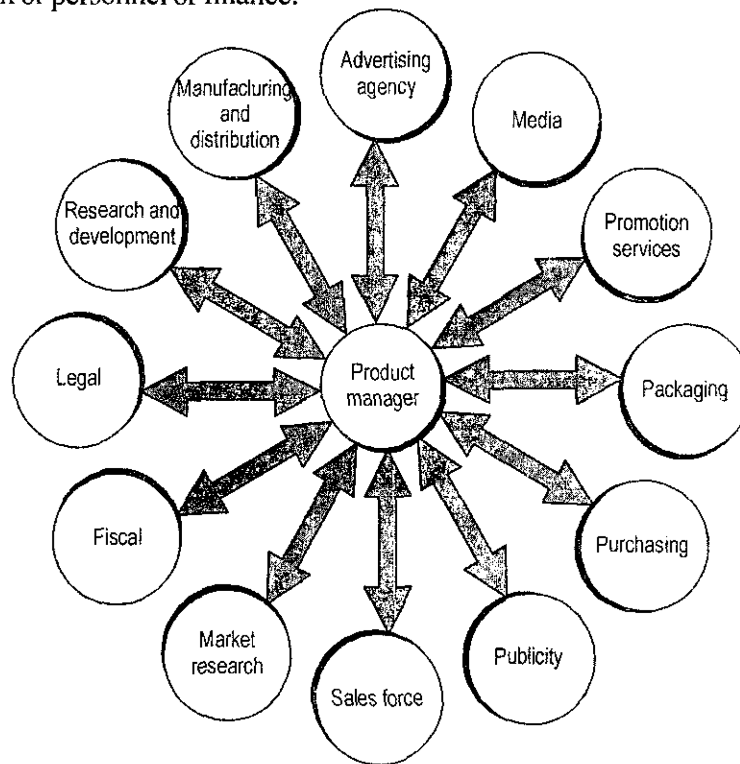


Figure 18.3: The product manager's Interactions

But a product-management organization has some disadvantages. First, product management creates some conflict and frustration. Typically, product managers are not given enough authority to carry out their responsibilities effectively. They have to rely on persuasion to get the cooperation of advertising, sales, manufacturing, and other departments. They are told they are "minipresidents" but are often treated as low-level coordinators. They are burdened with a great amount of paperwork. They often have to go over the heads of others to get something done.

Second, product managers become experts in their product but rarely achieve functional expertise. They vacillate between posing as experts and being cowed by real experts. This is unfortunate when the product depends on a specific type of expertise, such as advertising or sales or channel member's agressive selling.

Third the product management system often turns out to be costly. One person is appointed to manage each major product. Soon product managers are appointed to manage even minor products. Each product manager, usually overworked, pleads for an associate brand manager. Later, both overworked, they persuade management to give them an assistant brand manager. With all these people, payroll costs climb. In the meantime, the company continues to increase its functional specialists in copy, packaging, media, sales promotion, market surveys, and statistical analysis. The company is soon saddled with a large and costly structure with large number of employees.

Fourth brand managers normally manage a brand for only a short time. Either they move up in a few years to another brand, or they move to another company. Short-term involvement with the brand leads to short-term marketing planning and plays havoc with building the brand's long term strengths.

Fifth, the fragmentation of markets makes it harder to develop a national strategy from headquarters. Brand managers must please more regional-based trade groups and rely more on the local sales force.

Pearson and Wilson have suggested five steps to make the product management system work better.

1. Clearly delineate the limits of the product manager's role and responsibility. Telling what he is expected to do and what not.
2. Build a strategy-development-and-review process to provide a framework for the product manager's operations.
3. Take into account areas of potential conflict between product managers and functional specialists when defining their respective roles.
4. Set up a formal process that forces to the stop all conflict-of-interest situations between product management and functional line management.
5. Establish a system for measuring results consistent with the product manager's responsibilities.

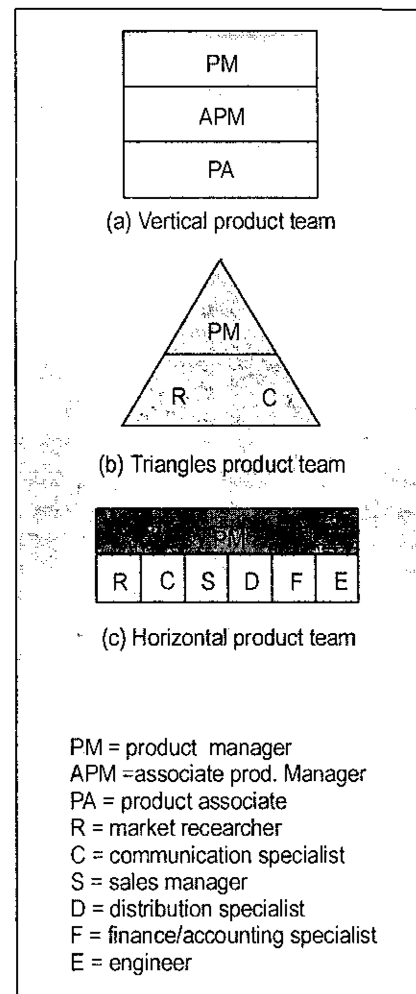


Figure 18.4: Three Types of Product Teams.

A second alternative is to switch from product managers to product teams. There are three types of product-team structures in product management (Figure 18.4):

1. *Vertical product team :* Product manager, associate product manager, and product assistant (Figure 18.4 [*a*]). The product manager is the leader and deals with other managers to gain their cooperation. The associate product manager assists in these tasks and also does some paperwork. The product assistant carries out most of the paperwork and routine analysis.
2. *Triangular product team :* Product manager and two specialized product assistants, one who takes care of marketing research and the other, marketing communications (Figure 18.4 [*b*]). The Hallmark Company uses a "marketing team" consisting of a market manager (the leader), a marketing manager, and a distribution manager.
3. *Horizontal product team :* Product manager and several specialists from marketing and other functions (Figure 18.4 [*c*]). 3M has teams consisting of a team leader and representatives from sales, marketing, laboratory, engineering, accounting, and marketing research.

A third alternative is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible where two or more products appeal to a similar set of needs. A cosmetics company does not need separate product manager for each product because cosmetics

serve one major need-beauty. A toiletries company need different managers for headache remedies, toothpaste. soap, and shampoo, because these products differ in use and appeal.

A fourth alternative is to introduce *category management,* in which a company focuses on product categories to manage its brands.

Category management is not a panacea. It is still a product-driven system. Colgate recently moved from brand management (Colgate toothpaste) to category management (toothpaste category) to a new stage called "customer-need management" (mouth care). This last step finally focuses the organization on a basic customer need.

Market-Management Organization

Many companies sell their products to a diverse set of markets. Canon sells its fax machines to consumer, business, and government markets. U.S. Steel sells its steel to the railroad, construction, and public-utility industries. When customers fall into different user groups with distinct buying preferences and practices, a market management organization is desirable. A *markets manager* supervises several *market managers* (also called *market-development managers, market specialists,* or *industry specialists*). The market managers draw upon functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties similar to those of product managers. Market managers develop long-range and annual plans for their markets. They must analyze where their market is going and what new products their company should offer to this market. Performance is judged by their market's growth and profitability. This system carries many of the same advantages and disadvantages of product management systems. Its strongest advantage is that the marketing activity is organized to meet the needs of distinct customer groups rather than focused on marketing functions, regions, or products per se.

Many companies are reorganizing along market lines and becoming market *centered organizations.* Xerox has converted from geographic selling to selling by industry. Hewlett-Packard has set up a structure in which salespeople concentrate on businesses within individual industries.

Product-Management/Market-Management Organization

Companies that produce many products flowing into many markets tend to adopt a *matrix organization.* Consider DuPont.

- **DuPont:** DuPont was a pioneer in developing the matrix structure (Figure 18.5). Its textile fibres department consists of separate product managers for rayon, acetate, nylon, orlon, and dacron; and separate market managers for menswear, women's wear, home furnishings, and industrial markets. The product managers plan the sales and profits of their respective fibres. Their aim is to expand the use of their fibre. They ask market managers to estimate how much of their fiber they can sell in each market at a proposed price. The market managers, however, are more interested in meeting their market's needs than pushing a particular fiber. In preparing their market plans, they ask each product manager about the fiber's planned prices and availabilities. The final sales forecasts of the market managers and the product managers should add to the same grand total.

Market Managers

Product Managers	Men's wear	Women's wear	Home furnishings	Industrial markets
Rayon				
Acetate				
Nylon				
Orlon				
Dacron				

Figure 18.5: Product-/Market-Management Matrix System

Companies like DuPont can go one step further and view their market managers as the main marketers, and their product managers as suppliers. The menswear market manager, for example, would be empowered to buy textile fibres from DuPont's product managers or, if DuPont's price is too high, from outside suppliers. This system would force DuPont product managers to become more efficient. If a DuPont product manager cannot match the "arm's length pricing" levels of competitive suppliers, then perhaps DuPont should not continue to produce that fiber.

A matrix organization would seem desirable in a multiproduct, multimarket company. The problem is that this system is costly and often creates conflicts. There is the cost of supporting all the managers. There are also questions about where authority and responsibility should reside. Here are two of many dilemmas :

1. *How should the sales force be organized ?* Should there be separate sales forces for rayon, nylon, and the other fibers ? Or should the sales forces be organized according to menswear, women's wear, and other markets ? Or should the sales force not be specialized ? (The marketing concept favours organizing the sales force by markets, not product).

2. *Who should set the price for a particular product or market ?* Should the nylon product manager have final authority for setting nylon prices in all markets? What happens if the menswear market manager feels that nylon will lose out in this market unless special price concessions are made ? (Product managers nevertheless should retain the ultimate authority over pricing).

Corporate-Divisional Organization

As multiproduct-multimarket companies grow, they often convert their larger product or market groups into separate divisions. The divisions set up their own departments and services. This raises the questions of what marketing services and activities should be retained at corporate headquarters.

Divisionalized companies have reached different answers to this question :

- *No corporate marketing:* Some companies lack a corporate marketing staff. They don't see say useful function for marketing at the corporate level. Each division has its own marketing department. Division heads report to the corporate headquarters.

- *Moderate corporate marketing:* Some companies have a small corporate marketing staff that performs a few functions, primarily (1) assisting top management with overall opportunity evaluation, (2) providing divisions with consulting assistance on request, (3) helping divisions that have little or no marketing, (4) promoting the marketing concept throughout the company and (5) Managing corporate advertising and public relations at the corporate level.

- *Strong corporate marketing :* Some companies have a corporate marketing staff that, in addition to the preceding activities, also provides various marketing services to the divisions, such as specialized advertising services, sales-promotion services, marketing research services, sales-administration services, and miscellaneous services.

Do companies tend to favour one of these models ? The answer is no. Some companies have recently installed a corporate marketing staff for the first time; others have expanded their corporate marketing department; other have reduced its size and scope; and still others have eliminated it altogether.

The potential contribution of a corporate marketing staff varies in different stages of the company's evaluation. Most companies begin with weak marketing in their divisions and often establish a corporate staff to bring stronger marketing into the divisions through training and other services. Some members of the corporate marketing staff might be transferred to head divisional marketing departments. As the divisions become strong in their marketing, corporate marketing has less to offer them. Some companies then decide corporate marketing has done its job and proceed to eliminate the department.

Evaluation and Control

To deal with the many surprises that occur during the implementation of marketing plans the marketing department continuously has to monitor and control marketing activities. In spite of this need, many companies have inadequate control procedures. This conclusion was reached in a study of 75 companies of varying sizes in different industries. The main findings were these :

- Smaller companies do a poorer job of setting clear objectives and establishing systems to measure performance.
- Less than half of the companies studied knew their individual products profitability. About one-third of the companies had no regular review procedures for spotting and deleting weak products.
- Almost half of the companies fail to compare their prices with those of the competition. They also fail to analyze their warehousing and distribution costs, to analyze the causes of returned merchandise, to conduct formal evaluations of advertising effectiveness, and to review their sales force's call reports
- Many companies take four to eight weeks to develop control reports, which are occasionally inaccurate.

Table 18.1. lists four types of marketing control needed by companies : annual-plan control, profitability control, efficiency control, and strategic control.

ANNUAL-PLAN CONTROL

The purpose of annual-plan control is to ensure that the company achieves the sales profits, and other goals established in its annual plan. The heart of annual-plan control is *management by objectives*. Four steps are involved (Figure 18.6). First management sets monthly or quarterly goals. Second, management monitors its performance in the marketplace. Third, management determines the cause of serious performance deviations. Fourth, management takes corrective action to close the gaps between goals and performance.

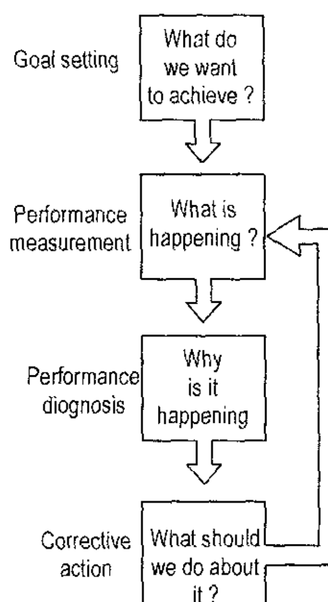


Figure 18.6: The Control Process

This control model applies to all levels of the organization. Top management sets sales and profit goals for the year that are elaborated into specific goals for each lower level of management. Each product manager is committed to attaining specified levels of sales and costs; each regional and district sales manager and each sales representative is also committed to specific goals. Each period, top management reviews and interprets the results.

Managers use five tools to check on planed performance : sales analysis, market share analysis, marketing expense-to-sales analysis, financial analysis, and market based scorecard analysis.

Sales Analysis

Sales analysis consists of measuring and evaluating actual sales in relation to sales goals. Two specific tools are used in sales analysis.

Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Suppose the annual plane called for selling 6,000 units in the first quarter at Rs. 15/- per unit, for total revenue of Rs. 90,000/-. At quarter's end, only 5,000 units were sold at Rs. 13/- per unit, for total revenue of Rs. 65,000/-. The sales performance variance is Rs. 25,000, or 27.8% of expected sales. How much of this underperformance is due to the price decline and how much to the volume decline? The following calculation answers this questions :

Variance due to price decline = (Rs. 15/- – Rs. 13/-) (5,000)	=	Rs. 10,000	40%
Variance due to volume decline = (Rs. 15/-) (6,000 – 5,000)	=	Rs. 15,000	60%
		Rs. 25,000	100.0%

Almost three-fifth of the variance is due to failure to achieve the volume target. The company should look closely at why it failed to achieve expected sales volume.

Microsales analysis looks at specific products, territories, and so forth that failed to produce expected sales. Suppose the company sells in three territories and expected sales were 1,500 units, 500 units, and 2,000 units respectively. The actual sales volume was 1,400 units, 525 units, and 1,075 units, respectively. Thus territory 1 showed a 7 per cent shortfall in terms of expected sales; territory 2, a 5 per cent improvement over expectations; and territory 3, a 46 per cent shortfall ! Territory 3 is causing most of the trouble. The sales vice president can check into territory 3 to see what explains the poor performance. Territory 3's sales representative is loafing or has a personal problem; a major competitor has entered this territory; or business is a recession in this territory or customer's tastes and preferences have changed in this territory.

Market-Share Analysis

Company sales do not reveal how well the company is performing relative to competitors. For this purpose, management needs to track its market share. Market share can be measured in three ways: Overall market share is the company's sales expressed as a percentage of total market sales. Served market share is its sales expressed as a percentage of the total sales to its served market. Its *served market* is all the buyers who are able and willing to buy its product. Served market share is always larger than overall market share. A company could capture 100 per cent of its served market and yet have a relatively small share of the total market. Relative market share can be expressed as market share in relation to its largest competitor. A relative market share over 100 per cent indicates a market leader. A relative market share of exactly 100 per cent means that the company is tied for the lead. A rise in relative market share means a company is gaining on its leading competitor.

Conclusions from market-share analysis, however, are subject to certain qualifications:

- *The assumption that outside forces affect all companies in the same way is often not true :* The U.S. Surgeon General's Report on the harmful consequences of cigarette smoking caused total cigarette sales to falter, but not equally for all companies.
- *The assumption that a company's performance should be judged against the average performance of all companies is not always valid :* A company's performance should be judged against the performance of its closests competitors or the best in the industry, if it wants to survive and grow.
- *If a new firm enters the industry, then every existing firm's market share might fall:* A decline in market share might not mean that the company is performing any worse than other companies. Share loss depends on the degree to which the new firm hits the company's specific markets. If the new firm's offer is superior than the rest of the companies, then the assumption will be true.

- *Sometimes a market-share decline is deliberately engineered to improve profits:* For example, management might drop unprofitable customers or products to improve its profits. Although total sales and market share will decline but the gross profits and net profits will improve.

Table 18.1: Types of Marketing Control

Type of Control	*Prime Responsibility*	*Purpose of Control*	*Approaches*
I. Annual-plan control	Top management Middle management	To examine whether the planned results are being achieved.	• Sales analysis • Market-share analysis • Marketing expense-to-sales analysis • Financial analysis • Market-based scorecard analysis
II. Profitability control	Marketing controller	To examine where the company is making or losing money	Profitability by • product • territory • customer • segment • trade channel • order size
III. Efficiency control	Line and staff management Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of • sales force • advertising • sales promotion • distribution
IV. Strategic control	Top management Marketing auditor	To examine whether the company is pursuing its best opportunities in markets, products, and channels	• Marketing-effectiveness review • Marketing audit • Marketing excellence review • Company ethical and social responsibility review

- *Market share can fluctuate for many minor reasons*: For example, market share can be affected by whether a large sale occurs on the last day of the month or at the beginning of the next month. Not all shifts in market share have marketing significance.

Managers must carefully interpret market-share movements by product line, customer type, region, and other breakdowns.

Marketing Expense-to-Sales Analysis

Annual-plan control requires making sure that the company is not overspending to achieve sales goals. The key ratio to watch is *marketing expense-to-sales*. In one company, this ratio was 30 percent and consisted of five component expense-to-sales ratios : sales force-to-sales (15 per cent); advertising-to-sales (5 per cent); sales promotion-to-sales (6 per cent); marketing research-to-sales (1 per cent); and sales administration-to-sales (3 per cent).

Management needs to monitor these ratios, which will normally exhibit small fluctuations that can be ignored. Fluctuations outside the normal range are a cause for concern. The period-to-period fluctuations in each ratio can be tracked on a *control chart* (Figure 18.7). This chart shows that the advertising expense-to-sales ration normally fluctuates between 8 per cent and 12 per cent, say 99 out of 100 times. In the fifteenth period, however, the ratio exceeded the upper control limit. One of two hypotheses can explain this occurrence : (1) The company still has good expense control, and this situation represents rare chance event. (2) The company has lost control over this expense and should find the cause. If no investigation is made to determine whether the environment has changed, the risk is that some real change might have occurred, and the company will fall behind. If the environment is investigated, the risk is that the investigation will uncover nothing and be a waste of time and effort.

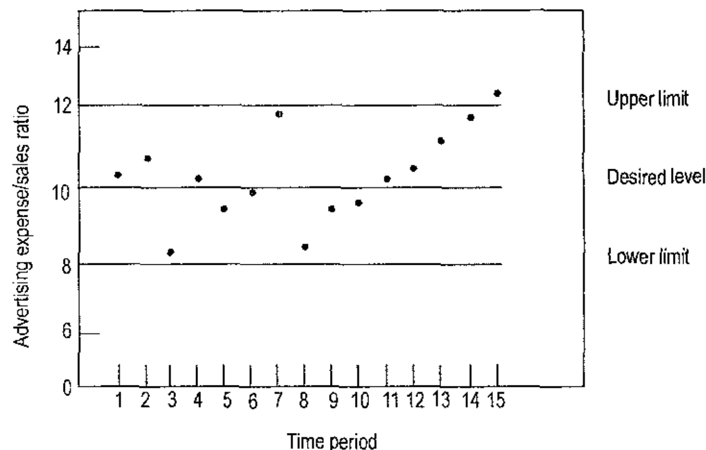


Figure 18.7: The Control-Chart Model

The behaviour of successive observations even within the upper and lower control limits should be watched. Note in Figure 18.7 that the level of the expense-to-sales ratio rose steadily from the ninth period onward. The probability of encountering six successive increases in what should be independent events is only 1 in 64. This unusual pattern should have led to an investigation sometime before the fifteenth observation.

Financial Analysis

The expense-to-sales ratios should be analyzed in an overall financial framework to determine how and where the company is making its money. Marketers are increasingly using financial analysis to find profitable strategies beyond sales building.

Management uses financial analysis to identify the factors that affect the company's *rate of return on net worth.* The main factors are shown in Figure 18.9, along with illustrative numbers for a large chain-store retailer. The retailer is earning a 12.5 per cent return on net worth. The return on net worth is the product of two ratios, the company's *return on assets* and its *financial leverage*. To improve its return on net worth, the company must increase the ratio of its net profits to its assets or increase the ratio of its assets to its net worth. The company should analyze the composition of its assets (*i.e.*, cash, accounts receivable, inventory, and plant and equipment) and see if it can improve its asset management.

The return on assets is the product of two ratios, the *profit margin* and the *asset turnover*. The profit margin in Figure 18.8, seems low, whereas the asset turnover is more normal for retailing. The marketing executive can seek to improve performance in two ways : (1) Increase the profit margin by increasing sales or cutting costs; and (2) increase the asset turnover by increasing sales or reducing the assets (*e.g.*, inventory, receivables) that are held against a given level of sales.

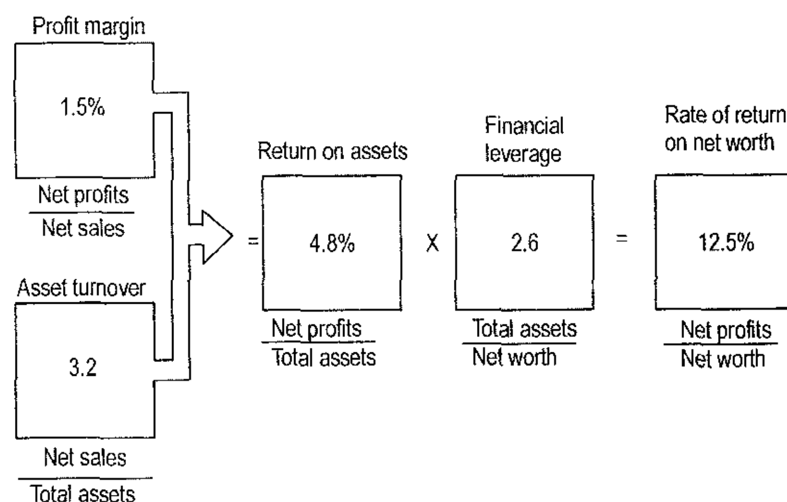


Figure 18.8: Financial Model of Return on Net Worth.

Market-Based Scorecard Analysis

Most company measurement systems amount to preparing a financial-performance scorecard at the expense of more qualitative measures. Companies would do well to prepare two market-based scorecards that reflect performance and provide possible early warning signals.

A *customer-performance* score-card records how well the company is doing year after year on such customer-based measures as :

- New customers
- Dissatisfied customers
- Lost customers
- Target market awareness
- Target market preference
- Relative product quality
- Relative service quality

Norms should be set for each measures and management should take action when results get out of bounds.

The second measure is called a *stakeholder-performance scorecard.* Companies need to track the satisfaction of various constituencies who have a critical interest in and impact on the company's performance : employees, suppliers, banks, distributors, retailers, stockholders. Again, norms should be set for each group and management should take action when one or more groups register increased levels of dissatisfaction.

Profitability Control

Here are some disconcerting findings from a bank profitability study :

We have found that anywhere from 20 to 40 per cent of an individual institution's products are unprofitable, and up to 60 percent of their accounts generate losses.

Our research has shown that, in most firms, more than half of all customer relationships are not profitable and 30 to 40 per cent are only marginally so. It is frequently a mere 10 to 15 per cent of a firm's relationships that generate the bulk of its profits.

Out profitability research into the branch system of a regional bank produced some surprising results .... 30 per cent of the bank's branches were unprofitable.

Clearly, companies need to measure the profitability of their products, territories, customer groups, segments trade channels, and order sizes. This information will help management determine whether any products or marketing activities should be expanded, reduced, or eliminated.

In general, marketing-profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities. It does not prove that the best course of action is to drop the unprofitable marketing entities, nor does it capture the likely profit improvement if these marginal marketing entities are dropped.

Companies are showing a growing interest in using marketing-profitability analysis or its broader version, *activity-based cost accounting* (ABC), to quantify the true profitability of different activities. According to Cooper and Kaplan, ABC "can give managers a clear picture of how products, brands, customers, facilities, regions, or distribution channels both generate revenues and consume resources." To improve profitability, managers can then examine ways to reduce the resources required to perform various activities, or make the resources more productive or acquire them at a lower cost. Alternatively, management may raise prices on products that consume heavy amounts of support resources. The contribution of ABC is to refocus management's attention away from using only labour or material standard costs to allocate full cost, and toward capturing the actual cost of supporting individual products, customers, and other entities.

EFFICIENCY CONTROL

Suppose a profitability analysis reveals that the company is earning poor profits in certain products, territories, or markets. Are there more efficient ways to manage the sales force, advertising, sales promotion, and distribution in connection with these marketing entities ?

Some companies have established a *marketing controller* position to improve marketing efficiency. Marketing controllers work out of the controller's office but specialize in the marketing side of the business. At the leading companies they perform a sophisticated financial analysis of marketing expenditures and results. They examine adherence to profit plans, help prepare brand managers budgets, measure the efficiency of promotions, analyze media production costs, evaluate customer and geographic profitability and educate marketing personnel on the financial implications of marketing decisions.

Sales Force Efficiency

Sales managers need to monitor the following key indicators of efficiency in their territory

- Average number of calls per salesperson per day
- Average sales call time per contact
- Average revenue per sales call
- Average cost per sales call
- Entertainment cost per sales call
- Percentage of orders per 100 sales calls
- Number of new customers per period
- Number of lost customers per period
- Sales force cost as a percentage of total sales

When a company starts investigating sales force efficiency, it often finds areas for improvement. General Electrical reduced the size of one of its divisional sales force after discovering that its salespeople were calling on customers too often. When a large airline found that its salespeople were both selling and servicing, they transferred the servicing function to lower-paid clerks. Another company conducted time-and-duty studies and found ways to reduce the ratio of idle-to-productive time.

Advertising Efficiency

Many managers believe it is almost impossible to measure what they are getting for their advertising expenditure. But they should try to keep track of at least the following statistics :

- Advertising cost per thousand target buyers reached by media vehicle
- Percentage of audience who noted, saw or associated, and read most of each print ad
- Consumer opinions on the ad's content and effectiveness
- Before and after measures of attitude toward the product
- Number of inquiries stimulated by the ad
- Cost per inquiry

Management can take a number of steps to improve advertising efficiency, including doing a better job of positioning the product, defining objectives, pretesting messages, using computer technology to guide the selection of media, looking for better media buys, and doing posttesting.

Sales-Promotion Efficiency

Sales promotion includes dozens of devices for stimulating buyer interest and product trial. To improve sales promotion efficiency, management should record the costs and sales impact of each promotion. Management

should watch the following statistics :

- Percentage of sales sold on deal
- Display costs per sales dollar
- Percentage of total amount of coupons redeemed to the total sales involving coupons.
- Number of inquiries resulting from a demonstration.

A sales-promotion manager can analyze the results of different sales promotions and advise product managers on the most cost-effective promotions to use.

Distribution Efficiency

Management needs to search for distribution economies in inventory control, warehouse locations, and transportation modes. One problem is that distribution efficiency declines when the company experiences strong sales increases. Peter Senge describes a situation in which a strong sales surge causes the company to fall behind in meeting delivery dates (Figure 18.9). This leads-customers to bad-mouth the company and eventually sales fall. Management responds by increasing sales force incentives to secure more orders. The sales force succeeds but once again the company slips in meeting delivery dates. Management needs to identify the real bottleneck and invest in more production and distribution capacity.

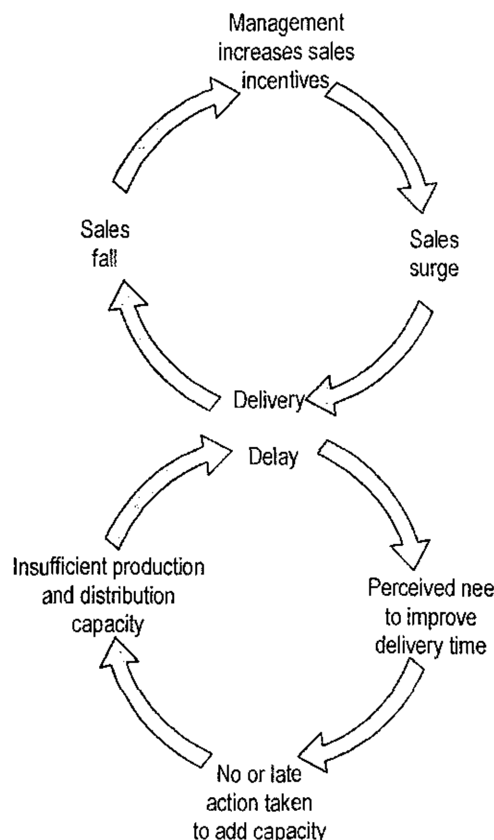


Figure 18.10: Dynamic Interactions Between Sales Orders and Distribution Efficiency

Strategic Control

From time to time, companies need to undertake a critical review of overall marketing goals and effectiveness. Each company should periodically reassess its strategic approach to the marketplace with marketing-effectiveness reviews and marketing audits. Companies can also perform marketing excellence reviews and

ethical-social responsibility reviews.

The Marketing-Effectiveness Review

Here is an actual situation.

The president of a major industrial-equipment company reviewed the annual business plans of various divisions and found several lacking in marketing substance. He called in the corporate vice president of marketing and said :

I am not happy with the quality of marketing in our division. It is very uneven. I want you to find out which of our divisions are strong, average and weak in marketing. I want to know if they understand and are practising customer-oriented marketing. I want a marketing score for each division. For each deficient division, I want a plan for improving marketing effectiveness over the next several years. I want evidence next year that each deficient division is improving its capabilities.

The corporate marketing vice president agreed. His first inclination was to base the evaluation on each division's performance in sales growth, market share, and profitability. His thinking was that high-performing divisions had good marketing leadership and poor-performing division had poor marketing leadership.

But good results could be due to a division's being in the right place at the right time. Another division might have poor results in spite of excellent marketing planning.

A company's or division's marketing effectiveness is reflected in the degree to which it exhibits the five major attributes or a marketing orientation : *customer philosophy, integrated marketing organization, adequate marketing information, strategic orientation and operation efficiency.*

The Marketing Audit

Companies that discovers weaknesses should undertake a thorough study known as a marketing audit.

- A ***marketing audit*** is a comprehensive, systematic, independent, and periodic examination of a company's—or business units's—marketing environment, objectives, strategies, and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

Let us examine the marketing audit's four characteristics :

1. *Comprehensive* : The marketing audit covers all the major marketing activities of a business, not just a few trouble spots. It would be called a *functional audit* if it covered only the sales force, pricing, or some other marketing activity. Although functional audits are useful, they sometimes mislead management. Decline in sales volume, for example, could be a symptom not of poor sales force training or company products and promotion. A comprehensive marketing audit usually is more effective in locating the real source of marketing problems.

2. *Systematic* : The marketing audit is an orderly examination of the organization's macro and micromarketing environment, marketing objectives and strategies, marketing systems, and specific activities. The audit indicates the most needed improvements which are then incorporated into a corrective action plan involving both short-run and long-run steps to improve overall marketing effectiveness.

3. *Independent* : A marketing audit can be conducted in six ways : self-audit, audit from across, audit from above, company auditing office, company task force audit, and outsider audit. Self-audits, in which managers use a checklist to rate their own operations, lack objectivity and independence. Generally speaking however, the best audits come from outside consultants who have the necessary objectivity,

broad experience in a number of industries, some familiarity with the industry being audited, and the undivided time and attention to give to the audit.

4. *Periodic* : Typically, marketing audits are initiated only after sales have turned down, sales force morale has fallen, and other problems have occurred. Companies are thrown into a crisis partly because they failed to review their marketing operations during good times. A periodic marketing audit can benefit companies in good health as well as those in trouble.

A marketing audit starts with a meeting between the company officer(s) and the marketing auditor(s) to work out an agreement on the audit's objectives, coverage, depth, data sources, report format, and time frame. A detailed plan as to who is to be interviewed, the questions to be asked, the time and place of contact, and so on is prepared so that auditing time and cost are kept to a minimum. The cardinal rule in marketing auditing is : Don't rely solely on company managers for data and opinion. Customers, dealers, and other outside groups must also be interviewed. Many companies do not really know how their customers and dealers see them, nor do they fully understand customer needs and value judgements.

The marketing audit examines six major components of the company's marketing situation. The major questions are listed in Table 18.7.

Table 18.7: Components of a Marketing Audit.

Part I.	**Marketing Environment Audit**		
(A)	**Macroenvironment**	**(B)**	**Task Environment**
	Demographic		Markets
	Economic		Customers
	Environmental		Competitors
	Technological		Distribution and Dealers
	Political		Suppliers
	Cultural		Facilitators and Marketing Firms
			Publics
Part II.	**Marketing Strategy Audit**	**Part III.**	**Marketing Organization Audit**
	Business Mission		Formal Structure
	Marketing Objectives and Goals		Functional Efficiency
	Strategy		Interface Efficiency
Part IV.	**Marketing System Audit**	**Part V.**	**Marketing Productivity Audit**
	Marketing Information Systems		Profitability Analysis
	Marketing Planning System		Cost-Effectiveness Analysis
	Marketing Control System		
	New-Product Development System		
Part VI.	**Marketing Function Audit**		
	Products		
	Price		
	Distribution		
	Advertising, Sales Promotion, Publicity, and Direct Marketing		
	Sales Force		

The Marketing Excellence Review

Companies can use another instrument to rate their performance in relation to the best practices of high-performing businesses. The three columns in Table 18.8, distinguish among poor, good, and excellent business and marketing practices. Management can place a check on each line as to its perception of where the business stands.The resulting profile exposes the business's weaknesses and strengths, highlighting where the company might move to become a truly outstanding player in the marketplace.

Table 18.8: The Marketing Excellence Review : Best Practices

Poor	*Good*	*Excellent*
Product driven	Market driven	Market driving
Mass-market-oriented	Segment-oriented	Niche-oriented and customer oriented
Product offer	Augmented product offer	Customer solutions offer
Average product quality	Better than average	Legendary
Average service quality	Better than average	Legendary
End-product-oriented	Core-product-oriented	Core-competency-oriented
Function-oriented	Process-oriented	Outcome-oriented
Reacting to competitors	*Benchmarking competitors*	*Leapfrogging competitors*
Supplier exploitation	Supplier preference	Supplier partnership
Dealer exploitation	Dealer support	Dealer partnership
Price driven	Quality driven	Value driven
Average speed	Network	Teamwork
Vertically integrated	Flattened organization	Strategic alliances
Stockholder driven	Stakeholder driven	Societally driven

The Ethical and Social Responsibility Review

Companies need to evaluate whether they are truly practising ethical and socially responsible marketing. Business success and continually satisfying the customer and other stakeholders are intimately tied to adoption and implementation of high standards of business and marketing conduct. The most admired companies in the world abide by a code of serving people's interests, not only their own.

Business practices are often under attack because business situations routinely pose tough ethical dilemmas.

Clearly the company's bottom line cannot be the sole measure of corporate performance : Ethical issues must be dealt with in many aspects of its business. There are selling issues such as bribery or stealing trade secrets; advertising issues such as false and deceptive advertising; channel issues such as exclusive dealing and tying agreements; product issues such as quality and safety, warranties, and patent protection; packaging issues such as accurate labelling and use of scarce resources; price issues such as price-fixing, discrimination, and resale price maintenance; and competitive issues such as barriers to entry and predatory competition.

Raising the level of socially responsible marketing calls for a three-pronged attack. First, society must use the law to define, as clearly as possible, those practices that are illegal, antisocial, or anticompetitive. Second companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behaviour, and hold their people fully responsible for observing ethical and legal guidelines. Third, individual marketers must practise a "social conscience" in their specific dealings with customers and various stakeholders.

Chapter 19
Social, Ethical and Legal Issues in Marketing

Social Issues

Marketing's impact on Individual Consumers

Consumers have many concerns about how well the marketing system serves their interests. Surveys usually show that consumers hold mixed or even slightly unfavourable attitudes toward marketing practices. Consumers, consumer advocates, government agencies, and other critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers.

High Prices

Many critics charge that the marketing system causes prices to be higher than they would be under more "sensible" systems. They point to three factors—*high costs of distribution, high advertising and promotion costs,* and *excessive markups.*

High Costs of Distribution : A long-standing charge is that greedy intermediaries mark up prices beyond the value of their services. Critics charge that there are too many intermediaries, that intermediaries are inefficient and poorly run, or that they provide unnecessary or duplicate services. As a reuslt, distribution costs too much, and consumers pay for these excessive costs in the form of higher prices.

How do resellers answer these charges ? They argue that intermediaries do work that would otherwise have to be done by manufacturers or consumers. Markups reflect services that consumers themselves want—more convenience, larger stores and assortment, longer store hours, return privileges, and others. Moreover, the costs of operating stores keep rising, forcing retailers to raise their prices. In fact, they argue, retail competition is so intense that margins are actually quite low. For example, after taxes, supermarket chains are typically left with barely 1 percent pofit on their sales. If some resellers try to charge too much relative to the value they add, other resellers will step in with lower prices.

High Advertising and Promotion Costs : Modern marketing is also accused of pushing up prices to finance heavy advertising and sales promotion. For example, a dozen tablets of a heavily promoted brand of aspirin sell for the same price as 100 tablets of less promoted brands. Differentiated product—cosmetics, detergents, toiletries—include promotion and packaging costs that can amount to 40 percent or more of the manufacturer's price to the retailer. Critics charge that much of the packaging and promotion adds only psychological value to the product rather than functional value. Retailers use additional promotion—advertising, displays, and contests—that adds some more to retail prices.

Marketers respond that consumers can usually buy functional versions of products at lower prices. However, they *want* and are willing to pay more for products that also provide psychological benefits—that make them feel wealthy, attractive, or special. Brand name products may cost more, but branding gives buyers assurances of consistent quality. Heavy advertising adds to product costs but adds value by informing millions of potential buyers of the availability and merits of a brand. If consumers want to know what is available on the market, they must expect manufacturers to spend large sums of money on advertising. Also, heavy advertising and promotion may be necessary for a firm to match competitor's efforts—the business would lose "share of mind" if it did not match competitive spending. At the same time, companies are cost-conscious about promotion and try to spend their money wisely.

Excessive Markups : Critics also charge that some companies mark up goods excessively. They point to the

drug industry, where a tablet costing 50 paise to make may cost the consumer Rs. 3/- to buy. They point to the pricing tactics of high charges by televison repair and auto repair.

Marketers respond that most businesses try to deal fairly with consumers because they want repeat business. Most consumers abuses are unitentional. When shady marketers do take advantage of consumers, they should be reported to state and central agencies. Marketers also respond that consumers often don't understand the reasons for high markups. For example, pharmaceutical markups must cover the costs of purchasing, promoting, and distributing existing medicines plus the high research and development costs of formulating and testing new medicines.

Deceptive Practices

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive practices fall into three groups : deceptive pricing, promotion, and packaging. *Deceptive pricing* includes practices such as falsely advertising "factory" or "wholesale" prices or a large price reduction from a phony high retail list price. *Deceptive promotion* includes practices such as overstating the product's features or performance, luring the customer to the store for a bargain that is out of stock, or running rigged contests. *Deceptive packaging* includes exaggerating package contents through subtle design, not filling the package to the top, using misleading labeling, or describing size in misleading terms.

To be sure, questionable marketing practices do occur. For example a pop-up Web screen promising free goods or discounted prices.

Marketers argue that most companies avoid deceptive practices because such practices harm their business in the long run. If consumers do not get what they expect, they will switch to more reliable products. In addition, consumers usually protect themselves from deception. Most consumers recognize a marketer's selling intent and are careful when they buy, sometimes to the point of not believing completely true product claims.

One noted marketing thinker, Theodore Levitt, claims that some advertising puffery is bound to occur—and that it may even be desirable : "There is hardly a company that would not go down in ruin if it refused to provide fluff, because nobody will buy pure functionality ..... Worse, it denies ..... people's honest needs and values. Without distortion, embellishment, and elaboration, life would be drab, dull, anguished, and at its existential worst."

High-Pressure Selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had not thought of buying. It is often said that insurance, real estate, and cars are *sold,* not *bought.* Salespeople are trained to deliver smooth, canned talks to entice purchase. They sell hard because sales contests promise big prizes to those who sell the most.

Marketers know that buyers often can be talked into buying unwanted or unneeded things. Laws require door-to-door and telephone salespeople to announce that they are selling a product. Buyers also have a "three-day cooling-off period" in which they can cancel a contract after rethinking it. In addition, consumers can complain to state consumer protection agencies when they feel that undue selling pressure has been applied.

But in most cases, marketers have little to gain from high-pressure selling. Such tactics may work in one-time selling situations for short-term gain. However, most selling involves building long-term relationship with valued customers. High-pressure or deceptive selling can do serious damage to such relationships.

Shoddy or Unsafe Products

Another criticism is that products lack the quality they should have. One complaint is that many products are not made well and many services are not performed well. A second complaint is that many products deliver little benefit. For example, some consumers are surprised to learn that many of the "healthy" foods being marketed today, such as cholesterol-free edibles, low-fat frozen dinners, and high-fiber cereals, may have little nutritional value. In fact, they may even be harmful.

[Despite] ... efforts on the part of most marketers to provide healthier products, ... many promises [printed] on packages and used as ad slogans continue to confuse nutritionally uninformed consumers ..... may actually be harmful to that group .... [Many consumers] incorrectly assume the product is "safe" and eat greater amounts than are good for them ......

A third complaint concerns product safety. Product safety has been a problem for several reasons, including manufacturer indifference, increased production complexity, poorly trained labour, and poor quality control. For years, Consumers Union—the non-profit testing and information organization that publishes the *Consumer Report* magazine and Web site—has reported various hazards in tested products; electrical dangers in appliances, carbon monoxide poisoning from room heaters, injury risks from lawn mowers, and faulty automobile design, among many others. The organization's testing and other activities have helped consumers make better buying decisions and encouraged businesses to eliminate product flaws.

However, most manufacturers *want* to produce quality goods. The way a company deals with product quality and safety problems can damage or help its reputation. Companies selling poor-quality or unsafe products risk damaging conflicts with consumer groups and regulators. Moreover, unsafe products can result in product liability suits and large awards for damages. More fundamentally, consumers who are unhappy with a firm's products may avoid future purchases and talk other consumers into doing the same. Consider what happened to Bridgestone/Firestone following its recent recall of 6.5 million flawed Firestone tyres. Product liability and safety concerns have driven the company to the edge of bank ruptcy :

> Profits have disappeared, and both customers and tire dealers alike are fleeing the Firestone make. Ford, the tyre maker's biggest customer, recently announced plans to replace another 13 million Firestone tyres that it believes are unsafe. "You have a serious risk of the Firestone brand imploding." warns an industry analyst. How bad will the financial hit get ? Cutting ties with Ford will cost the company 4 per cent of its $7.5 billion in revenues—about 40 per cent of its sales to car companies. Mounting damages award from rollover suits and legal bills could easily top the company's $463 million legal reserve. And if the National Highway Traffic and Safety Administration supports Ford's latest recall, Firestone could find itself liable for much of the $3 billion cost.

Thus, quality missteps can have severe consequences. Today's marketers know that customer-driven quality results in customer satisfaction, which in turn creates profitable customer relationships.

Planned Obsolescence

Critics also have charged that some producers follow a program of planned obsolescence, causing their products to become obsolete before they actually should need replacement. For example, critics charge that some producers continually change consumer concepts of acceptable styles to encourage more and earlier buying. An obvious example is constantly changing clothing fashions.

Other producers are accused of holding back attractive functional features, then introducing them later to make older models obsolete. Critics claim that this occurs in the consumer electronics and computer industries. For example, Intel and Microsoft have been accused in recent years of holding back their next-generation computer chips and software until demand is exhausted for the current generation. Still other producers are accused of using materials and components that will break, wear, rust, or rot sooner than they should. One writer put it this way : "The marvels of modern technology include the development of a soda can which, when discarded, will last forever—and a ..... car, which, when properly cared for, will rust out in two or three years."

Marketers respond that consumers *like* style changes; they get tired of the old goods and want a new look in fashion or a new design in cars. No one has to buy the new look, and if too few people like it, it will simply fail. For most technical products, customers *want* the latest innovations, even if older models still work. Companies that withhold new features run the risk that competitor will introduce the new feature first and steal the

market. For example, consider personal computers. Some consumers grumble that the consumer electronics industry's constant push to produce "faster, smaller, cheaper" models means that they [illegible] continually buy new machines just to keep up. Others, however, can hardly wait for the latest model to arri[illegible]

> There was a time not so long ago when planned obsolescene was a troubling ghost in the mac[illegible] decades ago, consumer advocates described engineers at General Electric who intentionally shor[illegible] the life of lightbulbs and automotive engineers who proposed limiting the life span of cars. That wa[illegible] then. In today's topsy-turvy world of personal computers, obsolescence is not only planned, it is extolled by marketers as a principal virtue. Moreover, there has been hardly a peep from consumers, who dutifully line up to buy each new generation of faster, more powerful machines, eager to embrace the promise of simpler, happier, and more productive lives. Today's computer chips are no longer designed to wear out; in fact, they will last for decades or longer. Even so, hapless consumers now rush back to the store ever more quickly, not to replace broken parts but to purchase new computers that will allow them to talk longer, see more vivid colours, or play cooler games.

Thus, companies do not design their products to break down earlier, because they do not want to lose customers to other brands. Instead, they seek constant improvement to ensure that products will consistently meet or exceed customer expectations. Much of so-called planned obsolescence is the working of the competitive and technological forces in a free society—forces that lead to ever-improving goods and services.

Poor Service to Disadvantaged Consumers

Finally, the marketing system has been accused to poorly serving disadvantaged consumers. For example, critics claim that the urban poor often have to shop in smaller stores that carry inferior goods and charge higher prices. A Consumers Union study compared the food-shopping habits of low-income consumers and the prices they pay relative to middle-income consumers in the same city. The study found that the poor do pay more for inferior goods. The results suggested that the presence of large national chain stores in low-income neighbourhoods made a big difference in keeping prices down. However, the study also found evidence of "redlining", a type of economic discrimination in which major chain retailers avoid placing stores in disadvantaged neighbourhoods.

Similar redlining charges have been leveled at the insurance, consumer lending, and banking industries. Most recently, home and auto insurers have been accused of assigning higher premiums to people with poor credit ratings. The insurers claim that individuals with bad credit tend to make more insurance claims, and that this justifies charging them higher premiums. However, critics and consumer advocates have accused the insurers of a new form of redlining. Says one writer, "This is a new excuse for denying coverage to the poor, elderly, and minorities."

Clearly, better marketing systems must be built to service disadvantaged consumers. Moreover, disadvantaged consumers clearly need consumer protection. The FTC has taken action against merchants who advertise false values, sell old merchandise as new, or charge too much for credit. The Commission is also trying to make it harder for merchants to win court judgments against low-income people who were wheedled into buying something.

Marketing's Impact on Society As a Whole

The marketing system has been accused of adding to several "evils" in different societies at large. Advertising has been a special target—so much so that the American Association of Advertising Agencies launched a campaign to defend advertising against what it felt to be common but untrue criticisms.

False Wants and Too Much Materialism

Critics have charged that the marketing system urges too much interest in material possessions. People are judged by what they *own* rather than by who they *are*. To be considered successful, people must own a large home, two cars, and the latest high-tech gadgets. This drive for wealth and possessions hit new highs in the 1980s, when phrases such as "greed is good" and "shop till you drop" seemed to characterize the times.

In the new millennium, even though many social scientists have noted a reaction against the opulence and

waste of the previous decades and a return to more basic values and social commitment, our infatuation with material things continues.

> It's hard to escape the notion that what Americans really value is stuff. Since 1987, we've had more shopping malls than high schools. We average six hours a week shopping and only forty minutes playing with our children. Our rate of saving is 2 per cent—only a quarter of what it was in the 1950s, when we earned less than half as much in real dollars. In each of the past three years, more U.S. citizens have declared personal bankruptcy than have graduated from college. All this acquisition isn't making us happier; the number of Americans calling themselves "very happy" peaked in 1957.

The critics do not view this interest in material things as a natural state of mind but rather as a matter of false wants created by marketing. Businesses hire Madison Avenue (where the headquarters of many advertising agencies are located) to stimulate people's desires for goods, and Madison Avenue uses the mass media to create materialistic models of the good life. People work harder to earn the necessary money. Their purchases increase the output of American industry, and industry in turn uses Madison Avenue to stimulate more desire for the industrial output. Thus, marketing is seen as creating false wants that benefit industry more than they benefit consumers.

These criticism overstate the power of business to create needs. However people have strong defenses against advertising and other marketing tools. Marketers are most effective when they appeal to existing wants rather than when they attempt to create new ones. Furthermore, people seek information when making important purchases and often do not rely on single sources. Even minor purchases that may be affected by advertising messages lead to repeat purchases only if the product performs as promised. Finally, the high failure rate of new products shows that companies are not able to control demand.

On a deeper level, our wants and values are influenced not only by marketers but also by family, peer groups, religion, ethnic background, and education. If Americans are highly materialistic, these values arose out of basic socialization processes that go much deeper than business and mass media could produce alone. Moreover, some social critics even see materialism as a positivive and rewarding force :

> When we purchase an object, what we really buy is meaning. Commercialism is the water we swim in, the air we breathe, our sunlight and our shade..... Materialism is a vital source of meaning and happiness in the modern world ..... We have not just asked to go this way, we have demanded. Now most of the world is lining up, pushing and shoving, eager to elbow into the mall. Getting and spending has become the most passionate, and often the most imaginative, endeavour of modern life. While this is dreary and depressing to some, as doubtless it should be, it is liberating and democratic to many more.

Too Few Social Goods

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, an increase in automobile ownership (private good) requires more highways, traffic control, parking spaces, and police services (public goods). The overselling of private goods results in "social costs." For cars, the social costs include traffic congestion, air pollution, and deaths and injuries from car accidents.

A way must be found to restore a balance between private and public goods. One option is to make producers bear the full social costs of their operations. The government could require automobile manufacturers to build cars with even more safety features and better pollution control systems. Automakers would then raise their prices to cover extra costs. If buyers found the price of some cars too high, however, the producers of these cars would disappear, and demand would move to those producers that could support the sum of the private and social costs.

A second option is to make consumers pay the social costs. A number of highway authorities around the world are starting to charge "congestion tolls" in an effort to reduce traffic congestion.

Cultural Pollution

Critics charge the marketing system with creating cultural pollution. Our senses are being constantly assaulted by advertising. Commercials interrupt serious programs; pages of ads obscure printed matter; hoardings mar beautiful scenery. These interruptions continually pollute people's minds with messages of materialism, sex. power, or status. Although most people do not find advertising overly annoying (some even think it is the best part of television programming), some critics call for sweeping changes.

Marketers answer the charges of "commercial noise" with these arguments : First, they hope that their ads reach primarily the target audience. But because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. People who buy magazines addressed to their interests—such as Inside Outside or Health & Fitnes—rarely complain about the ads because the magazines advertise products of interest. Second, ads make much of television and radio free to users and keep down the costs of magazines and newspapers. Many people think commercials are a small price to pay for these benefits. Final, today's consumers have alternatives. For example, they can zip and zap TV commercials or avoid them altogether on many cable or satellite channels. Thus, to hold consumer attention, advertisers are making their ads more entertaining and informative.

Too Much Political Power

Another criticism is that business wields too much political power. "Oil," "tobacco," "auto," and "pharmaceuticals" senators support an industry's interests against the public interest. Advertisers are accused of holding too much power over the mass media, limiting their freedom to report independently and objectively. One critic has asked, "How can [most magazines] afford to tell the truth about the scandalously low nutritional value of most packaged foods . . . when these magazines are being subsidized by such advertisers who produce packaged food? . . . The answer is *they cannot and do not.* "

Moreover, because the media receive advertising revenues from many different advertisers, it is easier to resist the influence of one or a few of them. Too much business power tends to result in counter forces that check and offset these powerful interests.

Marketing's Imapct on Other Businesses

Critics also charge that a company's marketing practices can harm other companies and reduce competition. Three problems are involved : acquisitions of competitors, marketing practices that create barriers to entry, and unfair competitive marketing practices.

Critics claim that firms are harmed and competition reduced when companies expand by acquiring competitors rather than by developing their own new products. The large number of acquisitions and rapid pace of industry consolidation over the past several decades have caused concern that vigorous young competitors will be absorbed and that competition will be reduced. In virtually every major industry—retailing, entertainment, financial services, utilities, transportation, automobiles, telecommunications, health care—the number of major competitors is shrinking.

Acquistion is a complex subject. Acquisitions can sometimes be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. A wellmanaged company may take over a poorly managed company and improve its efficiency. An industry that was not very competitive might become more competitive after the acquisition. But acquisitions can also be harmful and therefore, are closely regulatd by the government.

Critics have also charged that marketing practices bar new companies from entering an industry. Large companies can use patents and heavy promotion spending, and can tie up suppliers or dealers to keep out or drive out competitors. Those concerned with antitrust regulation recognize that some barriers are the natural result of the economic advantages of doing business on a large scale. Other barriers could be challenged by existing and new laws. For example some critics have proposed a progressive tax on advertising spending to reduce the role of selling costs as a major barrier to entry.

Finally, some firms have in fact used unfair competitive marketing practices with the intention of hurting or destroying other firms. They may set their prices below costs, threaten to cut off business with suppliers, or discourage the buying of a competitor's products. Various laws work to prevent such predatory competition. It is difficult, however, to prove that the intent or action was really predatory.

Although competitors and the govenement charge that Microsoft's actions are predatory, the question is whether this is unfair competition or the healthy competition of a more efficient company against the less efficent.

Citizen and Public Action to Regulate Marketing

Because some people view business as the cause of many economic and social ills, grassroots movements have arisen form time to time to keep business in line. The two major movements have been *consumerism* and *environmentalism.*

Consumerism

Consumerism is an organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional *sellers' rights* include :

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety; or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use any buying incentive schemes, provided they are not unfair or misleading.

Traditional *buyer's rights* include :

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

Comparing these rights, many believe that the balance of power lies on the seller's side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education, and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights :

- The right to be well informed about mportant aspects of the product.
- The right to be protected against questionable products and marketing practices.
- The right to influence products and marketing practices in ways that will improve the "quality of life."

Each proposed right has led to more specific proposals by consumerists. The right to be informed includes the right to know the true interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labeling), the nutritional value of foods (nutritional labeling), product freshness (open dating), and the true benefits of a product (truth in advertising). Proposals related to consumer protection include strengthening consumer rights in cases of business fraud, requiring greater product safety, and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products and packing, reducing the level of advertising "noise," and putting consumer representatives on company boards to protect consumer interests.

Consumers have not only the right but also the responsibility to protect themselves instead of leaving this

function to someone else. Consumers who believe they got a bad deal have several remedies available, including contacting the company or the media; contacting central, state, or local agencies; and going to small-claims courts.

Environmentalism

Environmentalism *An organized movement of concerned citizens and government agencies to protect and improve people's living environment.*

Whereas consumerists consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and with the costs of serving consumers needs and wants. **Environmentalism** is an organized movement of concerned citizens, businesses, and government agencies to protect and improve people's living environment. Environmentalists are not against marketing and consumption; they simply want people and organizations to oprerate with more care for the environment. The marketing system's goal, they assert, should not be to maximize consumption, consumer choice or consumer satisfaction, but rather to maximize life quality. And "life quality" means not only the quantity and quality of consumer goods and services, but also the quality of the environment. Environmentalists want environmental costs included in both producer and consumer decision making.

Environmental sustainability *A management approach that involves developing strategies that both sustain the environment and product profits for the company.*

The first wave of modern environmentalism in the United States was driven by environmental groups and concerned consmer in the 1960s and 1970s. They were concerned with damage to the ecosystem caused by strip-mining, forest depletion, acid rain, loss of the atmosphere's ozone layer, toxic wastes, and litter. They also were concerned with the loss of recreational areas and with the increase in health problems caused by bad air, polluted water, and chemically treated food.

The second environmentalism wave was driven by government, which passed laws and regulations during the 1970s and 1980s governing industrial practices impacting the environment. This wave hit some industries hard. Steel companies and utilities had to invest billions of dollars in pollution control equipment and costlier fuels. The auto industry had to introduce expensive emission controls in cars. The packaging industry had to find ways to reduce litter. These industries and others have often resented and resisted environmental regulations, especially when they have been imposed too rapidly to allow companies to make proper adjustments. Many of these companies claim they have had to absorb large costs that have made them less competitive.

The first two environmentalism waves are now merging into a third and stronger wave in which companies are accepting responsibility for doing no harm to the environment. They are shifting from protest to prevention, and from regulation to responsibility. More and more companies are adopting policies of **environmental sustainability**—developing strategies that both sustain the environment and produce profits for the company. According to one strategist, "The challenge is to develop a *sustainable global economy* : an economy that the planet is capable of supporting indefinitely. . . . [It's] an enormous challenge—and an enormous opportunity."

Figure 19.1 shows a grid that companies can use to gauge their progress toward environmental sustainability. At the most basic level, a company can practice pollution prevention. This involves more than pollution control—cleaning up waste after it has been created. Pollution prevention means eliminating or minimizing waste before it is created. Companies emphasizing prevention have responded with "green marketing" programs—developing ecologically safer product, recyclable and biodegradable packaging, better polluiton controls, and more energy-efficient operations. They are finding that they can be both green and competitive.

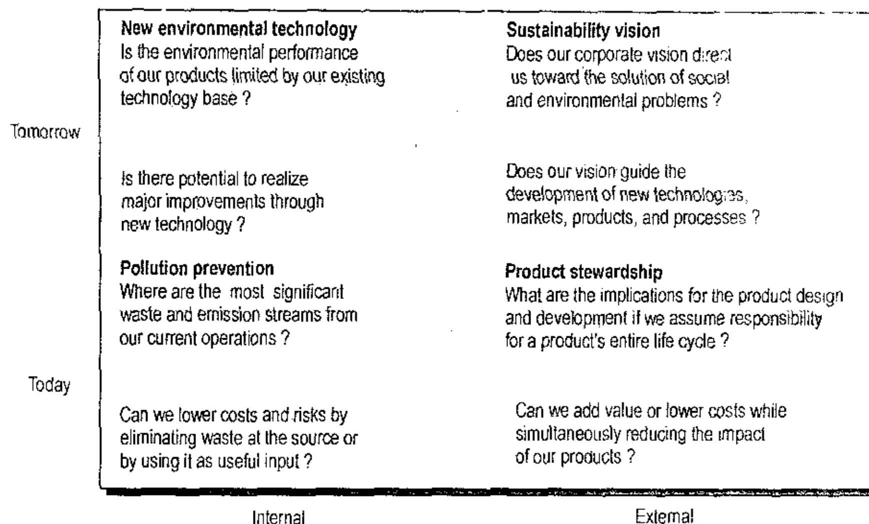


Figure 19.1: The Environmental Sustainability Grid

At the next level, companies can practice product stewardship—minimizing not just pollution from production but all environmental impacts throughout the full product life cycle. Many companies are adopting *design for environment (DFE)* practices, which involve thinking ahead in the design stage to create products that are easier to recover, reuse, or recycle. DEF not only helps to sustain the environment, it can be highly profitable.

At the third level of environmental sustainability, companies look to the future and plan for *new environmental technologies*. Many organizations that have made good headway in pollution prevention and product stewardship are still limited by existing technologies. To develop fully sustainable strategies, they will need to develop new technologies. Monsato is doing this by shifting its agricultural technology base form bulk chemicals to biotechnology. By controlling plant growth and pest resistance through bioengineering rather than through the application of pesticides or fertilizers, Monsanto hopes to fulfill its promise of environmentally sustainable agriculture.

Finally, companies can develop a *sustainability vision,* which serves as a guide to the future. It shows how the company's products and services, processes, and policies must evolve and what new technologies must be developed to get there. This vision of sustainability provides a framework for pollution control, product stewardship, and environmental technology.

Most companies today focus on the lower-left quadrant of the grid in Figure 19.1 investing most heavily in pollution prevention. Some forward-looking companies practice product stewardship and are developing new environmental technologies. Few companies have well-defined sustainability visions. Emphasizing only one or a few cells in the environmental sustainability grid in Figure 19.1 can be shortsighted. For example, investing only in the bottom half of the grid puts a company in a good position today but leaves it vulnerable in the future. In contrast, a heavy emphasis on the top half suggests that a company has good environmental vision but lacks the skills needed to implement it. Thus, companies should work at developing all four dimensions of environmental sustainability.

Environmentalism created some special challenges for global marketers. As international trade barriers come down and global markets expand, environmental issues are having an ever greater impact on international trade. Countries in North America, Western Europe, and other developed regions are developing stringent environment standards. In the United States, for example, more than two dozen major pieces of environmental legislation have been enacted since 1970, and recent events suggest that more regulation is on the way. A side accord to the North American Free Trade Agreement (NAFTA) set up a commision for resolving environmental matters. The European Union recently passed "end-of-life" regulations that require car makers to recycle or reuse at least 80 per cent of their old automobiles by 2006. And the EU's Eco-Management and Audit Scheme provides guidelines for environmental self-regulation.

However, environmental policies still vary widely from country to country, and uniform worldwide standards are not expected for many years. Although countries such as Denmark, Germany, Japan, and the United

States have fully developed environmental policies and high public expectations, major countries such as China, India, Brazil, and Russia are in only the early stages of developing such policies. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another. For example, PVC soft drink bottles cannot be used in Switzerland or Germany. However, they are preferred in France, which has an expensive recycling process for them. Thus, international companies are finding it difficult to develop standard environmental practices that work around the world. Instead, they are creating general policies and then translating these policies into tailored programs that meet local regulations and expectations.

Public Actions to Regulate Marketing

Citizen concerns about marketing practices will usually lead to public attention and legislative proposals. New bills will be debated—many will be defeated, other will be modified, and a few will become workable laws.

The task is to translate the laws into thelanguage that marketing executive understand as they make decisions about competitive relations, products, price, promotion, and channnesl of distribution. Figure 19.2 illustrates the major legal issues facing marketing management.

Business Actions Toward Socially Responsible Marketing

At first, many companies opposed consumerism and environmentalism. They thought the criticisms were either unfair or unimportant. But by now, most companies have grown to accept the new consumer right at least in principle. They might oppose certain pieces of legislation as inappropriate ways to solve specific consumer problems, but they recognize the consumer's right to information and protection. Many of these companies have responded positively to consumerism and environmentalism to serve consumer needs better.

Enlightened Marketing

Enlightened marketing. *A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include consumer-oriented marketing, innovative marketing, value marketing, sense-of-misssion marketing and societal marketing.*

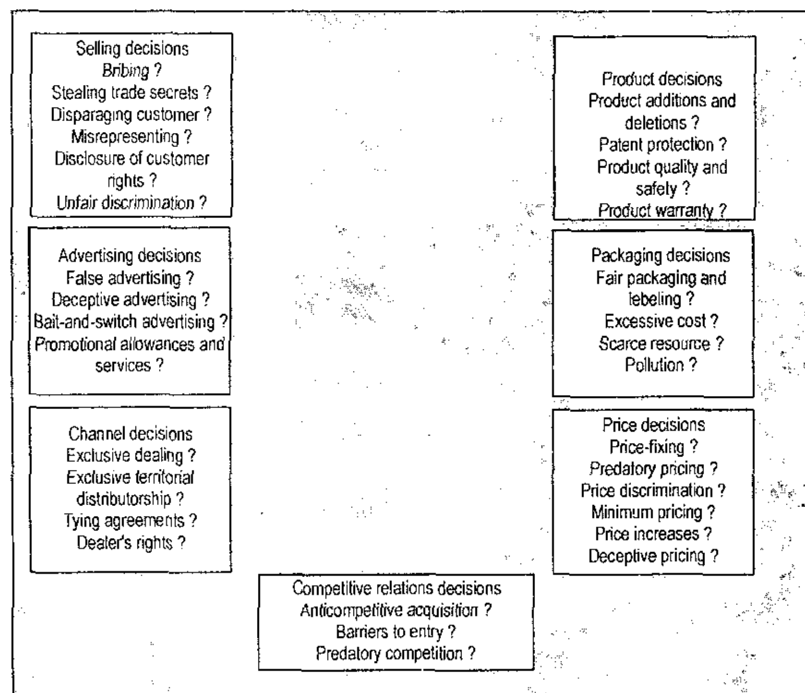


Figure 19.2: Major Marketing Decision Areas that may Called into Question under the Law

The philosophy of enlightened marketing holds that a company's marketing should support the best long-run performance of the marketing system. Enlightened marketing consists of five principles : *consumer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing,* and *societal marketing.*

Consumer-Oriented Marketing

***Consumer-oriented marketing** The philosophy of enlightened marketing that holds that the company should view and organize its marketing activities from the consumer's point of view.*

Consumer-oriented marketing means that the company should view and organize its marketing activities from the consumer's point of view. It should work hard to sense, serve, and satisfy the needs of a defined group of customers. Every successful company has had this in common : an all-consuming passion for delivering superior value to carefully chosen customers. Only by seeing the world through its customers' eyes can the company build lasting and profitable customer relationship.

Innovative Marketing

***Innovative marketing** A principle of enlightened marketing that requires that a company seek real product and marketing improvements.*

The principle of innovative marketing requires that the company continuously seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way. An excellent example of an innovative marketer is Colgate-Palmolive :

Value marketing

***Value marketing** A principle of enlightened marketing that holds that a company should put most of its resources into value-building marketing investments.*

According to the principle of value marketing the company should put most of its resorces into value building marketing investments. Many things marketers do—one shot sales promotions, minor packaging changes, advertising puffery—may raise sales in the short run but add less value than would actual improvements in the product's quality, features, or convenience. Enlightened marketing calls for building long-run consumer loyality by continually improving the value consumers receive form the firm's marketing offer.

Sense-of-Mission Marketing

***Sense-of-mission marketing** A principle of enlightened markeing that holds that a company should define its mission in broad social terms rather than narrow product terms.*

Sense-of-mission marketing means that the company should define its misson in broad social terms rather than narrow product terms. When a company should defines a social mission, employees feel better about their work and have a clearer sense of direction.

Societal Marketing

***Societal marketing** A principle of enlightened marketing that holds that a company should make marketing decisions by considering consumers 'wants, the company's requirements, consuers's long-run interests, and society's long-run interests.*

Following the principle of societal marketing, an enlightened company makes marketing decisions by considering consumers' wants and interests, the company's requirements, and society's long-run interests. The company is aware that neglecting consumer and societal long-run interests is a disservice to consumers and society. Alert companies view societal problems as opportunities.

***Deficient products :** Products that have neither immediate appeal nor-long run benefits.*

***Pleasing products :** Products that give high immediate satisfaction but may hurt consumers in the long run.*

***Salutary Product :** Products that have low appeal bvt may benefit consumers in the long run.*

Desirable products : *Products that give both high immediate satisfaction and high long-run benefits.*

A societally oriented marketer wants to design products that are not only pleasing but also beneficial. The difference is shown in Figure 19.3. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit. **Deficient Products,** such as bad-tasting and ineffective medicine, have neither immediate appeal nor long-run benefits. Pleasing products give high immediate satisfaction by may hurt consumers in the long run. An example is cigarettes. Salutary products have low appeal but may benefit consumers in the long-run; for instance, seat belts and air bags. **Desirable products** give both high immediate satisfaction and high long-run benefits, such as a tasty and nutritious breakfast food.

Companies should try to turn all of their products into desirable products. The challenge posed by pleasing products is that they sell very well but may end up hurting the consumer. The product opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. The challenge posed by salutary products is to add some pleasing qualities so that they will become more desirable in the consumers' minds.

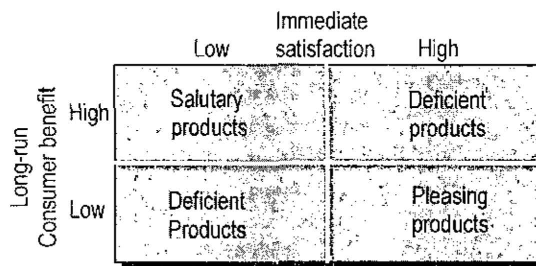


Figure 19.3: Societal calssification of products

Marketing Ethics

Conscientious marketers face many moral dilemmas. The best things to do is often unclear. Because not all managers have fine moral sensitivity, companies need to develop corporate marketing ethics policies—broad guidelines that everyone in the organization must follow. These policies should cover distributor relations, advertising standards, customer service, pricing, product development, and general ethical standards.

The finest guidelines cannot resolve all the difficult ethical situations the marketer faces. Table lists some difficult ethical situations marketers could face during their careers. If marketers choose immediate sales-producing actions in all these cases, their marketing behaviour might well be described as immoral or even amoral. If they refuse to go along with any of the actions, they might be ineffective as marketing managers and unhappy because of the constant moral tension. Managers need a set of principles that will help them figure out moral importance of each situation and decide how far they can go in good conscience.

But what principle should guide companies and marketing managers on issues of ethics and social responsibility ? One philosophy is that such issues are decided by the free market and legal system. Under this principle, companies and their managers are not responsible for making moral judgments. Companies in good conscience can do whatever the system allows.

Table 19.1: Some Morally Difficult Situations in Marketing

1. You work for a cigarette company and up to now have not been convinced that cigarettes cause cancer. However, recent public policy debates now leave no doubt in your mind about the link between smoking and cancer. What would you do ? .
2. Your R&D department has changed one of your products slightly. It is not really "new and improved," but you know that putting this statement on the package and in advertising will increase sales. What would you do ?
3. You have been asked to add a stripped-down model to your line that could be advertised to pull customers into the store. The product won't be very good, but salespeople will be able to switch buyers up to higher-priced units. You are asked to give the green light for this stripped-down version. What would you do?
4. You are thinking of hiring a product manager who just left a competitor's company. She would be more than happy to tell you all the competitor's plans for the coming year. What would you do?

5. One of your top dealers in an important territory recently has had family troubles, and his sales have slipped [illegible] take him a while to straighten out his family trouble. Meanwhile you are losing many sales. Legally, you can [illegible] dealer's franchise and replace him. What would you do ?

6. You have a chance to win a big account that will mean a lot to you and your company. The purchasing agent [illegible] would influence the decision. Your assistant recommends sending a fine color television set to the buyer's home. [illegible] you do ?

7. You have heard that a competitor has a new product feature that will make a big difference in sales. The [illegible] demonstrate the feature in a private dealer meeting at the annual trade show. You can easily send a snooper to this [illegible] about the new feature. What would you do?

8. You have to choose between three ad campaigns outlined by your agency. The first (*a*) is a soft-sell, [illegible] campaign. The second (*b*) uses sex-loaded emotional appeals and exaggerates the product's benefits. The third [illegible] noisy, irritating commercial that is sure to gain audience attention. Pretests show that the campaigns are effective in the [illegible] order : *c*, *b*, and *a*. What would you do ?

9. You are interviewing a capable female applicant a for a job as salesperson. She is better qualified that the men [illegible] Nevertheless, you know that some of your important customers prefer dealing with men, and you will lose some [illegible] her. What would you do ?

A second philosophy puts responsibility not on the system but in the hands of individual companies and managers. This more enlightened philosophy suggests that a company should have a "social conscience." Companies and managers should apply high standards of ethics and morality when making corporate decisions, regardless of "what the system allows." History provides an endless list of examples of company actions that were legal and allowed but were highly irresponsible. Consider the following example :

> Prior to the Pure Food and Drug Act, the advertising for a diet pill promised that a person taking this pill could eat virtually anything at any time and still lose weight. Too good to be true ? Actually the claim was quite true; the product lived up to its billing with frightening efficiency. It seems that the primary active ingredient in this "diet supplement" was tape worm larvae. These larvae would develop in the intestinal tract and of course be well fed; thepill taker would in time, quite literally, starve to death.

Each company and marketing manager must work out a philosophy of socially responsible and ethical behaviour. Under the societal marketing concept, each manager must look beyond what is legal and allowed and develop standards based on personal integrity, corporate conscience, and long-run consumer welfare.

As with environmentalism, the issue of ethics provides special challenges for international marketers. Business standards and practices vary a great deal from one country to the next. For example, whereas bribes and kickbacks are illegal for U.S. firms, they are standard business practice in many South American. African & Asian countries. One recent study found that companies from some nations were much more likely to use bribes when seeking contracts in emerging-market nations. The most flagrant bribe-paying firms were from Russia and China, with Taiwan and South Korea close behind. The least corrupt were companies from Australia, Sweden, Switzerland, Austria and Canada. The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. In one study, two researchers posed this question to chief executives of large international companies and got a unanimous response : No.

For the sake of all of the company's stakeholders—customers, suppliers, employees, shareholders, and the public—it is important to make a commitment to a common set of shared standards worldwide.

Many industrial and professional associations have suggested codes of ethics, and many companies are now adopting their own codes. For example, the American Marketing Association, an international association of marketing managers and scholars, developed the code of ethics shown in Table. Companies are also developing programs to teach managers about important ethics issues and help them find the proper responses. They hold ethics workshops and seminars and set up ethics committees. Further, most major U.S. companies have appointed high-level ethics officers to champion ethics issues and to help resolve ethics problems and concerns facing employees.

Table 19.2: American Marketing Association Code of Ethics

Members of the American Marketing Association are committed to ethical, professinal conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics :

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics : customers, organizations and society.

Marketers' Professional Conduct Must Be Guided By

1. The basic rule of professional ethics : not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. *The accurate representation of their education, training and experience; and*
4. The active support, practice, and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honour, and dignity of the marketing profession by :

1. Being honest in serving consumers, clients, employees, suppliers, distributors, and the public.
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual customary, and/or legal compensation for marketing exchanges.

Right and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that :

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. Appropriate internal methods exist for equitable adjustment and/or redress of grievance concerning purchases.

It Is Understood That the Above Would Include, but is Not Limited to, the Following Responsibilities of the Marketer :

In the Area of Product Development and Management

- disclosure of all substantial risks associated with product or service usage;
- identification of any product component substitution that might materially change the product or impact on the buyer's purchase dicision;
- identification of extra cost-added features.

In the Area of Promotions

- avoidance of false and misleading advertising;
- rejection of high-pressure manipulations or misleading sales tactics;
- avoidance of sales promotions that use deception or manipulation.

In the Area of Distribution

- not manipulating the availability of a product for purpose of exploitation;
- not using coercion in the marketing channel;
- not exerting undue influence over the reseller's choice to handle a product.

In the Area of pricing

- not engaging in price fixing;
- not practising predatory pricing.

- disclosing the full price associated with any purchase.

In the Area of Marketing Research

- prohibiting selling or fundraising under the guise of conducting research;
- maintaining research integrity by avoiding misrepresentation and omission of pertinent research data;
- treating outside clients and suppliers fairly.

Organizational Relationships

Marketers should be aware of how their behaviour may influence or impact on the behaviour of others in organizational relationships. They should not demand, encourage, or apply coercion to obtain unethical behaviour in their relationships with other, such as employees, suppliers, or customer. They should

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information.
2. Meet their obligations and responsibilities in contracts and mutual agreements in a timely manner;
3. Avoid taking the work of others, in whole, or in part, and representing this work as their own or directly benefiting from it without compensation or consent of the originator or owner;
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization of others.

Any AMA member found to be in violation of any provision this Code of Ethics may have his or her Association membership suspended or revoked.

Legal Issues

Offences under the Indian Penal Code

When we turn to criminal law, we should first look at the age-old Penal Code which defines, and prescribes, punishments for all offences which could possibly be envisaged when it was enacted over a century to weights and measures, adulteration of food and drink, adulteration of drugs, those relating to public health and safety and also goods having spurious marks. The relevant provisions of the Penal Code are briefly discussed below :

Chapter XIII of Penal Code deals with offences relating to Weights and Measures and Sections 264 to 267 there of prescribe punishment of imprisonment for a term of one year, or with fine, or with both, for each of the following offences :

(a) Fradulent use of false instruments in weighing, knowing it to be false (Section 264).

(b) Fradulent use of any false weights or false measure of length or capacity or fradulent use of any such instrument as a different weight and measure from what it is. Section 264 punishes one who uses false balance, this section makes penal the use of false weight or measure.

(c) Being in possession of any such instrument, weight or measure of length or capacity knowing it to be false and intendig that the same may be fradulently used (Section 266—it will be seen that mere possession of false weight or measure etc. with dishonest intention is an offence).

(d) Making, selling or disposing of any instrument for weighing or any weight or any measure of length or capacity knowing it to be false, in order that it may be used as true or knowing that it is likely to be used as true (Section 267).

It needs to be noted that guilty intention, or *mens—rea,* as it is called in legal parlance, is an essential ingredient of these offences.

There are two other statutes—Standards of Weights and Measures Act, 1976, and Standards of Weight and

Measures (Enforcement) Act, 1985—which provide for establishement of standards of weights and measures, their enfcrcement and for punishment of offenders for commission of offences under these Acts.

Sections 272 and 273 of the Penal Code deal with offences relating to adulteration of food or drink. A person is liable to be punished with imprisonment which may extend to six months or with fine which may extend to Rs. 1,000/-, or with both, if he :

(a) adulterates any article of food or drink, so as to make such article noxious as food or drink, intending to sell such article as food or drink or knowing it to be likely that it will be sold as food or drink (Section 272);

(b) sells or offers or exposes for sale, as food or drink, any article which has become noxious, or is in a state unfit for food or drink knowing, or having reason to believe, that the same is noxious as food or drink (Section 275).

Here again *mens—rea* or guilty knowledge has to be proved to secure punishment for the offender. It has also to be established that the food or drink has become noxious or unfit for consumption. Surprisingly, mere adulteration with harmless ingredients for earning profit is not punishable under these Section, e.g. mixing water with milk, because the mixture would not be noxious or injurious as food or drink. These provisions were hardly adequate to check this heinous crime against public, and the Parliament, as we shall see presently, had to enact a more comprehensive law for prosecution and punishment of persons guilty of adulteration.

Modern man does not live merly on food; he needs medicines also for his sustenance. The greedy trader has an irresistible temptation to adulterate drugs or medicines because of their large scale sale and consumption. The Penal Code provides punishment upto six months or fine extending upto Rs.1000/- or both, if a person—

(a) adulterates any drug or medical preparation in such a manner as to lessen its efficacy or change its operation or to make it noxious intending that it shall be sold or used for, or knowing it to be likely that it will be sold or used for any medicinal purpose, as if it had not undergone such adulteration (Section 274);

(b) knowing any drug or medical preparation to have been adulterated in such a manner as to lessen its efficacy, to change its operation, or to render it noxious, sells the same, or offers or exposes it for sale, or issues it from any dispensary for medicinal purpose as unadulterated, or causes it to be used for medicinal purposes for any person not knowing of the adulteration (Section 275); and

(c) knowingly sells or offers or exposes for sale or issues from a dispensary for medicinal purposes any drug or medical preparation as a different drug or medicinal preparation (Section 276).

Sections 277 and 278 respectively provide punishment for pollution of water of any public spring or reservoir and for voluntarily vitiating the physical atmosphere of any place, so as to make it noxious to the health of persons in general, dwelling or carrying on business in the neighbourhood or passing along a public way. Section 486 of the Penal Code relates to offences against counterfeiting the property mark. Subject to certain exceptions, a person who sells or exposes, or has in possession for sale, any goods or things with a counterfeit mark affixed to or impressed upon the same or to, or upon, any case, package or other receptacle in which such goods are contained, shall be punished with imprisonment for a term which may extend to one year, or with fine, or with both.

Agricultural Produce (Grading & Marketing) Act, 1937

It is desirable and necessary that some articles, particularly articles of agricultural and some other produce, are graded before they are sold or distributed. For example, eggs are graded as small, large and extra large. Fixation of a grade designation mark is, so to speak, an assurance to the customer that the goods contained in the package are of a definite nature, quality or size. If goods are different in nature or quality, the seller is guilty of an offence under Section 488 and 489 of Penal Code. It is also an unfair trade practice as defined in Section 56A (1) (i) of the Monopolies and Restrictive Trade Practices Act, 1969.

The law considers an article to be mis-graded if :

(i) the article is not of the quality prescribed for the grade designation with which it is marked;

(ii) the composition of the article offered for grading is altered in any way after a sample has been drawn for analysis and determination of the grade designation of the article in accordance with the rules;

(iii) the article is tampered with in any manner; and

(iv) any false claim is made for the quality prescribed for its grade designation, upon the label or through advertisement, or in any other manner.

The Central Government is empowered under Section 58 of the aforesaid Act to prescribe compulsory grade designation for various articles if it considers it necessary in public interest, or for protection of the consumers, so to do.

Drugs and Cosmetics Act, 1940

The Indian Penal Code, as we have just seen, deals with the offences relating to adulteration of drugs. With the discovery of hither to unknown diseases, new drugs had to be found and with the addition of more and more drugs, including imported drugs, to the chemist's list, it became necessary to exact a more comprehensive legislation to regulate the import, manufacture, distribution and sale of drugs. The new Act, which covers cosmetics also, came into force in 1940. Section 18 of this Act empowers the State Governments to notify that no person shall himself or by any other person on his behalf:

(a) manufacture for sale or for distribution or sale, or stock or exhibit or offer for sale, or distribute—

(i) any drug or cosmetic which is not of a standard quality, or is misbranded, adulterated or spurious;

(ii) any cosmetic which is not of a standard quality or is misbranded or spurious;

(iii) any patent or proprietary medicine, unless there is displayed in the prescribed manner on the label or container there of the true formula or list of active ingredients contained in it together with the quantities thereof;

(iv) any drug which by means of any statement, design or device accompanying it or by any other means, purports or claims to prevent, cure or mitigate any such disease or ailment, or to have any such other effect as may be prescribed;

(v) any cosmetic containing any ingredient which may render it unsafe or harmful for use under the directions indicated or recommended;

(vi) any drug or cosmetic in contravention of any of the provisions of Chapter IV of the Act or any rule made thereunder;

(b) sell or stock or exhibit or offer for sale, or distribute any drug or cosmetic which has been imported or manufactured in contravention or any of the Act, or any rule made there under; and

(c) manufacture for sale or for distribution, or sell, or stock or exhibit or offer for sale, or distribute any drug or cosmetic, except under, and in accordance with, the conditions of a licence issued for such purpose.

Section 10 prohibits import of drugs or cosmetics which do not fulfil the above conditions. One of the exceptions to this rule is that the Central Government is competent to permit the import of any drug or class of drugs which may not be of standard quality. No wonder that some of the drugs banned in the western countries after research find their way into the Indian market. These drugs are not only circulated freely but are also prescribed as if what is harmful to the consumer abroad is not injurious to the consumer in India. A similar proviso empowers the Central Government to permit, subject to such conditions as may be specified, the manufacture for sale of any drug which is not of standard quality and purity of the drugs sold in the country. The drugs market, as we all know, is already flooded with spurious, substandard, and even dangerous products. In western countries, it is extremely difficult, if not totally impossible, to buy an adulterated drug. In India, it is said, even poison is adulterated—a person may not die after consuming it.

The Drugs (Control) Act was enacted in 1940 for ensuring easy availability of essential drugs and to protect the interests of the consumers. Under this Act, it is also necessary to issue a cash-memo compulsorily to the buyer if the amount of purachase is Rs.5/- or more and, on demand, if the amount is less than Rs.5/-. It rarely happens in practice. It is one thing to enact laws but quite another to ensure their compliance.

Drugs and Magic Remedies

(Objectionable Advertisements) Act, 1954

It is not uncommon to see in any part of the country quacks advertising their drugs in newspapers, magazines, wall-posters, to the public at large and also verbally to groups of gullible persons. Though the quack has no pretensions to scientific knowledge—a holy man, he claims, gave it to his grandfather—they have a surprisingly large clientele. Popularised by various kinds of alluring advertisements which claim exotic ingredients, they attract the sick and the unwary who are tempted to buy and use them. Needless to say that the remedy they prescribe only aggravates the malady or proves totally inffective because the drug contains hardly anything useful. The Parliament enacted the Drugs and the Magic Remedies (Objectional ble Advertisements) Act, 1954, to provide protection to the consumer against this mischief.

Section 3 of this Act prohibits the advertisements of certain drugs. No person, it lays down, shall take any advertisement referring to any drug in terms which suggest, or are calculated to lead to the use of the drug for :

(a) the procurement of miscarriage in women, or prevention of conception in women; or

(b) the maintenance or improvement of the capacity of human beings for sexual pleasure; or

(c) the correction of menstrual disorder in women; or

(d) the diagnosis, cure, mitigation, treatment or prevention of any disease, disorder, or condition specified in the Schedule, or any other disease, disorder or condition (by whatsoever name called) which may be specified in the rules under this Act.

Section 4 of this Act prohibits advertisements relating to drugs—no person shall take any part in the publication of any advertisement relating to a drug if it contains any matter which :

(a) directly or indirectly gives a false impression regarding true character of the drug; or

(b) makes a false claim for the drug; or

(c) is otherwise false or misleading in any material particular.

The Act also bans the advertisements of magic remedies. Section 5 provides that no person carrying on or purporting to carry on the profession of administering magic remedies shall take any part in the publication of any advertisement relating to any magic remedy which, directly or indirectly, claims to be efficacious for any of the purposes specified in Section 3.

Section 7 of the Act provides that for first conviction for contravention of any of the provisions of the Act, the offender shall be punished with imprisonment which may extend to six months, or with fine, or both, and for any subsequent conviction, such person shall be liable to suffer imprisonment which may extend to one year or with fine, or with both.

Prevention of Food Adulteration Act, 1954

Section 272 and 273 of the Indian Penal Code, as we have seen, do not foot the bill. Adulteration of food under these Sections, it needs to be repeated , is an offence only if the food or drink complained of has been made noxious, i.e. injurious for health. Mixing water with milk or cottage cheese with boiled rice, or pure ghee with *vanaspati*, do not make these articles of food noxious. Morever, to secure punishment, guilty knowledge of the offender has to be proved which is rather difficult. These shortcomings render the provisions of the Penal

Code highly anaemic. Taking note of this position and also realising the need to check wide-spread practice of adulteration of food, the Parliament passed a more comprehensive and also a more stringent legislation, the Prevention of Food Adulteration Act, in 1954. The new Act does not require proof of *mens-rea* or guilty knowledge. The principal is also liable to be punished if the act is done, no matter how innocently. It is also not necessary to prove that the food is noxious. What needs to be established is that it is adulterated howsoever small the measure or extent of adulteration may be. This Act has been enacted to :

(a) ensure the purity of articles of food sold to the public;

(b) eradicate the anti-social evil of adulteration to protect and preserve public health;

(c) prevent manufacture, storing and sale of adulterated or misbranded foodstuff;

(d) ensure that the food which the public is buying is packed and stored under hygienic conditions; and

(e) provide for adequate punishment to persons guilty of offences under this Act.

The word 'adulterated' is defined in the Act so comprehensively that it is virtually impossible for the practitioners of this despicable social evil to escape on mere technical or flimsy grounds. The penalties provided under the Act are meant to have a deterrent effect. If, for example, the adulterated food, which is distributed by sale, when consumed by a human being is likely to cause death or grievous hurt, the person from whose possession such food has been distributed is liable to be punished with imprisonment for a term which shall not be less than three years, but which may extend to life imprisonment and also with fine which shall not be less than Rs. 5,000-. The Act also provides a minimum sentence, which is sufficiently deterrent, for almost every offence. Added to it—and perhaps as a rare departure from normal penal legislation—is the power conferred on the Court which convicts the person for commission of a second offence of the same kind to cause the offender's name and the place of residence, the offence and the penalty imposed to be published at the offender's expenses in such newspaper or in any other manner as it may direct. This shows the Parliament's concern for repetition of such anti-social acts.

The Courts have also looked at the menace of food adulteration with serious concern and have condemned this mal-practice in no uncertain terms. Said Bhaskaran, J., in *Food Inspector, Palghat Municipality Vs. Sootha Ram, Rice and Oil Mill* :

> "..........the people of India are confronted with a national problem, which, in recent time, has assumed serious dimensions arising out of the practice of food adulteration that has spread unabated like an epidemic. The survival of the society at present stage appears to depend to a very large extent upon the right and effective enforcement, both in letter and spirit, of the provisions of the Prevention of Food Adulteration Act and the taking of other measures to arrest the evil of adulteration mania, so prevalent among the anti-social elements in the community."

I.D. Dua, J., was no less emphatic in underlining the need for preventing adulteration of food. Observed he :

> "In the present day increasing tempo of industrialisation and urbanisation, the need for the supply of unadulterated food supplies to the citizens in this socialist Welfare Republic has naturally assumed great importance, the indifferent attitude towards the social evil of fradulently selling adulterated articles of food is difficult countenance, for, it affects the health of the whole nation, including the children on whom depends the future of the country. Those who commit this offence in respect of one article of food must not forget, but fully realise, that they are also likely to be similarly defrauded and cheated by dealers in other articles of consumption which may, for aught one know, affect their children's health more seriously."

In a case decided in 1988, the Supreme Court of India observed" Adulteration in foodstuffs bring frustration among the honest consumers, leads to inflation and corruption in the market and also tends to hamper the economic growth of the community as well as the nation."

The courts have also emphasised that offences under this Act, being serious, call for deterrent punishment and

in most of the cases, a sentence of imprisonment should be awarded. Similarly, in the *Administrator Municipal Board, Gangapur City Vs. Om Prakash,* the court held "that food adulteration is a social crime which endangers the health of the society at large. Such economic offences deserve different punishment and any leniency in this respect or effort to acquit the accused deserve outright rejection."

When the offence is proved, the punishment awarded should, as a rule, be rigorous unless there is full justification (e.g. old age or physical infirmity of the offender) for awarding simple imprisonment.

It needs to be noted that not only the master but also his servant who actually sells adulterated stuffs on his behalf and for his benefit is liable to be punished under this Act. This sometimes leads to strange result. In a case the servant was sentenced to undergo imprisonment and the employer got away with a small fine. The Supereme Court of India modified and reversed this decision. The Apex Court also ruled that the contrary view taken by the Madras High Court in another case was erroneous. Appreciating the servant's position, the Madras High Court had held that :

> "If the master is caught hold of and punished drastically, there is no need to catch hold of the servant also and fasten that absolute liability on him even without any guilty knowledge, express or implied. It is something like the ancient adage that it is enough to catch a cobra by its head, and then its belly and tail will be controlled, or like this Nyaya saying that when trunk is out, the branches will fall by themselves."

Regrettably, but most respectfully, it is submitted that this was, perhaps an example of misplaced sympathy. The correct position seems to be that the offences under this Act exclude *mens-rea* and the servant who sells adulterated food is an much liable to be punished as his master. This is the clear intention of the legislature. It will be remarkable if the servants refuse to play their part in the nefarious activities of selling or preparing adulterated food on behalf of their masters. This evil might be then largely controlled, if not completely eradicated. But there are compulsions of employment. The Act, so far as it goes, is an excellent piece of legislation. But, as already stated, enacting a law is one thing, its strict and honest implementation is quite another. And it is here that the Act founders—the enforcement of this stringent measure enacted for the welfare of the nation, including the adulterators, depends upon that ubiquitous and unscrupulous class known as inspectors. They catch hold of small vendors; the manufacturers and wholesalers remain untouched. Said Bhagwati, J., (as he then was) :

> "The small tradesmen who make out a precarious existence living almost from hand to mouth are sent to jail for selling foodstuff which is often enough not adulterated by them and the wholesalers and manufacturers who really adulterate the foodstuff and fatten themselves on the misery of others escape the arm of the law. . . .

Viewed thus, this Act is, perhaps, doing more harm than good. It has given a boost to corruption. One of the redeeming features seems to be that by an amendment in 1986, recognised consumer associations were authorised to institute criminal prosecution if they produce in the Court a copy of the report of the public analyst along with the complaint. Hopefully, these organisations would now play their part in eradicating the evil of food adulteration.

Essential Commodities Act. 1955

The consumer tends to buy more than what he actually requires, particularly an essential commodity, if he fears that soon it is likely to disappear from the market. The trader, on the other hand, likes to hoard it to earn more profit. This creates artificial scarcity. In such a situation or if there is genuine short supply of some commodities, it is for the Government to ensure that at least essential commodities are made available to the consumer at reasonable prices. To enable the Government to achieve this objective, the Parliament enacted the Essential Commodities Act, 1955. It is one of the important laws which arms the Government with wide ranging powers to maintain the supply of essential commodites to the consumers at controlled rates or, to use the modern phrase, at fair price. For the purpose of this Act, 'essential commodity' means :

(i) cattle fodder, including oilcakes and other concentrates;

(ii) coal, including coke and other derivatives;

(iii) component parts and accessories of automobiles;

(iv) cotton and woollen textiles;

(v) drugs;

(vi) foodstuff, including edible oilseeds and oils;

(vii) iron and steel, including manufactured products of iron and steel;

(viii) paper, including newsprint, paper board and straw board;

(ix) petroleum and petroleum products;

(x) raw cotton, whether ginned or unginned, and cotton seeds;

(xi) raw jute; and

(xii) any other class of commodity which may be declared as such by the Central Government.

Section 3 of this Act empowers the Government to control production, supply, distribution, etc., of essential commodities. It lays down that if it is necessary or expedient so to do for maintaining or increasing supplies of any essential commodity, or for securing their equitable distribution and availability at fair prices, or for securing any essential commodity for the defence of India, or the efficient conduct of military operation, the Central Government may, by order provide for regulating or prohibiting the production supply and distribution thereof and trade and commerce therein.

For controlling the prices, or prevention of hoarding of any foodstuff in any locality, the Central Government is competent to direct that the price at which the foodstuff shall be sold in the locality shall be regulated in accordance with the relevant provisions of this Act. Section 3 provides for seizure of a commodity and Section 6A for its confiscation if there has been any contravention of the order of the competent authority issued in this behalf.

It is absolutely necessary that persons committing offences punishable under this Act should be tried expeditiously. It has, therefore, been laid down that all offences relating to :

(i) cotton or woollen textiles;

(ii) foodstuffs, including edible seeds and oils; or

(iii) drugs; and

(iv) contravention of any special order, shall be tried summarily. The act also does not allow any appeal by a convicted person, if the punishment awarded does not exceed one month or fine upto two thousand rupees. This is as it should be if the supply and distribution of essential commodities is to be maintained.

To elicit the help and participation of voluntary consumer associations for ensuring regular supply of essential commodities, the Act, by an amendment in 1986, empower them to make a report in writing of the facts constituting the offence under it.

Trade and Merchandise Marks Act, 1958

The Trade and Merchandise Marks Act of 1958 replaces 'The Trade Marks Act of 1940' and the Merchandise Marks Act enacted more than a century ago. These two Acts protected, by and large, the trade-marks of trader from being copied by dishonest competitors. The new Act protects the consumer also. It lays down that if a person in the course of business applies a false trade description to any goods or supplies or offers to supply any goods to which a false trade description is applied shall be guilty of an offence.

A trade description is false if it is untrue or misleading in a material respect as regards the goods to which it is

applied. It includes false description of quantity, manufacturing method, or alteration of a trade description by addition effacement or otherwise thereby making the description untrue or misleading in a material respect. It further includes :

(i) any marks or arrangment or combination thereof applied to goods in such a manner as is likely to lead persons to believe that the goods are the manufacture or merchandise of some person other than the person whose merchandise or manufacture they really are; or

(ii) any false name or initials of a person applied to goods in such a manner as if such name or initials were a trade description in any case where the name or initials—

(a) is, or are, not a trade-mark or part of a trade-mark; and

(b) is, or are, identical with or deceptively similar to the name or initials of a person carrying on business in connection with goods of the same description and who has not authorised the use of such name or initials; and

(c) is, or are, either the name or initials or a fictitious person or of some person not bonafide carrying on business in connection with such goods and the fact that a trade description is a trade-mark or part of a trade-mark shall not prevent such trade description being a false trade desription within the meaning of this Act.

A leader of second-hand cars, who bring down the odometer of a car by manipulation, or reduces the mileage covered, is guility of applying a false trade description.

Under Section 96 of Act, the seller of any goods to which a trademark or trade description is applied, is deemed to warrant that the mark is a genuine mark, and not falsely applied, or that the trade description is not a false trade description within the meaning of this Act.

Sections 78 and 79 of the Act respectively provide penalty for applying false trade-mark, trade description etc. and for selling goods to which a false trade-mark or trade description is applied.

Chapter 20
Service Marketing and International Marketing

Service Marketing

The Nature of Services

Service industries are quite varied. The government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, post office, regulatory agencies, and schools, is in the service business. The private nonprofit sector, with its museums, charities, temples, mosques, colleges, foundations, and hospitals, is in the service business. A good part of the business sector, with its airlines, banks, hotels, insurance companies, law firms, management consulting firms, medical practices, motion-picture companies, plumbing repair companies, and real estate firms, is in the service business. Many workers in the manufacturing sector, such as computer operators, accountants, and legal staff, are really service providers. In fact, they make up a "service factory" providing services to the "goods factory."

- A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.

Services are also popping up on the Internet. A little surfing on the Web will turn up virtual service providers. "Virtual assistants" will word process, plan events, and handle office chores online consultants will dispense advice by e-mail.

Categories of Service Mix

A company's offering to the marketplace often includes some services. The service component can be a minor or a major part of the total offering. Five categories of offerings can be distinguished :

1. *Pure tangible good :* The offering consists primarily of a tangible good such as soap, toothpaste, or salt. No services accompany the product.
2. *Tangible good with accompanying services :* The offering consists of a tangible good accompanied by one or more services. Levitt observes that "the more technologically sophisticated the generic product (e.g., cars and computers), the more dependent are its sales on the quality and availability of its accompanying customer services (e.g., display rooms, delivery, repairs and maintenance, application aids, operator training, installation advice, warranty fulfillment).
3. *Hybrid :* The offering consists of equal parts of goods and services. For example, people patronize restaurants for both food and service.
4. *Major service with accompanying minor goods and services :* The offering consists of a major service along with additional services or supporting goods. For example, airline passengers buy transportation service. The trip includes some tangibles, such as food and drinks, a ticket stub, and an airline magazine. The service requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.
5. *Pure service :* The offering consists primarily of a service. Examples include baby-sitting, psychotherapy, and massage.

Because of this varying goods-to-services mix, it is difficult to generalize about services without further distinctions. However, some generalizations seem safe :

First services vary as to whether they are equipment based (automatic car washes, vending machines) or people based (window washing, accounting services). People-based services vary by whether they are provided

by unskilled, skilled, or professional workers.

Second, some services require the client's presence and some do not. Brain surgery involves the client's presence but a car repair does not. If the client must be present, the service provider has to be considerate of his or her needs. Thus beauty shop operators will invest in their shop's decor, play background music, and engage in light conversation with the client.

Third, services differ as to whether they meet a personal need (personal services) or a business need (business services). Physicians will price physical examinations differently for private patients versus employees on a prepaid company health plan. Service providers typically develop different marketing programs for personal and business markets.

Fourth, service provider differ in their objectives (profit or noprofit) and ownership (private or public). These two characteristics, when crossed, produce four quite different types of organizations. The marketing programs of a private investor hospital will differ from those of a private charity hospital or a Veterans Administration hospital.

Characteristics of Services and their Marketing Implications

Services have four major characteristics that greatly affect the design of marketing programs : intangibility, *inseparability, variability, and perishability.*

Intangibility

Services are intangible. Unlike physical products, they cannot be seen, tasted, felt, heard, or smelled before they are bought. The person getting a face lift cannot see the exact results before the purchase, and the patient in the psychiatrist's office cannot know the exact outcome.

To reduce uncertainty, buyers will look for signs or evidence of the service quality. They will draw inferences about quality from the place, people, equipment, communication material, symbols, and price that they see. Therefore, the service provider's task is to "manage the evidence," to "tangibilize the intangible." Whereas product marketers are challenged to add abstract ideas, service marketers are challenged to add physical evidence and imagery to abstract offer.

Suppose a bank wants to position itself as the "fast" bank. It could tangibilize this positioning strategy through a number of marketing tools :

1. *Place :* The physical setting must connote quick service. The exterior and interior should have clean lines. The layout of the desks and the traffic flow should be planned carefully. Waiting lines should not get overly long.
2. *People :* Personnel should be busy. There should be a sufficient number of employees to manage the workload.
3. *Equipment :* Equipment—computers, copying machines, desks—should be and look "state of the art."
4. *Communication material :* Communication materials—text and photos—should suggest efficiency and speed.
5. *Symbols :* The name and symbol should suggest fast service.
6. *Price :* The bank could advertise that it will deposit Rs. 50/- in the account of any customer who waits in line for more than five minutes.

Service marketers must be able to transform intangible services into concrete benefits.

Inseparability

Services are typically produced and consumed simultaneously. This is not true of physical goods, which are manufactured, put into inventory, distributed through multiple resellers, and consumed later. If a person renders the service, then the provider is part of the service. Because the client is also present as the service is produced, provider-client interactions is a special feature of services marketing. Both provider and client affect the outcome.

In the case of entertainment and professional services, buyers are very interested in the specific provider. It is not the same concert if Ghulam Ali is indisposed and replaced by Kumar Sanu, or if a legal defense will be supplied by John Nobody because Ram Jethmalani is unavailable. When clients have strong provider preferences, Price is raised to ration the preferred provider's limited time.

Several strategies exist for getting around this limitation. The service provider can learn to work with larger groups. Psychotherapists and Yoga Instructors have moved from one-on-one therapy to small-group therapy to groups of over 300 people in a large hotel conference room. The service provider can learn to work faster--the psychotherapist can spend 30 minutes with each patient instead of 50 minutes and can see more patients. The service organization can train more service providers and build up client confidence.

Variability

Because they depend on who provides them and when and where they are provided, services are highly variable. Some doctors have excellent bedside manner; others are less patient with their patients. Some surgeons are very successful in performing a certain operation; others are less successful. Service buyers are aware of this variability and often talk to others before selecting a service provider.

Service firms can take three steps toward quality control. The first is investing in good hiring and training procedures. Recruiting the right service employees and providing them with excellent training is crucial regardless of whether employees are highly skilled professionals or low-skilled workers.

The second step is standardizing the service-performance process throughout the organization. This is helped by preparing a service blueprint that depicts events and processes in a flowchart, with the objective of recognizing potential fail points. Figure 20.1 shows a service blueprint for a nationwide floral-delivery organization. The customer's experience is limited to dialing the phone, making choices and placing an order. Behind the scenes, the floral organization gathers the flowers, places them in a vase, deliver them, and collects payment. Any one of these activities can be done well or poorly.

The third step is monitoring customer satisfaction through suggestion and complaint systems, customer surveys, and comparison shopping.

Perishability

Services cannot be stored. Some doctors charge patients for missed appointments because the service value existed only at that point. The perishability of services is not a problem when demand is steady. When demand fluctuates, service firms have problems. For example, public-transportation companies have to own much more equipment because of morning and evening rush-hour demand than if demand were even throughout the day.

Sasser has described several strategies for producing a better match between demand and supply in a service business.

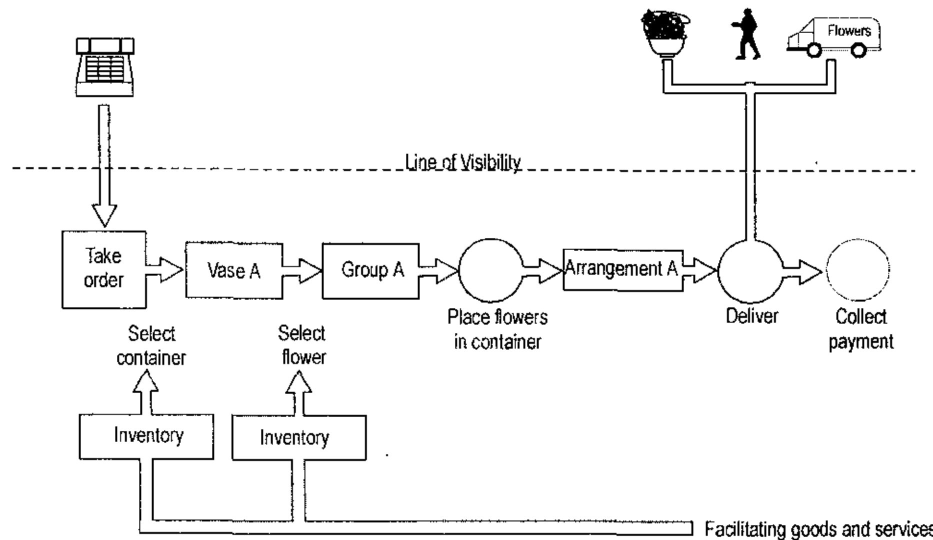


Figure 20.1: A Service-Performance-Process Map: Nationwide Floral Delivery

On the demand side :

- *Differential Pricing* will shift some demand from peak to off-peak periods. Examples include low night telephone tariffs and weekend discount prices for car rentals.
- *Nonpeak demand* can be cultivated. McDonald's opened a breakfast service, and hotels reduces their tariffs during off-season.
- *Complementary services* can be developed during peak time to provide alternatives to waiting customers, such as cocktail lounges in restaurants and automatic teller machines in banks.
- *Reservation systems* are a way to manage the demand level. Airlines, railways, hotels, and physicians employ them extensively.

On the supply side :

- *Part-time employees* can be hired to serve peak demand. Colleges add part-time teachers when enrollment goes up, and restaurants call in part-time servers when needed.
- *Peak-time efficiency routines* can be introduced. Employees perform only essential tasks during peak periods. Paramedics assist physicians during busy periods.
- *Increased consumer participation* can be encouraged. Consumers fill out their own medical records or bag their own groceries.
- *Shared services* can be developed. Several hospitals can share medical-equipment purchases.
- *Facilities for future expansion* can be developed. An amusement park buys surrounding land for later development.

Marketing Strategies for Service Firms

Until recently, service firms lagged behind manufacturing firms in their use of marketing. Many service businesses are small (shoe repair, barbershops) and do not use formal management or marketing techniques. There are also professional service businesses (law and accounting firms) that formerly believed it was unprofessional to use marketing. Other service businesses (colleges, hospitals) faced so much demand or so little competition until recently that they saw no need for marketing. But this has changed.

Traditional four Ps marketing approaches work well for goods, but additional elements require attention in service businesses. Booms and Bitner suggested three additional Ps for service marketing : people, physical evidence, and process. Because most services are provided by people, the selection, training, and motivation of employees can make a huge difference in customer satisfaction. Ideally, employees should exhibit competence, a carrying attitude, responsiveness, initiative, problem-solving ability, and goodwil. Service companies such as Federal Express and Marriott trust their people enough to empower their front-line personnel to spend up to $100 to resolve a customer problem.

Companies also try to demonstrate their service quality through physical evidence and presentation. A hotel will develop a look and observable style of dealing with customers that carries out its intended customer value proposition, whether it is cleanliness, speed, or some other benefit. Finally, service companies can choose among different processes to deliver their service. Restaurants have developed such different formats as cafeteria-style, fast-food, buffet, and candlight service.

Service encounters are affected by several elements (Figure 20.2). Consider a customer visiting a bank to get a loan (service X). The customer sees other customers waiting for this and other services. The customer also sees a physical environment consisting of a building, interior, equipment, and furniture. The customer sees bank personnel and deals with a loan officer. All this is visible to the customer. Not visible is a whole "backroom" production process and organization system that supports the visible business. Thus the service outcome, and whether or not people will remain loyal to a service provider, is influenced by a host of variables.

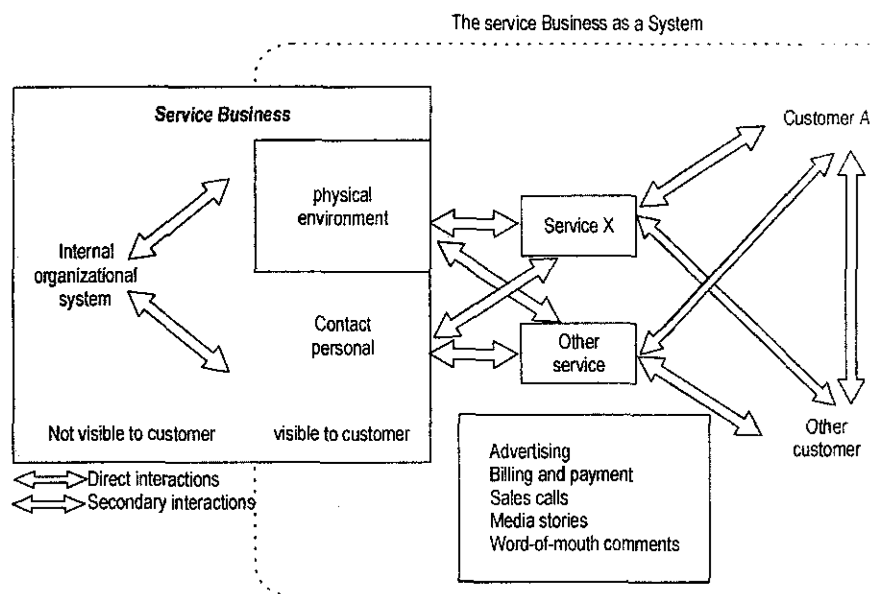


Figure 20.2: Elements in a Service Encounter

In view of this complexity, Gronroos has argued that service marketing requires not only external marketing but also internal and interactive marketing (Figure 20.3). External marketing describes the normal work to prepare, price, distribute, and promote the service to customers. Internal marketing describes the work to train and motivate employees to serve customers well. Berry has argued that the most important contribution the marketing department can make is to be "exceptionally clever in getting everyone else in the organization to practice marketing."

Interactive marketing descibes the employees' skill in serving the client. Because the client judges service not only by its technical quality (*e.g.*, Was the surgery successful ?) but also by its functional quality (*e.g.*, Did the surgeon show concern and inspire confidence ?) service providers must deliver "high touch" as well as "high tech."

For some services, customers cannot judge the technical quality even after they have received the service. Figure 20.4 arrays various products and services according to difficulty or evaluation. At the left are goods high in *search qualities*—that is, characteristics the buyer can evaluate before purchase. In the middle are goods and services high in *experience qualities*—characteristics the buyer can evaluate after purchase. At the right are goods and services high in *credence qualities*—charactersitics the buyer normally finds hard to evaluate even after consumption.

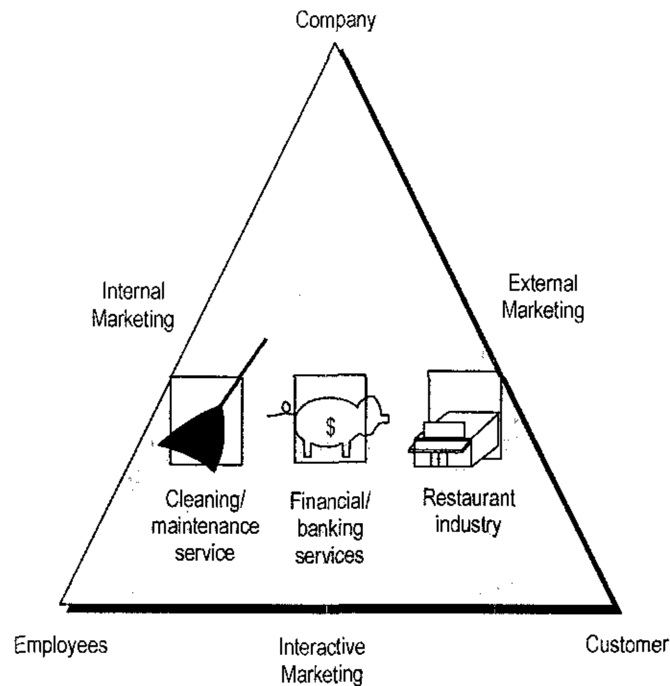


Figure 20.3: Three Types of Marketing in Service Industries

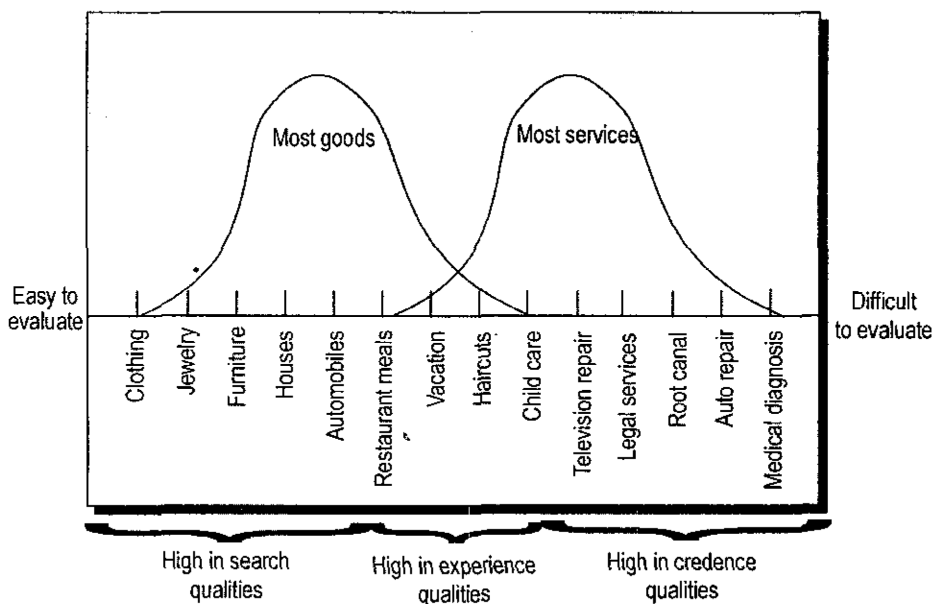


Figure 20.4: Continuum of Evaluation for Different Types of Products

Because services are generally high in experience and credence qualities, there is more risk in purchase. This has several consequences. First, service consumers generally rely on word of mouth rather than advertising. Second, they rely heavily on price, personnel, and physical cues to judge quality. Third, they are highly loyal to service providers who satisfy them.

Service companies face three tasks—increasing *competitive differentiation, service quality,* and *productivity.* Although these interact, we will examine each separately.

Managing Differentiation

Service marketers frequently complain about the difficulty of differentiating their services. The deregulation of several major service industries—communications, transportation, energy, banking—precipitated intense price competition. The success of budget-priced airlines has shown that many fliers care more about travel costs than service. To the extent that customers view a service as fairly homogeneous they care less about the provider than the price.

The alternative to price competition is to develop a differentiated offer, delivery, or image.

Offer

The offer can include innovative features. What the customer expects is called the primary service package, and to this can be added secondary service features. In the airline industry, various carriers have introduced such secondary service features as movies, merchandise for sale, air-to-ground telephone service, and frequent-fliers award programs.

The major challenge is that most service innovations are easily copied. Still, the company that regularly introduces innovations will gain a succession of temporary advantages over competitors. Through earning a reputation for innovation, it may retain customers who want the best. Citicorp enjoys the reputation as a leading innovator in the banking industry for such innovations as automatic teller machines, nationwide banking, broad-spectrum financial accounts and credit cards, and floating prime rates.

Delivery

A service company can hire and train better people to deliver its service (Home Depot, Nordstrom). It can develop a more attractive physical environment in which to deliver the service. Or it can design a superior delivery process (McDonald's).

Image

Service companies can also differentiate their image through symbols and branding. The Harris Bank of Chicago adopted the lion as its symbol and uses it on its stationery, on its advertising, and even on the stuffed animals it offers to new depositors. As a result, the Harris lion is well known and confers an image of strength to the bank. Several hospitals have attained "megabrand" reputations for being the best in their field, such as the Escorts Heart Institute, Apollo Hospital and AIIMS. These hospitals could open clinics in other cities and attract patients on the strength of their brand reputation.

Managing Service Quality

A service firm may win by delivering consistently higher-quality service than competitors and exceeding customers' expectations. These expectations are formed by their past experiences, word of mouth, and advertising. After receiving the service, customers compare the perceived service with the expected service. If the perceived service falls below the expected service, customers lose interest in the provider. If the perceived service meets or exceeds their expectations, they are apt to use the provider again.

Parasuraman, Zeithaml, and Berry formulated a service-quality model that highlights the main requirements for delivering high service quality. The model, shown in Figure 20.5, identifies five gaps that cause unsuccessful delivery :

1. *Gap between consumer expectation and management perception :* Management does not always perceive correctly what customers want. Hospital administrators may think that patients want better food, but patients may be more concerned with nurse responsiveness.

2. *Gap between management perception and service-quality specification :* Management might correctly perceive the customers' wants but not set a specified performance standard. Hospital administrators may tell the nurses to give "fast" service without specifying it quantitatively.

3. *Gap between service-quality specifications and service delivery :* The personnel might be poorly trained, or incapable or unwilling to meet the standard . Or they may be held to conflicting standards, such as taking time to listen to customers and serving them fast.

4. *Gap between service delivery and external communications :* Consumer expectations are affected by statements made by company representatives and ads. If a hospital brochure shows a beautiful room, but the patient arrives and finds the room to be cheap and tacky looking, external communications have distorted the customer's expectations.

5. *Gap between perceived service and expected service :* This gap occurs when the consumer misperceives the service quality. The physician may keep visiting the patient to show care, but the patient may interpret this as an indication that something really is wrong.

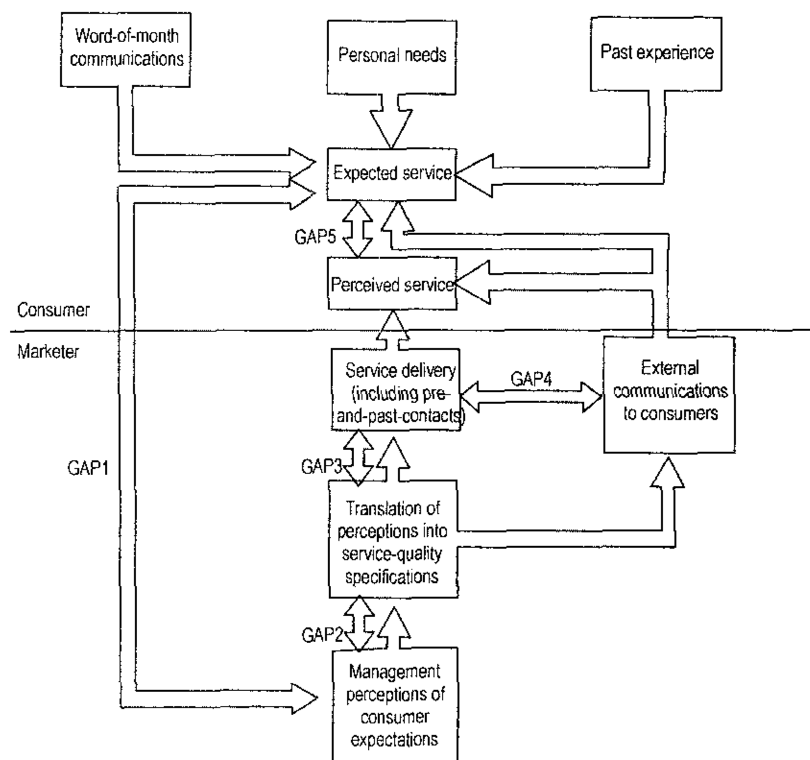


Figure 20.5: Service-Quality Model

The same researchers found five determinants of service quality. These are presented in order of importance.

1. *Reliability:* The ability to perform the promised service dependably and accurately. For *e.g.,* Doctor is always available whenever you need.

2. *Responsiveness:* The willingness to help customers and to provide prompt service. For *e.g.,* Doctor quickly diagnose the disease and give prescription.

3. *Assurance:* The knowledge and courtesy of employees and their ability to convey trust and confidence. For *e.g.,* The past track record and ability to diagnose the disease quickly will assure the patient that he

is in the right hands.

4. *Empathy:* The provision of caring, individualized attention to customers. For *e.g.,* The Doctor may put himself in Patient's place and understand how he is feeling.

5. *Tangibles:* The appearance of physical facilities, equipment, personnel, and communication materials. For *e.g.,* The design and decor, lighting, cool environment etc. will make the patient happy or depressed.

Various studies have shown that excellently managed service companies share the following common practice : a strategic concept, a history of top-management commitment to quality, high standards, systems for monitoring service performance and customer complaints, and an emphasis on employee satisfaction.

Strategic Concept

Top service companies are "customer obsessed." They have a clear sense of their target customers and their needs. They have developed a distinctive strategy for satisfying these needs.

Top-Management Commitment

Companies such as Marriott, Disney, and McDonald's have thorough commitments to service quality. Their management looks not only at financial performance on a monthly basis but also at service performance. Ray Kroc of McDonald's insisted on continually measuring each McDonald's outlet on its conformance to QSCV : quality, service, cleanliness, and value. Some companies insert a reminder along with the employees' paychecks : BROUGHT TO YOU BY THE CUSTOMER.

High Standards

The best service providers set high service-quality standards. Swissair, for example, aims at having 96 percent or more of its passengers rate its service as good or superior. Citibank aims to answer phone calls within 10 seconds and customer letters within 2 days. The standards must be set appropriately high. A 98 percent accuracy standard may sound good but it would result in Federal Express losing 64,000 packages a day, 10 misspelled words on each page, 400,000 misfilled prescriptions daily, and unsafe drinking water 8 days a year. Companies can be distinguished between those offering "merely good" service and those offering "breakthrough" service aiming at 100 percent defect-free service.

Monitoring Systems

Top firms audit service performance, both their own and competitors', on a regular basis. They use a number of measurement devices : comparison shopping, ghost shopping, customer surveys, suggestion and complaint forms, service-audit teams, and letters to the president. General Electric sends out 700,000 response cards a year asking households to rate its service people's performance. Citibank checks continuously on measures of ART (accuracy, responsiveness, and timeliness). The First Chicago Bank employs a weekly Performance Measurement Program charting its performance on a large number of customer-sensitive issues. Figure 20.6 shows a typical chart to track the bank's speed in answering customer service phone inquiries. It will take action whenever performance falls below the minimum acceptable level. It also raises its performance goal over time.

Services can be judged on *customer importance and company performance. Importance-performance analysis* is used to rate the various elements of the service bundle and identify what actions are required. Table 20.1 shows how customers rated 14 service elements (attributes) of an automobile dealer's service department on importance and performance. For example, "Job done right the first time" (attribute 1) received a mean importance rating of 3.83 and a mean performance rating of 2.63, indicating that customers felt it was highly important but not performed well.

The ratings of the 14 elements are displayed in Figure 20.7 and divided into four sections. Quadrant A shows important service elements 1, 2 and 9. The dealer should concentrate on improving the servcie department's performance on these elements. Quadrant B shows important service elements that are being performed well; the

company needs to maintain the high performance. Quadrant C shows minor service elements that are being delivered in a mediocre way buy do not need any attention. Quadrant D shows that a minor service element, "Send out maintenance notices," is being performed in an excellent manner. Perhaps the company should spend less in sending out maintenance notices and reallocate the savings toward improving the company's performance on important elements. The analysis can be enhanced by checking on the competitors' performance levels on each element.

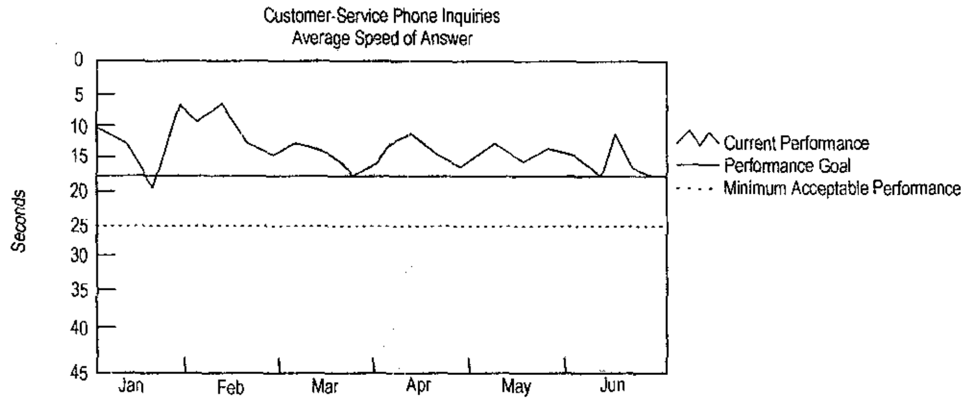


Figure 20.6: Tracking Customer Service Performance

Satisfying Customer Complaints

Studies of customer dissatisfaction show that customers are dissatisfied with their purchases about 25 percent of the time but that only about 5 percent complain. The other 95 percent either feel that complaining is not worth the effort, or that they don't know how or to whom to complain.

Of the 5 percent who complain, only about 50 percent report a satisfactory problem resolution. Yet the need to resolve a customer problem in a satisfactory manner is critical. On average, a satisfied customer tells three people about a good product experience, but the average dissatisfied customer gripes to eleven people. If each of them tells still other people, the number of people exposed to bad word of mouth may grow exponentially.

Table 20.1: Customer Importance and Performance Ratings for an Auto Dealership

Attribute Number	*Attribute Description*	*Mean Importance Rating*[a]	*Mean performance Rating*[b]
1.	Job done right the first time	3.83	2.63
2.	Fast action on complaints	3.63	2.73
3.	Prompt warranty work	3.60	3.15
4.	Able to do any job needed	3.56	3.00
5.	Service available when needed	3.41	3.05
6.	Courteous and friendly service	3.41	3.29
7.	Car ready when promised	3.38	3.03
8.	Perform only necessary work	3.37	3.11
9.	Low prices on service	3.29	2.00
10.	Clean up after service work	3.27	3.02
11.	Convenient to home	2.52	2.25
12.	Convenient to work	2.43	2.49
13.	Courtesy buses and cars	2.37	2.35
14.	Send out maintenance notices	2.05	3.33

[a]Ratings obtained from a four-point scale of "extremely important" (4), "important" (3), "slightly important" (2) and "not important" (1).

[b]Ratings obtained from a four-point scale of "excellent" (4), "good" (3), fair (2) and "poor" (1). A "no basis for judgement" category was also provided.

Nonetheless, customers whose complaints are satisfactorily resolved often become more company-loyal than customers who were never dissatisfied. About 34 percent of customers who register major complaints will buy again from the company if their complaint is resolved, and this number rises to 52 percent for minor complaints. If the complaint is resolved quickly, between 52 percent (major complaints) and 95 percent (minor complaints) will buy again from the company.

Tax and Brown have found that companies that encourage disappointed customers to complain—and also empower employees to remedy the situation on the spot—achieve higher revenues and greater profits than complanies that don't have a systematic approach for addressing service failures. Tax and Brown found that companies that are effective at resolving complaints :

- Develop hiring criteria and training programs that take into account employees' service-recovery role.

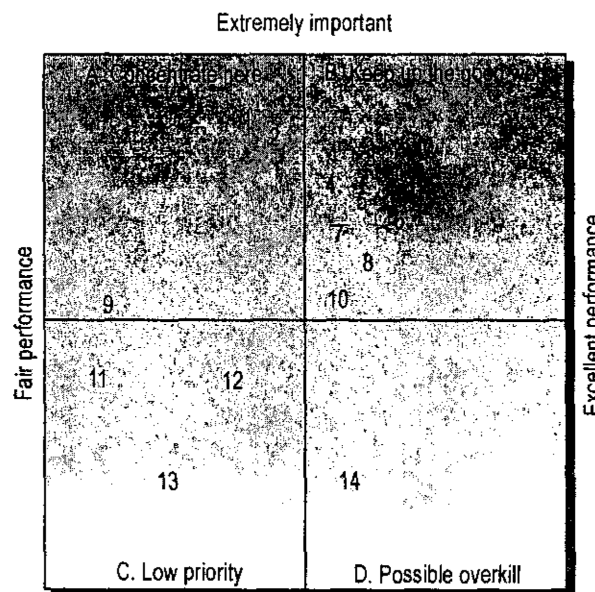


Figure 20.7: Importance-Performance Analysis

- Develop guidelines for service recovery that focus on achieving fairness and customer satisfaction.
- Remove barriers that make it difficult for customers to complain, while developing effective responses, which may include empowering employees to provide compensation for the failure.
- Maintain customer and product databases that let the company analyze types and sources of complaints and adjust its policies.

Satisfying Both Employees and Customers

Excellently managed service companies believe that employee relations will affect customer relations. Management carries out internal marketing and provides employee support and rewards for good performance. Management regularly audits employee job satisfaction. Karl Albrecht observed that unhappy employees can be "terrorists." Rosenbluth and Peters, in *The Customer Comes Second,* go so far as to say that the company's employees, not the company's customers, have to be made number one if the company hopes to truly satisfy its customers.

An important part of satisfying employees is helping them cope with their lives outside the office. As employees put a higher premium on family time, companies are offering more flexible work schedules.

Managing Productivity

Service firms are under great pressure to keep costs down and increase productivity. There are seven approaches to improving service productivity.

The first is to have service providers work more skillfully. The company can hire and foster more skillful workers through better selection and training and giving them higher salary than others.

The second is to increase the quantity of service by surrendering some quality. At Escorts Heart Institute, the heart specialist operate 3 or 4 patients at a time in different operation theatres by the help of closed circuit television.

The third is to "industrialize the service" by adding equipment and standardizing production. Levitt recommended that companies adopt a "manufacturing attitude" toward producing services as represented by McDonald's assembly-line approach to fast-food retailing, culminating in the "technological hamburger."

The fourth is to reduce or make obsolete the need for a service by inventing a product solution, the way television substituted for out-of-home entertainment and the microwave oven reduced the need for going to the bakeries.

The fifth is to design a more effective service. How-to-quit-smoking clinics may reduce the need for expensive medical services later on. Hiring students to work part-time reduces the need for more expensive regular employees.

The sixth is to present customers with incentives to substitute their own labour for company labour. Business firms that are willing to sort their own mail before delivering it to the post office pay lower postal rates. The self service restaurants require customers to pay their bills and obtain what they want and dispose the used serving trays on their own.

The seventh is to harness the power of technology to give customers access to better service and make service workers more productive. Companies that use their Web sites to empower customers can lessen workloads, capture valuable customer data, and increase the value of their businesses.

Companies must avoid pushing productivity so hard that they reduce perceived quality. Some methods lead to too much standardization and rob the customer of customized service; "high touch" is replaced by "high tech". Burger King challenged McDonald's running a "Have it your way" campaign, where customers could get a "customized" hamburger even though this offer reduced Burger King's productivity somewhat.

International Marketing

Major Decisions in International Marketing

Deciding Whether to go Abroad

Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer.

Yet several factors are drawing more and more companies into the International arena:

- Global firms offering better products or lower prices can attack the company's domestic market. The company might want to counter attack these competitors in their home markets. For e.g., Japanese car makers entered the American market and captured the significant part of the market.
- The company discovers that some foreign markets present higher profit opportunities than the domestic market. For e.g., India and China offers huge opportunities for "value for money" products because of their population base.

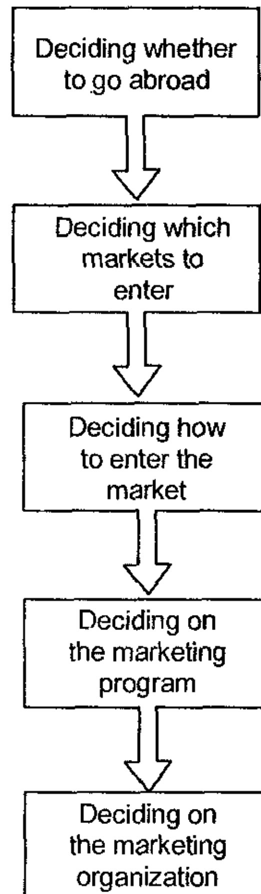


Figure 20.8: Major Decisions in International Marketing.

- The company needs a larger customer base to achieve economies of scale which is not possible in case of developed countries where population growth rate has established.
- The company wants to reduce its dependence on any one market. So that poor performance in one market did not hurt its profitability.
- The company's customers are going abroad and require international servicing because the barriers to move across the countries are fast declining.

Before making a decision to go abroad, the company must weigh several risks :

- The company might not understand foreign customer preferences and fail to offer a competitively attractive product (Table 20.2 lists some famous blunders in this arena).
- The company might not understand the foreign country's business culture or know how to deal effectively with foreign nationals. Table 20.2 lists some of the many challenges.

Table 20.2: Blunders in International Marketing

Hallmark cards failed when they were introduced in France. The French dislike syrupy sentiment and prefer writing their own cards.

Philips began to earn a profit in Japan only after it had reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands.

Coca-Cola had to withdraw its two-liter bottle in Spain after discovering that few Spaniards owned refrigerators with large enough compartments to accommodate it.

General Foods' Tang initially failed in France because it was positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost none at breakfast.

Kellogg's Pop-Tarts failed in Britain because the percentage of British homes with toasters was significantly lower than in the United States and the product was too sweet for British tastes.

P&G Crest toothpaste initially failed in Mexico when it used the U.S. campaign. Mexicans did not care as much for the decay-prevention benefit, nor did scientifically oriented advertising appeal to them.

General Foods squandered millions trying to introduce packaged cake mixes to Japanese consumers. The company failed to note that only 3 percent of Japanese homes were equipped with ovens. Then they promoted the idea of baking cakes in Japanese rice cookers, overlooking the fact that the Japanese use their rice cookers throughout the day to keep rice warm and ready.

S.C. Johnson's wax floor polish initially failed in Japan. The wax made the floors too slippery, and Johnson had overlooked the fact that Japanese do not wear shoes in their homes.

Because of the competing advantages and risks, companies often do not act until some event thrusts them into the international arena. Someone–a domestic exporter, a foreign importer, a foreign government–solicits the company to sell abroad. Or the company is saddled with overcapacity and must find additional markets for its goods.

Deciding Which Markets to Enter

In deciding to go abroad, the company needs to define its international marketing objectives and policies. What proportion of foreign to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small. Others have bigger plans, believing that their foreign business will eventually be equal to, or even more important than, their domestic business.

The company must decide whether to market in a few countries or many countries and determine how fast to expand.

Generally speaking, it makes sense to operate in fewer countries with a deeper commitment and penetration in each. Ayal and Zif have argued that a company should enter fewer countries when

- Market entry and market control costs are high.
- Product and communication adaptation costs are high.
- Population and income size and growth are high in the initial countries chosen.
- Dominant foreign firms can establish high barriers to entry.

The company must also decide on the types of countries to consider. Attractiveness is influenced by the product, geography, income and population, political climate, and other factors. The seller might have a predilection for certain countries or regions. Kenichi Ohmae recommends that companies concentrate on selling in the "triad markets"—the United States, Western Europe, and the Far East—because these markets account for a large percent of all international trade.

Although Ohmae's position makes short-run sense, it can spell disaster for the world economy in the long run. The unmet needs of the developing world represent huge potential markets for food, clothing, shelter, consumer electronics, appliances, and other goods. Many market leaders are now rushing into Eastern Europe, China, Vietnam and India where there are many unmet needs to satisfy.

Regional economic integration—trading agreements between blocs of countries—has intensified in recent years. This development means that companies are more likely to enter entire regions overseas rather than do business with one nation at a time.

Regional Free Trade Zones

Certain countries have formed free trade zones or economic communities—groups of nations organized to work toward common goals in the regulation of international trade. One such community is the European Union (EU). Formed in 1957, the European Union set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labour among member countries and developing

policies on trade with nonmember nations. Today, the European Union is using a common currency, the euro monetary system. In 1998, 11 participating countries locked their exchange rates together, as a first step in a multi year plan for a common currency (Britain, Denmark and Swedan are the holdouts, so far). The euro coins and bills that will eventually replace member countries' currencies will not be in circulation until 2002, and businesses and private citizens will not be required to switch before then.

Today, the European Union represents one of the world's single largest markets. Its 15 member countries contain more than 370 million consumers and account for 20 percent of the world's exports. As more European nations seek admission to the EU in the twenty-first century, it could contain as many as 450 million people in 28 countries.

European unification offers tremendous trade opportunities for U.S. and other non-European firms. However, it also poses threats. As a result of increased unification, European companies will grow bigger and more competitive. Witness the competition in the aircraft industry between Europe's Airbus consortium and the Untied States' Boeing. Perhaps an even bigger concern, however, is that lower barriers inside Europe will only create thicker outside walls. Some observers envision a "fortress Europe" that heaps favours on firms from EU countries but hinders outsiders by imposing obstacles such as stiffer import quotas, local content requirements, and other nontariff (nontax) barriers.

Also, companies that plan to create "pan-European" marketing campaigns directed to a unified Europe should proceed with caution. Even if the European Union truly does manage to standardize its general trade regulations and implement the euro, creating an economic community will not create a homogeneous market. Companies marketing in Europe face 14 different languages, 2,000 years of historical and cultural differences, and a daunting mass of local rules.

The most successful pan-European ads are those that are highly visual and symbolic. These ads focus on the product and consumer and are aimed at one of the two audiences that market researchers really agree are turning into Euroconsumers—the young and the rich. One such ad is for TAG Heuer watches in which a swimmer races a shark, a hurdler leaps over an oversized razor blade, and a relay runner grabs a dynamite baton, all mind games that athletes everywhere use to rev up their performance.

In North America, the United States and Canada phased out trade barriers in 1989. In January 1994, the North American Free Trade Agreement (NAFTA) established a free trade zone among the United States, Mexico and Canada. The agreement created a single market of 360 million people who produce and consume $6.7 trillion worth of goods and services. As it is implemented over a 15-year period, NAFTA will eliminate all trade barriers and investment restrictions among the three countries. Prior to NAFTA, tariffs on American products entering Mexico averaged 13 percent, whereas U.S. tariffs on Mexican goods averaged 6 percent.

Other free trade areas are forming in Latin America and South America. For example, MERCOSUL now links Brazil, Colombia and Mexico. Chile and Mexico have formed a successful free trade zone. Venezuela, Colombia and Mexico—the "Group of Three"—are negotiating a free trade area as well. It is likely that NAFTA will eventually merge with this and other arrangements to form an all-Americas free trade zone.

Although the United States has long regarded Latin America as its backyard, it is the European nations that have tapped this market's enormous potential. As Washington's efforts to extend NAFTA to Latin America have stalled, European countries have moved in with a vengeance. MERCOSUL's two-way trade with the EU in 1995 amounted to $43 billion, a total that exceeded trade with the United States by $14 billion. When Latin American countries instituted market reforms and privatized public utilities, European companies rushed in to grab up lucrative contracts for rebuilding Latin America's infrastructure. Spain's Telefonica de Espana has spent $5 billion buying phone companies in Brazil, Chile, Peru, and Argentina. European companies have moved rapidly into the private sector. In Brazil, seven of the ten largest private companies are European owned, compared to two controlled by Americans. Among the notable European companies operating in Latin America are automotive giants Volkswagen and Fiat, the French supermarket chain Carrefours, and the Anglo-Dutch personal care products group Gessy-Lever.

As U.S. companies have watched Europeans make inroads in Latin America, they have pressured Washington to move more quickly on integrating Chile into NAFTA and toward Free Trade Area of the Americas. MERCOSUL doesn't repesent only a huge domestic market of 220 million consumers; with its entire Pacific

Coast beckoning toward Asia, MERCOSUL also stands to become an important low-cost platform for world export. Yet two groups in the United States—labour unions and environmentalists—are skeptical about the benefits of a Free Trade Area of the Americas. Union feel that NAFTA has already led to the exodus of manufacturing jobs to Mexico where wage rates are much lower. Environmentalists poit out that companies unwilling to play by the strict rules of the U.S. Environmental Protection Agency relocate to Mexico, where pollution regulation has been lax.

Eighteen Pacific Rim countries, including the NAFTA member states, Japan and China, have been discussing the possible creation of a pan-Pacific free trade area under the auspices of the Asian Pacific Economic Cooperation forum (APEC). There are also active attempts at regional economic integration in the Caribbean, Southeast Asia, and parts of Africa.

Yet, however much nations and regions integrate their trading policies and standards, each nation still has unique features that must be understood. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal, and cultural environments.

EVALUATING POTENTIAL MARKETS

Suppose a company has assembled a list of potential markets to enter. How does it choose among them ? Many companies prefer to sell to neighbouring countries because they understand these countries better, and they can control their costs better. It is not surprising that the United States' largest market is Canada, or that Swedish companies first sold to their Scandinavian neighbours. As growing numbers of U.S. companies expand abroad, many are deciding the best place to start is next door, in Canada.

At other times, *psychic proximity* determines choices. Many U.S. firms prefer to sell in Canada, England, and Australia—rather than in larger markets such as Germany and France—because they feel more comfortable with the language, laws and culture.

In general, a company prefers to enter countries (1) that rank high on market attractiveness, (2) that are low in market risk, and (3) in which the company possesses a competitive advantage.

Deciding how to Enter the Market

Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are *indirect exporting, direct exporting, licensing, joint ventures* and *direct investment.* These five market-entry strategies are shown in Figure 20.9. Each succeeding strategy involves more commitment, risk, control and profit potential.

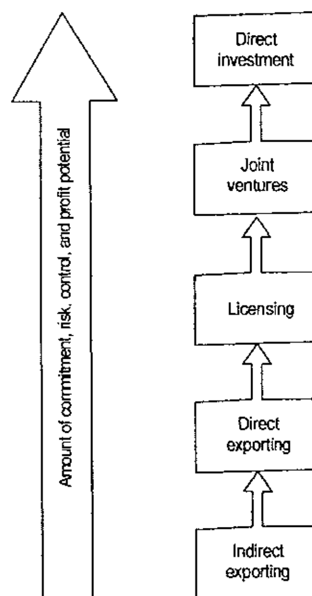


Figure 20.9: Five Modes of Entry into Foreign Markets

Indirect Export

The normal way to get involved in a foreign market is through export. *Occasional exporting* is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. *Active exporting* takes place when the company makes a commitment to expand its exports to a particular market. In either case, the company produces its goods in the home country and might or might not adapt them to the foreign market.

Companies typically start with *indirect exporting*—that is, they work through independent intermediaries to export their product. There are four types of intermediaries : *Domestic-based export merchants* buy the manufacturer's products and then sell them abroad. *Domestic-based export agents* seek and negotiate foreign purchases and are paid a commission. Included in this group are trading companies. *Cooperative organizations* carry on exporting activities on behalf of several producers and are partly under their administrative control. They are often used by producers of primary products such as fruits or nuts. *Export-management companies* agree to manage a company's export activities for a fee. Indirect export has two advantages. First, it involves less investment. The firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. Second, it involves less risk. Because international-marketing intermediaries bring know-how and services to the relationship, the seller will normally make fewer mistakes.

Direct Exports

Companies eventually may decide to handle their own exports. The investment and risk are somewhat greater, but so is the potential return.

A company can carry on direct exporting in several ways:

- *Domestic-based export department or division:* Might evolve into a self-contained export department operating as a profit center.
- *Overseas sales branch or subsidiary:* The sales branch handles sales and distribution and might handle warehousing and promotion as well. It often serves as a display and customer service center.
- *Traveling export sales representatives:* Home-based sales representatives are sent abroad to find business.
- *Foreign-based distributors or agents*: These distributors and agents might be given exclusive rights to represent the company in that country or only limited rights.

Whether companies decide to export indirectly or directly, many companies use exporting as a way to "test the waters" before building a plant and manufacturing a product overseas.

One of the best ways to initiate or extend export activities is by exhibiting at an overseas trade show. A U.S. software firm might show its product at an international software expo in Hong Kong. With the World Wide Web, it may not even be necessary to attend trade shows to show one's wares to overseas buyers and distributors. Electronic communication via the Internet is extending the reach of companies, particularly small ones, to worldwide markets. The Internet has become an effective means of everything from gaining free exporting information and guidelines, conducting market research and offering customers several time zones away a secure process for ordering and paying for products.

Licensing

Licensing is a simple way to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name.

Licensing has some potential disadvantages. The licensor has less control over the licensee than if it had set up its own production and sales facilities. Furthermore, if the licensee is very successful, the firm has given up

profits; which the firm might have earned if it entered in that country on their own and if and when the contract ends, the company might find that it has created a competitor. To avoid this, the licensor usually supplies some proprietary ingredients or components needed in the product (as Coca-Cola does). But the best strategy is for the licensor to lead in innovation so that the licensee will continue to depend on the licensor.

There are several variations on a licensing arrangement. Companies such as Hyatt and Marriot sell *management contracts* to owners of foreign hotels to manage these businesses for a fee. The management firm may even be given the option to purchase some share in the managed company within a stated period.

Another variation is *contract manufacturing*, in which the firm hires local manufacturers to produce the product. Contract manufacturing has the drawback of giving the company less control over the manufacturing process and the loss of potential profits on manufacturing. However, it offers a chance to start faster, with less risk and with the opportunity to form a partnership or buy out the local manufacturer later.

Finally, a company can enter a foreign market through *franchising*, which is a more complete form a licensing. The franchiser offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchiser. McDonald's KFC and Avis have entered scores of countries by franchising their retail concepts.

Joint Ventures

Foreign investors may join with local investors to create a joint venture company in which they share ownership and control.

Forming a joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical, or managerial resources to undertake the venture alone. Or the foreign government might require joint ownership as a condition for entry. Even corporate giants need joint ventures to crack the toughest markets. When it wanted to enter China's ice cream market, Unilever joined forces with Sumstar, a state-owned Chinese investment company. The venture's general manager says Sumstar's help with the formidable Chinese bureaucracy was crucial in getting a high tech ice cream plant up and running in just 12 months.

Joint ownership has certain drawbacks. The partners might disagree over investment, marketing, or other policies. One partner might want to reinvest earnings for growth, and the other partner might want to declare more dividends. The failure of the joint venture between AT&T and Olivetti was due to the companies' inability to agree on strategy. Furthermore, joint ownership can prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.

Direct Investment

The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in a local company or build its own facilities. If the foreign market appears large enough, foreign production facilities offer distinct advantages. First, the firm secures cost economies in the form of cheaper labour or raw materials, foreign-government investment incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm develops a deeper relationship with government, customers, local suppliers, and distributors, enabling it to adapt its products better to the local environment. Fourth, the firm retains full control over its investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm assures itself access to the market in case the host country starts insisting that locally purchased goods have domestic content.

The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation. The firm will find it expensive to reduce or close

down its operations, because the host country might require substantial severance pay to the employees.

The Internationalization Process

Most countries lament that too few of their companies pariticipate in foreign trade. This keep the country from earning sufficient foreign exchange to pay for needed imports. Many governments sponsor aggressive export-promotion programs to get their companies to export. These programs require a deep understanding of how companies become internationalized.

Johanson and Wiedersheim-Paul have studied the *internationalization process* among Swedish companies. They are firms moving through four stages :

1. No regular export activities.
2. Export via independent representatives (agents)
3. Establishment of one or more sales subsidiaries
4. Establishment of production facilities abroad.

The first task is to get companies to move from stage 1 to stage 2. This move is helped by studying how firms make their first export decisions. Most firms work with an independent agent and enter a nearby or similar country. A company then engages further agents to enter additional countries. Later, it establishes an export department to manage its agent relationships. Still later, the company replaces its agents with its own sales subsidiaries in its larger export markets. This increases the company's investment and risk but also its earning potential. To manage these subsidiaries, the company replaces the export department with an international department. If certain markets continue to be large and stable, or if the host country insists on local production, the company takes the next step of locating production facilities in those markets, representing a still larger commitment and still larger potential earnings. By this time, the company is operating as a multinational company and engaged in optimizing its global sourcing, financing, manufacturing and marketing.

Deciding on the Marketing Program

International companies must decide how much to adapt their marketing strategy to local conditions. At one extreme are companies that use a globally *standardized marketing mix* worldwide. Standardization of the product, advertising and distribution channels promises the lowest costs. At the other extreme is an *adapted marketing mix,* where the producer adjust the marketing-mix elements to each target market.

Between the two extremes, many possibilities exist. Here we will examine potential adaptations that firms might make to their product, promotion, price, and distribution as they enter foreign markets.

Product

Keegan has distinguished five adaptation strategies of product and promotion to a foreign market (Figure 20.10).

Promotion \ Product	Do Not Change Product	Adapt Product	Develop New Product
Do Not Change Promotion	Straight extension	Product adaptation	Product Invention
Adapt Promotion	Communication adaptation	Dual adaptation	

Figure 20.10: Five International Product and Promotion Strategies

Straight extension means introducing the product in the foreign market without any change. Top management instructs its salespeople : "Find customers for the product as it is." However, the company should first determine whether foreign consumers use that product. Deodorant usage among men ranges from 80 percent in the United States to 55 percent in Sweden to 28 percent in Italy to 8 percent in the Philippines. In interviewing women in one country about how often they used a deodorant, a typical response was "I use it when I go dancing once a year" : hardly grounds for introducing the product.

Straight extension has been successful with cameras, consumer electronics, and many machine tools. In other cases, it has been a disaster. Straight extension is tempting because it involves no additional R&D expense, manufacturing, retooling, or promotional modification. But it can be costly in the long run.

Product adaptation involves altering the product to meet local conditions or preferences. There are several levels of adaptation. A company can produce a *regional version* of its product, such as a Western European version. Finnish cellular phone superstar Nokia made its 1100 series phone especially for India. Developers built in rudimentary voice recognition for Asia, where keyboards are a problem and raised the ring volume so the phone could be heard on crowded Asian streets.

Product invention consists of creating something new. It can take two forms, *Backward invention* is reintroducing earlier product forms that are well adapted to a foreign country's needs. *Forward invention* is creating a new product to meet a need in another country. There is an enormous need in less developed countries for low-cost, high-protein foods. Companies such as Quaker Oats, Swift, and Monsanto are researching these countries' nutrition needs, formulating new foods, and developing advertising campaigns to gain product trial and acceptance. In globalization's latest twist, American companies are not only inventing new products for overseas markets but also lifting products and ideas from their international operations and bringing them home. Product invention is a costly strategy, but the payoffs can be great, particularly if you can parlay a product innovation overseas into a new hit at home.

A growing part of international trade is taking place in services. The world market for services is growing at double the rate of world merchandise trade. Large firms in accounting, advertising, banking, communications, construction, insurance, law, management consulting, and retailing are pursuing global expansion. Arthur Andersen, American Express, Citicorp, Hilton, and Thomas Cook are known worldwide.

At the same time, many countries have erected entry barriers or regulations. Brazil requires all accountants to possess a professional degree from a Brazilian university. Many Western European countries want to limit the number of U.S. television programs and films shown in their countries. Many U.S. states bar foreign bank branches. At the same time, the United States is pressuring South Korea to open its markets to U.S. banks. The General Agreement of Tariffs and Trade (GATT) is pressing for more free trade in international services, but the progress is slow.

Promotion

Companies can run the same advertising and promotion campaigns used in the home market or change them for each local market, a process called *communication adaptation*. If it adapts both the product and the communciation, the company engages in *dual adaptation*.

Consider the message. The company can change its message at four different levels. The company can use one message everywhere, varying only the language, name, and colours. Exxon used "Put a tiger in your tank" with minor variations and gained international recognition. Colours might be changed to avoid taboos in some countries. Purple is associated with death in Burma and some Latin American nations; white is a mourning colour in India; and green is associated with disease in Malaysia. Even names and headlines may have to be modified. When Clairol introduced the "Mist Stick," a curling iron, into Germany, it found that *mist* is slang for manure. Few Germans wanted to purcahse a "manure stick." In Spain, Chevrolet's *Nova* translated as "it doesn't go."

The second possibility is to use the same theme globally but adapt the copy to each local market. For example,

a Camay soap commercial showed a beautiful woman bathing. In Venezuela, a man was seen in the bathroom; in Italy and France, only a man's hand was seen; and in Japan, the man waited outside.

The third approach consists of developing a global pool of ads, from which each country selects the most appropriate one. Coca-cola and Goodyear use this approach. Finally, some companies allow their country managers to create country-specific ads—within guidelines, of course.

The use of media also requires international adaptation because media availability varies from country to country. Norway, Belgium, and France do not allow cigarettes and alcohol to be advertised on TV, Austria and Italy regulate TV advertising to children. Saudi Arabia does not want advertisers to use women in ads. India taxes advertising. Magazines vary in availability and effectiveness; they play a major role in Italy and a minor one in Austria. Newspapers have a national reach in the United Kingdom, but the advertiser can buy only local newspaper coverage in Spain.

Marketers must also adapt sales-promotion techniques to different markets. Greece prohibits coupons and France prohibits games of chance and limits premiums and gifts to 5 percent of product value. People in Europe and Japan tend to make inquiries via mail rather than phone—which may have ramifications for direct-mail and other sales-promotion campaigns. The result of these varying preferences and restrictions is that international companies generally assign sales promotion as a responsibility of local management.

Price

Multinationals face several pricing problems when selling abroad. They must deal with price escalation, transfer prices, dumping charges, and gray markets.

When companies sell their goods abroad, they face a *price escalation* problem. A Gucci handbag may sell for $120 in Italy and $240 in the United States. Why? Gucci has to add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Depending on these added costs, as well as the currency-fluctuation risk, the product might have to sell for two to five times as much in another country to make the same profit for the manufacturer. Because the cost escalation varies from country to country, the question is how to set the prices in different countries. Companies have three choices :

1. *Setting a uniform price everywhere :* Coca-Cola might want to charge 60 cents for Coke everywhere in the world. But then Coca-Cola would earn quite different profit rates in different countries because of varying escalation costs. Also, this strategy would result in the price being too high in poor countries and not high enough in rich countries.

2. *Setting a market-based price in each country :* Here Coca-Cola would charge what each country could afford. But this strategy ignores differences in the actual cost from country to country. Also, it could lead to a situation in which intermediaries in low-price countries reship their Coca-Cola to high-price countries.

3. *Setting a cost-based price in each country :* Here Coca-Cola would use a standard markup of its costs everywhere. But this strategy might price Coca-Cola out of the market in countries where its costs are high.

Another problem arises when a company sets a *transfer price* (*i.e.*, the price that it charges to another unit in the company) for goods that it ships to its foreign subsidiaries.

If the company charges too high a price to a subsidiary, it may end up paying higher tariff duties, although it may pay lower income taxes in the foreign country. If the company charges too low a price to its subsidiary, it can be charged with *dumping*. Dumping occurs when a company charges either less than its costs or less than it charges in its home market, in order to enter or win a market. Zenith accused Japanese television manufacturers of dumping their TV sets on the U.S. market. When the U.S. Customers Bureau finds evidence of dumping, it can levy a dumping tariff on the guilty company. Various governments are watching for abuses and often force companies to charge the *arm's-length price*—that is, the price charged by other competitors for the same or a similar product.

Many multinational are plagued by the gray-market problem. A *gray market* occurs when the same product sells at different prices geographically. Dealers in the low-price country find ways to sell some of their products in higher-price countries, thus earning more.

Very often a company finds some enterprising distributors buying more than they can sell in their own country and reshipping goods to another country to take advantage of price differences. Multinationals try to prevent gray markets by policing the distributors, by raising their prices to lower-cost distributors, or by altering the product characteristics or service warranties for different countries.

In the European Union, the gray market may disappear altogether with the transition to a single currency unit. The adoption of the single currency by 11 countries will certainly reduce the amount of price differentiation. In 1998, a bottle of Gatorade, for instance, cost 3.5 European currency units (ECU) in Germany but only about 0.9 in Spain. Once consumers recognize price differentiation by country, companies will be forced to harmonize prices throughout the countries that have adopted the single currency. Companies and marketers that offer the most innovative, specialized, or necessary products or services will be least affected by price transparency.

The Internet will also reduce price differentiation between countries. When companies sell their wares over the Internet, price will become transparent as customers can easily find out how much products sell for in different countries. Take an on-line training course, for instance. Whereas the price of a classroom-delivered day of training can vary significantly from the United States to France to Thailand, the price of an on-line-delivered day of training would have to be similar.

Another global pricing challenge that has arisen in recent years is that countries with overcapacity, cheap currencies, and the need to export aggressively have pushed prices down and devalued their currencies. For multinational firms this poses challenges : Sluggish demand and reluctance to pay higer prices make selling in these emerging markets difficult. Instead of lowering prices, and taking a loss, some multinationals have found more lucrative and creative means of coping.

Place (Distribution Channels)

Too many manufacturers think their job is done once the product leaves the factory. They should pay attention to how the product moves within the foreign country. They should take a whole-channel view of the problem of distributing products to final users. Figure 20.11, shows the three major links between seller

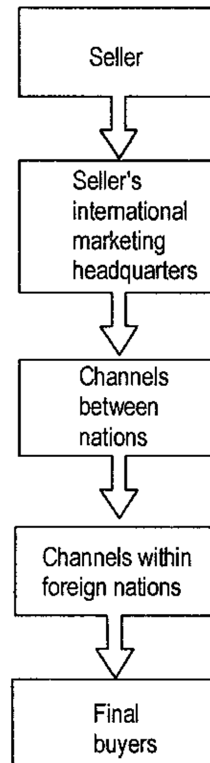


Figure 20.11: Whole-channel concept for International Marketing

and ultimate user. In the first link, *seller's international marketing headquarters*, the export department or international division makes decisions on channels and other marketing-mix elements. The second link, *channels between nations*, gets the products to the borders of the foreign nation. The decisions made in this link include the types of intermediaries (agents, trading companies) that will be used, the type of transportation (air, sea), and the financing and risk arrangements. The third link, *channels within foreign nations,* gets the products from their entry point to final buyers and users.

Within-country distribution channels vary considerably among countries. To sell soap in Japan, Procter & Gamble has to work through one of the most complicated distribution systems in the world. It must sell to a general wholesaler, who sells to a product wholelaser, who sells to a product-specialty wholesaler, who sells to a regional wholesaler, who sells to a local wholesaler, who finally sells to retailers. All these distribution levels can mean that the consumer's price ends up double or triple the importer's price. If P&G takes the soap to tropical Africa, the company might sell to an import wholesaler, who sells to several jobbers, who sell to petty traders (mostly women) working in local markets.

Another difference lies in the size and character of retail units abroad. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small independent retailers. In India, millions of retailers operate tiny shops or sell in open markets. Their markups are high, but the real price is bought down through haggling. Incomes are low, and people must shop daily for small amounts and are limited to whatever quantity can be carried home on foot or on a bicycle. Most homes lack storage and refrigeration space to keep food fresh. Packaging costs are kept low in order to keep prices low. In India, cigarettes are often bought

singly. Breaking bulk remains an important function of intermediaries and helps perpetuate the long channels of distribution, which are a major obstacle to the expansion of large-scale retailing in developing countries.

Deciding on the Marketing Organization

Companies manage their international marketing activities in three ways : through export departments, International divisions, or a global organization.

Export Department

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company organize an export department consisting of a sales manager and a few assistants. As sales increase further, the export department is expanded to include various marketing services so that the company can go after business more aggressively. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate to manage international operations.

International Division

Many companies become involved in several international markets and ventures. Sooner or later they will create international divisions to handle all their international activity. The International division is headed by a division president, who sets goals and budgets and is responsible for the company's international growth.

The international division's corporate staff consists of functional specialists who provide services to various operating units. Operating units can be organized in several ways. First, they can be *geographical organizations.* Reporting to the international division president might be regional vice presidents for North America, Latin America, Europe, Africa, the Middle East, and the Far East. Reporting to the regional vice president are country managers who are responsible for a sales force, sales branches, distributors, and licensees in the respective countries. Or the operating units may be *world product groups*, each with an international vice president responsible for world-wide sales of each product group. The vice presidents may draw on corporate-staff area specialists for expertise on different geographical areas. Finally, operating units may be *international subsidiaries,* each headed by a president. The various subsidiary presidents report to the president of the international division.

Global Organization

Several firms have become truly global organizations. Their top corporate management and staff plan worldwide manufacturing facilitites, marketing policies, financial flows, and logistical systems. The global opearting units report directly to the chief executive or executive committee, not to the head of an international division. Executives are trained in worldwide operations, not just domestic or international. Management is recruited from many countries; components and supplies are purchased where they can be obtained at the least cost; and investments are made where the anticipated returns are greatest.

These companies face several organizational complexities. For example, when pricing a company's mainframe computers to a large banking system in Germany, how much influence should be wielded by the headquarters

product manager, by the company's market manager for the banking sector, and by the company's German country manager? Bartlett and Ghoshal have proposed circumstances under which different approaches work best. In their *Managing Across Borders*, they describe forces that favour "global integration" (*e.g.*, capital-intensive production, homogeneous demand) versus "national responsiveness" (*e.g.*, local standards and barriers, strong local preferences). They distinguish three organizational strategies:

1. A *global strategy* treats the world as a single market. This strategy is warranted when the forces for global integration are strong and the forces for national responsiveness are weak. This is true of the consumer electronics market, for exmaple, where most buyers will accept a fairly standardized pocket radio, CD player or TV. Matsushita has performed better than GE and Philips in the consumer electronics market because Matsushita operates in a more globally coordinated and standardized way.

2. A *multinational strategy* treats the world as a portfolio of national opportunities. This strategy is warranted when the forces favouring national responsiveness are strong and the forces favouring global integration are weak. This is the situation in the branded packaged-goods business (food product cleaning products). Bartlett and Ghoshal cite Unilever as a better performer than Kao and P&G because Unilever grants more decision-making autonomy to its local branches.

3. A "*glocal*" *strategy* standardizes certain core elements and localizes other elements. This strategy makes sense for an industry (such as telecommunications) where each nation requires some adaptation of its equipment but the providing company can also standardize some of the core components. Bartlett and Ghoshal cite Ericsson as balancing these considerations better than NEC (too globally oriented) and ITT (too locally oriented).

Chapter 21
Recent Development in Marketing

1. Relationship Marketing

Relationship Marketing : The Key

To understand customer relationship marketing, we must review the process involved in attracting and keeping customers. Figure 21.1, shows the main steps in the *customer development process.* The starting point is *suspects,* everyone who might conceivably buy the product or service. The company looks hard at the suspects to determine who are the most likely *prospects* — the people who have a strong potential interest in the product and the ability to pay for it. *Disqualified prospects* are those the company rejects because they have poor credit or would be unprofitable. The company hopes to convert many of its *qualified prospects* into first-time customers, and then to convert those satisfied first-time customers into *repeat customers.* Both first-time and repeat customers may continue to buy from competitors as well. The company then acts to convert repeat customers into *clients* — people whom the company treats very specially and knowledgeably. The next challenge is to turn clients into *members,* by starting a membership program that offers a whole set of benefits to customers who join. Hopefully then, the members will turn into *advocates,* customers who enthusiastically recommend the company and its products and services to others. The ultimate challenge is to turn advocates into *partners,* where the customer and the company work together actively.

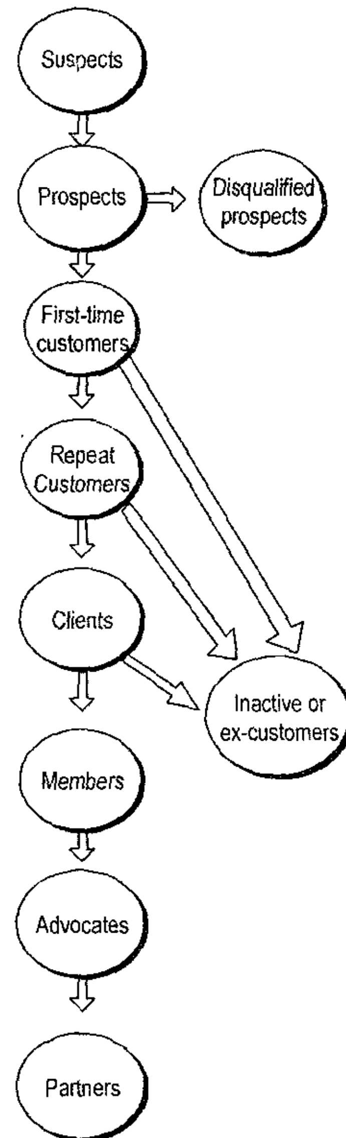


Figure 21.1: The Customer-Development Process.

Some customers will inevitably become inactive or drop out for reasons of bankruptcy, moves to other locations, dissatisfaction, and so on. Here the company's challenge is to reactivate dissatisfied customers through *customer win-back strategies.* It is often easier to reattract ex-customers, because the company knows their names and histories, than to find new ones.

Developing more loyal customers increases revenue. However, the company has to spend more to build

greater customer loyalty. How much should a company invest in relationship building, so that the costs do not exceed the gains ? We need to distinguish five different levels of investment in customer-relationship building :

1. *Basic marketing* : The salesperson simply sells the product.
2. *Reactive marketing* : The salesperson sells the product and encourages the customer to call if he or she has questions, comments, or complaints.
3. *Accountable marketing* : The salesperson phones the customer a short time after the sale to check whether the product is meeting expectations. The salesperson also asks the customer for any product- or service-improvement suggestions and any specific disappointments. This information helps the company continuously improve its performance.
4. *Proactive marketing* : The company salesperson contacts the customer from time to time with suggestions about improved product uses or helpful new products.
5. *Partnership marketing* : The company works continuously with the customer to discover ways to perform better.

Most companies practice only basic marketing when their markets contain many customers and their unit profit margins are small. Heinz is not going to phone each ketchup buyer to express appreciation. At best, Heinz will set up a customer hot line. At the other extreme, in markets with few customers and high profit margins, most sellers will move toward partnership marketing. Boeing, for example, works closely with American Airlines in designing Boeing air planes that fully satisfy American's requirements. As Figure 21.2, shows, the likely level of relationship marketing depends on the number of customers and the profit margin level.

The best relationship marketing going on today is driven by technology. GE Plastics couldn't target its newsletter so effectively to customers if it weren't for advances in database software. Dell, discussed

	HIGH MARGIN	MEDIUM MARGIN	LOW MARGIN
Many customer/ distributors	Accountable	Reactive	Basic or reactive
Medium number of customer/ distributors	Proactive	Accountable	Reactive
Few customer/ distributor	Partnership	Proactive	Accountable

Figure 21.2: Levels of Relationship Marketing.

couldn't customize computer ordering for its global corporate without advances in Web technology. Companies are using e-mail, Web sites, call centres, databases, and database software to foster continuous contact between company and customer.

Enhancing Customer Relations with Relationship Marketing

Relationship marketing : *Marketing activities aimed at building long-term relationship with the parties, especially customers, that contribute to a company's success; also called relationship management.*

Effective marketers view customer services within the larger context of relationship marketing. The term **relationship marketing** is used to communicate the idea that a major goal of marketing, whether the product is a good or a service, is to build long term relationships with suppliers, customers, and other parties who contribute to a company's success. The *customer relations* dimension of relationship marketing seeks to build customer loyalty by fulfilling promises and continuing to satisfy customer wants and need.

Theodore Levitt put it somewhat differently :

> The relationship between a buyer and seller seldom ends when a sale is made. In a greatly increasing proportion of transactions, the relationship actually intensifies subsequent to the sale. This becomes the buyer's critical factor in the buyer's choice of a seller the next time around..... The sale merely consummates the courtship. Then the marriage begins. How good the marriage is depends on how well the relationship is managed by the seller.

Effective marketers view making a sale not as the end of a process but as the start of an organization's relationship with a customer. When they need to repurchase the same product in the future, customers will return to the company that treated them best. If they need a related item, satisfied customers know the first place to look. Thus, once an exchange is made, effective marketers focus marketing efforts on solidifying relationships, transforming indifferent customers into loyal ones, retaining customers, and serving customers as clients.

Benefits to the Organization

An old business adage says "It costs six times as much to get a new customer as it does to keep and old customer." Although the figures vary industry by industry, the point is valid. Working to retain customers by managing relationships with them will generally increase revenues and, in most cases, reduce costs. Thus, profits rise when companies retain customers.

Consumer Benefits

Customers also profit from relationship marketing. First, many buyers do not want to evaluate too many factors when choosing among alternatives. The continuity derived from a relationship with the same seller simplifies the buying process. Customers who keep coming back find buying relatively effortless. Feeling comfortable in a buyer-seller relationship is a major customer benefit.

Because services are intangible, they are difficult to evaluate prior to purchase. Buyers become loyal customers because they want to do business with organizations that will provide consistent service quality. For example, most consumers are very loyal to their hairdressers or barbers. They do not want to risk buying a service whose quality is not up to their expectations.

Another benefit customers gain from relationship marketing is increased customization of goods or services. An ongoing relationship allows marketers to know their customer's names and the nature of their needs. People want to be dealt with individually. Relationship marketing has been called 'one-to-one marketing" because it allows marketers to tailor their offerings to individual consumers. Companies that wish to delight customers personalize their relationship and customize products.

Effective marketers who customize products and cater to individual lifestyles must learn a great deal about their customers. Sales personnel at specialty clothing stores ask regular customers about their jobs, families, and lifestyles. They keep an eye out for clothes to suit their customers' tastes and put aside possible selections. They know that personalized service and their customers' trust in their ability to select items greatly enhance their relationship with customers. In the past, sales personnel note such information in notebooks. Unfortunately, if they left the organization, so did the client information.

In an age when personalization is rare, information technology is bringing it back. With today's information technology, personalized service can be greatly expanded through databased marketing.

Three Levels of Relationship Marketing Programs

It is possible to categorize three types of relationship marketing : financial, social, and structural. The categories are based on the primary reason for the bond between the marketer and the customer.

Financial Relationships : Frequency & Club Marketing Programs

Two financial benefits that companies can offer are frequency marketing programs and club marketing programs. *Frequency marketing programs* (*FMPs*) are designed to provide rewards to customers who buy frequently and/or in substantial amounts. Frequency marketing is an acknowledgment of the fact that 20 percent of a company's customers might account for 80 percent of its business.

American Airlines was one of the first companies to pioneer a frequency marketing program when it decided to offer free mileage credit to its customers in the early 1980s. Hotels next adopted FMPs, with Marriott taking the lead with its Honoured Guest Program. Frequent guests receive room upgrades or free rooms after earning so many points. Shortly thereafter, car rental firms sponsored FMPs. Then credit-card companies began to offer points based on their cards usage level.

Typically, the first company to introduce an FMP gains the most benefit, especially if competitors are slow to respond. After competitors respond, FMPs can become a financial burden to all the offering companies.

Most *frequency marketing programs* are based on financial incentives. Season tickets for professional basketball games or the opera provide discounts to fans who establish a relationship with the organization. Banks often offer higher interest rates for deposits that will be kept in an account for a longer duration. Frequent flyer programs offer a free trip after a customer flies a certain number of segments or miles. In effect, these programs provide a discount pricing incentive to reward consumers for high levels of spending or multiple purchases.

Many companies have created *club membership programs* to bond customers closer to the company. Club membership can be open to everyone who purchases a product or service, such as a frequent fliers or frequent diners club, or it can be limited to an *affinity group* or to those willing to pay a small fee. Although open clubs are good for building a database or snatching customers from competitors, limited membership clubs are more powerful long-term loyalty builders. Fees and membership conditions prevent those with only a fleeting interest in a company's products from joining. Limited customer clubs attract and keep those customers who are responsible for the largest portion of business. Some highly successful clubs include the following :

- **IKEA** The IKEA Family, the club formed by the Swedish furniture company, has members in nine countries and more than 200,000 members in Germany alone. Some club benefits include furniture transportation, insurance, and a program for members to swap each other's holiday homes or condos. A club member in the Rocky Mountains might let a Swedish family use his mountain cabin while he spends a few weeks on a Scandinavian fjord.
- **Swatch** Swatch afficionados buy an average of nine of the company's quirky watches every year, so Swiss watchmaker Swatch uses its club to cater to collectors. Club members can buy exclusives, such as the "Garden Turf" watch, a clear watch with an Astroturf band. Club members also receive a newsletter and the *World Journal,* a magazine filled with Swatch news from the four corners of the globe. Swatch counts on enthusiastic word-or-mouth from club members as a boost to business.
- **Harley-Davidson** The world-famous motorcycle company sponsors the Harley Owners Group (HOG), which now numbers 360,000 members. The first-time buyers of a Harley-Davidson motorcycle gets a free one-year membership. HOG benefits include a magazine (*Hog Tales*), a touring handbook, emergency road service, a specially designed insurance program, theft reward service, discount hotel rates, and a Fly & Ride program enabling members to rent Harleys while on vacation.

Social Relationships

One form of relationship marketing involves the formation of a social bond between the company and its customers. Many people know about the thousands of Saturn owners who converge annually on the car company's headquarters in Spring Hill, Tennessee for a barbecue, a plant tour, and a chance to talk with other

Saturn owners about how much they love their cars. However, even this type of relationship marketing pales somewhat in comparison to what Chrysler does to bond with its Jeep owners.

One weekend each year, dozens of owners driving their Jeeps meet in the tiny mountain town of Blanding, Utah for Chrysler Corporation's "Jeep Jamboree." The Jeep owners gas up and form a convoy to Arches Canyon National Park, a 20 minute drive away. There, for the next two days and nights, they get to test their vehicles on narrow roads in nature's roughest terrain. For the Jeep owners who participate, the Jeep Jamboree adventure offers a rare chance to experience the promise of Jeep commercials. (Only 10 percent of those who own sport-utility vehicles ever get a chance to drive off-road, studies show.) For Chrysler, this relationship marketing event provides an opportunity to bond with customers and establish brand loyalty. Chrysler expects participants in the jamborees to become ambassadors for the brand.

Here company personnel work on increasing their bonds with customers by individualizing and personalizing customer relationships. Table contrasts a socially sensitive approach with a socially insensitive approach to customers. In essence, thoughtful companies turn their customers into clients. Donnelly, Berry, and Thompson draw this distinction:

> *Customers may be nameless to the institution; clients cannot be nameless. Customers are served as part of the mass or as part of larger segments; clients are served on an individual basis .... Customers are served by anyone who happens to be available; clients are served by the professional assigned to them.*

Some companies take steps to bring their customers together to meet and enjoy each other. Companies such as Harley-Davidson, Saturn, and chrysler are said to be engaged in building *brand communities.*

Table 21.1: Social Actions Affecting Buyer-Seller Relationships

Good Things	*Bad Things*
Initiate positive phone calls	Make only call backs
Make recommendations	Make justifications
Candor in language	Accommodative language
Use phone	Use correspondence
Show appreciation	Wait for misunderstanding
Make service suggestions	Wait for service requests
Use "we" problem-solving language	Use "owe-us" legal language
Get to problems	Only respond to problems
Use jargon or shorthand	Use long-winded communications
Personality problems aired	Personality problems hidden
Talk of "our future together"	Talk about making good on the past
Routinize responses	Fire drill and emergency responsiveness
Accept responsibility	Shift blame
Plan the future	Rehash the past

Structural Relationships

When a stockbroker, such as Charles Schwab, provides its Velocity computer software so that a client in its signature program can check stock quotes, evaluate port-folio histories, get information about companies, and trade stocks over the Internet, it is creating a structural solution to an important customer problem. Relationships

based on structural bonds do not depend on the relationship-building skills of a particular service provider, as in the traditional customer-stockbroker relationship, but on the service delivery system that is part of the company structure. Many marketers use the Internet to build structural relationships.

The company may supply customers with special equipment or computer linkages that help customers manage their orders, payroll, inventory, and so on. A good example is McKesson Corporation, a leading pharmaceutical wholesaler, which invested millions of dollars in EDI capabilities to help independent pharmacies manage inventory, order entry processes, and shelf space. Another example is Milliken & Company, which provides proprietary software programs, marketing research, sales training, and sales leads to loyal customers.

The Role of the Internet in Providing Customer Services

Technology is playing an ever bigger role in the ways customers communicate with businesses. For many organizations, the Internet has revolutionized the nature of customer services. Technology can replace what a human does. For example, in the past, if you wanted to know if your bank had processed one of your cheques, you had to call the bank. Today you can access the bank's Web site to learn your bank balance, which of your cheques have been processed, and whether you need to move money from your credit line into your checking account. But in using technology to perform tasks that humans could perform, effective marketers make sure that Internet technology provides an opportunity for service enhancement, not service replacement. For example, the Gateway Computers Web site allows customers who are waiting for their custom-made computers to check the status of their orders as often as they want, any time of the day or night. Offering easy, round-the-clock access enhances Gateway's customer service.

Internet-based customer service can give customers control over all aspects of their interaction with a company through a userfriendly Web site. A FAQ (Frequently Asked Questions) list can be one of the most beneficial customer services on a Web site.

The Internet allows customer service to be personalized. For example, Yahoo! offers a service known as My Yahoo!, a customizable version of the popular portal. When a visitor logs on to My Yahoo!, he or she gets local weather reports, sports scores for teams that are of personal interest, and prices for stock portfolios that the visitor has entered into My Yahoo!' database.

The speed of customer service can be greatly enhanced by using e-mail. E-mail is an inexpensive way of responding to a complaint or answering a specific consumer question. In addition, many organizations use e-mail to provide other customer services. CNET, which covers the technology industry, sends a daily e-mail listing of headlines and special features to its thousands of subscribers. The Internet news site tries to build brands loyalty by making sure that its readers get the news highlights as quickly as possible.

Internet customer services may both enhance customer service and save the company money. By transferring its package tracking system to the Web, FedEx increased customer satisfaction while significantly reducing expenses. The company saves money by using fewer customer service representatives and spending less on traditional support services such as its telephone service centre. A customer can learn about shipments or drop-off locations at his or her own convenience and obtain printed records instantaneously.

Share of Customer

Relationship marketing leads to a different kind of thinking about the nature of a business. Historically, marketers have thought in terms of a single product, and their goal has been to achieve a high share of the market—more customers than their competitors have. In relationship marketing, the company objective often is to achieve a high *share of customer.* The company tries to sell an individual customer as many goods and services as it can over the lifetime of that customer's patronage. An effective marketer determines the lifetime value of each of its customers and adjusts its marketing strategy accordingly. It treats its best customers differently than its other customers. It sends the right message to its best customers at the right time.

Increasing share of customer has become more popular as a marketing objective as customer databases and new information technologies have allowed marketers to track customers individually and then customize their marketing efforts.

Customers Retention

Customer retention is a major objective of relationship marketing. An insurance agent may send a postcard to a client on his birthday. This is a friendly reminder that she thinks of him as an individual and wants their business relationship to continue. Information technology and customer databases are making it possible for large organizations to focus on customer retention by once again treating their customers as individuals. The reward of focusing on customer retention can be enormous. Suppose a telephone company has 6 million customers using a call-waiting feature that costs $5 a month. During the course of a year, a certain percentage of these customers cancel their service. If the organization could, through data-based marketing and personalized promotional messages, stop 1 percent of these customers—or 60,000 accounts—from canceling, it would retain $3.6 million in annual revenue.

What Makes a Successful Relationship?

Relationship commitment and trust are the two essential factors required for successful relationship marketing.

Relationship commitment is defined as an enduring desire to maintain a valued relationship. A strong commitment to a relationship develops if the relationship is mutually beneficial to the parties. A committed partner believes the relationship has value and is willing to work at preserving it. This is especially true of relationships with suppliers and intermediaries.

If a customer is committed to a relationship, he or she will resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners.

Trust exists when one party has confidence that he or she can rely on the other exchange partner. In many situation, trust means a customer believes that the marketer is reliable and has integrity. In many personal selling situations, trust means that a customer has confidence that the sales representative is honest, fair, and responsible and that his or her word can be relied on. When there is trust in a relationship, all partners believe that none will act opportunistically. Marketers, especially the marketers of services, establish trust by maintaining open and honest communication and by keeping the promises they make.

Internal Marketing Enhances Relationship Building

Marketers who stress service quality and relationship marketing strive to manage the service encounter. This is because the customer's evaluation of service quality and the building of a positive relationship between the customer and the organization are highly dependent on what takes place during the service encounter. Internal marketing is important in improving the service employees provide, which in turn improves relationship with customers.

The term **internal marketing** is often used by marketers, especially those in service businesses, to refer to public relations efforts aimed at their own employees who have contact with the ultimate consumer or who have a direct effect on the ultimate consumer's satisfaction with the product. The objective of internal marketing may be to have employees recognize their role in the organization's effort to create customer satisfaction; these employees may better understand that their providing a high level of service is essential to the firm's existence.

2. Internet Mktg./E-mktg/Web Marketing

Marketing on the web is an altogether new way of interacting with people and doing business with them. It has a lot more power as compared to all other forms of marketing. It is powerful because it is interactive. In fact, it enables an interaction, which closely approximates real-life interaction.

Marketing on the web is alternatively referred to as online marketing, E-marketing or Internet-marketing.

Marketing on the Web, A Part of E-commerce

Marketing on the web is a part of electronic commerce, or e-commerce, or e-business.

E-commerce has already revealed its potential across the world. In fact, it has come to be described as the biggest development in commerce since the invention of money. Powered by the breakthroughs in information technology and telecom, and the rapid growth of the Internet, e-commerce is already changing the way people work, buy and live. According to Fortune magazine : 'It is the foundation of a new industrial order. It will change the relationship between consumers and producers in ways more profound than one can yet imagine.'

E-commerce involves the exchange of products, services, information and payment through the electronic medium of computers/networks. In other words, e-commerce means business done online. E-commerce results when a firm connects its business systems to its customers, distributors, vendors, and suppliers-via Intranets, extranets, and the Internet/web. E-commerce is the umbrella term for the entire spectrum of activities such as electronic data interchange (EDI), electronic payment system, order management, information exchange and other business applications, with electronic/paperless documentation.

The Three Components of E-Commerce

E-commerce has three broad components.

- B
- B to B (B2B)
- B to C (B2C)

B refers to Internet transactions of e-commerce. B-to-B (B2B) or business-to-business e-commerce refers to inter-enterprise e-commerce, where business firms sell their products and services to other business firms on the net. B-to-C (B2C) or business-to-consumer e-commerce refers to marketing of product and services to ultimate/household consumers on the net.

The Two Components of Web Marketing

B to B and B to C e-commerce constitute marketing on the web. They correspond respectively to

- Marketing to business buyers
- Marketing to ultimate consumers

Though both components are equally important, a greater part of the challenge of web marketing lies in the second component. In fact, over the long term, more of the opportunities too lie in this component. This chapter will concentrate on this component of web marketing.

Understanding the web and web Marketing Correctly

We can view the Web/Internet in four ways.

- A Business
- A Medium
- A Marketing Channel (or a tool for channel-less marketing)
- A Complete Marketplace

To an Internet service provider (ISP), for example, the Internet is a business in itself. To an advertiser or an information provider, it is a medium. To a seller, it is either a marketing channel, or a complete market place, depending on how he approaches it and uses it. The interesting point is that all these are integral to the web, but none of them in isolation constitutes a proper description of the web. The web represents a larger concept.

The Medium Becomes the Marketplace

It is interesting indeed. While the web can be described as a communication medium, as a marketing channel and as a tool of channel-less marketing it cannot be disposed off as one of these things. It is an arena, wherein all elements of marketing, including communication and channel functions, take place. In other words, it represents the marketplace as well as the medium for reaching the marketplace.

When TV was making its entry as a new communication medium, Marshall Macluhan, the noted communication guru, drew attention to the uniqueness of the medium, with the statement, 'The medium itself is the message.' *In the same vein, one can now say about the web : 'The medium itself is the marketplace.'* Innovative marketers and creative IT men have elevated the web from a medium of communication—communication between computers—into a marketing channel and beyond, into a total marketplace. The medium has become a bazaar, the largest, most dynamic, sleepless, electronic bazaar/mall of goods and services the world has ever seen.

Benefits of Web Marketing

The web constitutes a reliable, readily accessible and inexpensive means of bringing together buyers and sellers, large and small, right across the globe. With web marketing, the market comes to the doorsteps of the customer. Basically, web marketing has all the plus point which direct marketing has. After all, it is one form of direct marketing.

Benefits the Seller as well as the Consumer

Web marketing confers significant benefits on the seller as well as the buyer. It is a true win-win proposition.

Benefits the Seller

Access to all markets, opportunity for constraint-free growth, scope for enhancing customer value and building abiding relations with them, scope for enhancing marketing productivity and reducing marketing costs, and flexibility in marketing communications are some of the main benefits web marketing confers on sellers.

1. Access to All Markets

With web marketing, a marketer located in any part of the globe can compete in the markets of the whole world. The web enables firms/marketers to free themselves of the inherent limitations of their existing geographic moorings/location. A web marketer can attract customers located all over the world, compete for the global market, build global supply chains and operate with global strategies. Opening a website is the equivalent of opening a marketing office, which anyone in the world can access, readily and instantly. In other words, it is the equivalent of opening branches everywhere in the world. Actually, many entrepreneurs see access to international markets as the No. 1 benefit of web marketing.

Enables even small firms attempt global marketing : Web marketing enables even small firms to access the markets of the world. It makes it affordable for them. With a website, even a one-man enterprise—one that manufacturers some herbal shampoo in some remote place in India for example—can sell its products and services anywhere in the world and at a low marketing cost. The web is a great leveller of the playing field, and scale is not a limitation in web marketing.

2. Scope for Unimpeded, Constraints-Free Growth

With web marketing, a business can grow unimpeded by the various constraints that normally delimit the growth under conventional marketing. Limitations of showroom/retail shop space, warehouse space, sales staff and other resources do not choke a business in web marketing. Manufacturers/marketers can carry on

their operations on the web with just one central warehouse and a small team of staff.

3. Scope for Enhancing Customer Value and Customer Service

Being an interactive medium and a platform for innovation, the web presents great opportunities to the seller to enhance customer value.

Helps offer many services and products from a single stop : A web marketer can offer a variety of services and products to the customer from a single website, a single stop on the net. Also, depending on the actual needs of the customer, he can deliver supplementary services to him. Even where the services demanded are outside his involvement, he can still serve the customer by providing him a path for getting to the agencies that are in a position to provide those services. He is able to do this because the web provides him a direct and interactive access to the customer.

Helps target the customer individually and customise the offer : The web also helps the marketer target the customers individually, because of the facility of direct, interactive, and online communication with them. The marketer can easily gain all essential knowledge about the consumers, wherever in the world they may be located. He can also provide from his side an uninterrupted flow of information to the consumers. In mass marketing, it is difficult to target the customers so precisely. Neither customised mailing, nor tele-marketing, can come anywhere near web marketing in targeting the customers individually and customising the offers. Moreover, the web accomplishes this task at a very low cost. Targeting customers individually helps to provide tailor-made products and personalized services to them. The customisation practised by Dell computers in the web marketing of its PCs, which is explained in the following section is an example.

Imparts speed to responses; and speed becomes a customer value : In modern times, speed has become a major ingredient of successful marketing. For example, speed in order processing, sales/distribution, and service has become important. So is speed in product development and cycle time of various business processes. Speed in these and other such aspects has become a major source of customer value, and hence an important source of competitive advantage to a marketer. The web helps achieve speed and thereby helps enhance customer value.

4. Helps Build 'Relationship' with Customers

Web marketing also helps build 'relationship' with customers. Being totally interactive and one-to-one marketing, web marketing is more effective in this respect compared to other forms of direct marketing. With web marketing, the marketer can interactively elicit a lot of information about the consumer. This helps him to offer customised products, customised services and customised incentives. It also helps offer demonstrations of specific products, which a particular customer may want.

5. Helps Reduce Costs

Business/transaction costs : Since web marketing conducts business processes and transactions through real-time interactions using electronic media and paperless technologies, it significantly reduces the cost of various business operations, transaction costs in particular. It is estimated that the cost of producing and processing an invoice in web marketing is less than one-tenth of what is costs to process it in conventional marketing. Moreover, as the web reduces the order processing time as well as the cycle time of the various business processes, it reduces total business costs. Using the web is the cheapest method of answering a customer request

Channel costs : Channel costs, which are a significant part of marketing costs, are reduced considerably when a product is marketed through the web. In web marketing one need not maintain a vast network of showrooms or employ an army of sales staff. All it needs is some core staff to download and execute orders. As stores need not be maintained, the associated costs of rent, insurance, utilities as well as sales personnel are eliminated.

This is, of course, true only where the web is used as the channel for the entire business of the firm. However, at the moment most firms resorting to the web employ it only as an add-on channel. Even so, it provides immense value addition to the firm's marketing effort at a very low incremental cost.

Communication/promotion costs : Communication/promotion costs, which are another major part of marketing costs, can also be reduced in web marketing as the web enables gaining worldwide communication at a low unit cost.

Savings in marketing costs also come from faster movement of inventory, quicker order execution and faster realisation of money. Web marketing also generates valuable sales leads at zero cost.

6. Enhances Productivity of Sales People

Web marketing also makes marketing/sales people more efficient and productive. Since basic transactions are taken care of by the computer programme, sales people are free to devote their time for more meaningful tasks, leaving the mechanical transactions to the net.

Web marketing keeps the staff together electronically and enables them to work as a team in serving the customers, sharing ideas and information freely. This leads to higher productivity. In conventional marketing, getting people together in one place and making them work as a team is no easy task. In web marketing, the staff can work as a team without having to be physically together in one place; and the firm can get them together—however far they may physically be—at a low cost. One can consult the other easily over the net and serve the customer better.

Allows companies to operate like beehives : The web allows information to be shared horizontally. Information need not travel up to the CEO's office and then back travel down to reach the other. In the conventional setup, an identified person will be in charge of the information. Such a thing does not apply in the case of the Internet. Everyone has ready access to the information. Moreover, web marketing simplifies processes. It also facilitates the development of meaningful and high quality MIS. It has the added merit of low lead-time in procuring the information.

In conventional marketing, variation in motivation levels of the sales personnel and problems of human memory, fatigue, etc., can affect the quality of marketing. In web marketing, it does not happen. The information once stored is available with great consistency and it can also be updated as per needs.

7. Enables the Marketer Adjust to Market Conditions Quickly

Marketing on the web enables the marketers to adjust fact to changing market conditions. They can quickly know what the market wants and offer it. For example, they can add products to their basket, alter prices, enlarge services and find-tune their offering with greater speed.

A Versatile Medium of Communication

As a medium of communication, the web is versatile tool indeed. It is the equivalent of a combination of several media—newspaper, magazine, hoarding, radio, telephone, and TV. Second, web marketing allows flexibility in marketing communications; it allows the marketer to adjust the size and other attributes of his medium—the website—at short notice. Conventional media, like print or broadcast, do not lend for such quick adjustment. Moreover, with the web, there is no upper limit on advertising space, in contrast to other media.

Moreover, because the medium on which the consumer watches the advertisement and places his order in web marketing is an intelligent computer equipped with data storage capability, the marketer starts with an advantage. He is backed by the power of data. For example, when a customer buys an item using the net, a lot of relevant personal information about him, including his preferences, stay in the computer that processed the interaction. So, the next time the customer visits the same site, the marketer is able to feed him information which would be of interest to him. Customer data is also available for sharing by other marketers through suitable sharing arrangements.

The Internet again is a unique medium in the sense that it is a mass medium in terms of reach and low unit cost of reaching customers, and yet is a medium that can be personalised so perfectly that it can target each consumer individually. With it, the marketer gets the best of both worlds—a mass medium as well as a personalised medium!

Marketing on the web is proactive. The web marketer is catching the consumer when he is actively browsing the web. And, the web serves as the ideal setting for the marketer for cathing the consumer. The consumer

is spending time on the web of his own volition; he is depending on it for communication and infotainment; and the web is practically a part of his life. A web marketer thus fulfils the dictum, 'You have to be where the consumer is.' By catching the consumer on the web, a web marketer actually cathes them when they are actively looking for confirmation. They are already in the 'search mode' and, therefore, are more pre-disposed to buy.

The web has just started revelling its power and influence, and marketers have just started harnessing it.

Benefits the Consumer too

For the consumer, convenience, scope for informed and competitive buying, search advantage and wider options, customised and personalised products and services, greater transparency, and greater bargaining power are the main benefits of web marketing.

1. Convenience

First, sitting at home, the customer can purchase the products and services. He can escape all the hassles involved in conventional shopping, which include a physical visit to the stop. More importantly, he can escape the frustration involved in going all the way to the shop just to know that the product he was looking for was not available there at all. Second, he can order his requirements at any time—day or night—and from wherever on the globe he is located. Third, he can have a complete online interaction with the marketer; he can have an online demonstration of the product; he can place an online order; he can also pay online and complete the whole purchase process on the web. In short, he can shop privately, conveniently and swiftly.

Dell Computers : To cite an example, he can buy a PC sitting at home. And he can get it tailor-made to his specifications. Dell Computers sells its custom-made PCs to the consumers on its website. The consumer has to just log onto the Internet, visit the Dell website, select his specifications and place the order, keying in his credit card number. Dell delivers the PC at the customer's doorstep within a few days of placing the order. Interestingly, only after a consumer thus places an order on the web, does Dell commence the assembling of the customised PC. Now, Dell sells computers worth $ 10 million in this fashion every day.

Even where the final step in the purchase process can be carried out only by visiting the shop, the consumer still derives substantial benefit from web marketing; he can complete the groundwork of his purchase on the web; and he can collect all relevant details about the product through the web. He need physically visit the shop only for the final step of taking delivery of the product.

2. Scope for Informed and Competitive Buying

Scope for informed buying is the second major benefit from web marketing for the consumer. The web offers him access to a great deal of information about the products and services he is looking for.

Search advantage and wider options : In conventional shopping, consumers stop with limited searches. They visit four or five outlet at best before deciding on the brand to be bought. They conclude that the benefits of extended search will be just incremental. And, the search is quite tedious. With web shopping, the situation is different; for high value purchase in particular, extended search often proves highly beneficial. It throws up a large number of options and the search is hassle free. There are software that create menu-driven dialogues, which simplify the job of searching and finding the alternatives.

In conventional shopping, they may have to visit several retail stores to get an idea about the brands, which fit with their specifications, and still the search may not be comprehensive. In the case of web, thanks to the cross linkages, it becomes possible for the consumer to access all details about the competing offers, including prices, quality, performance and availability. In other words, the web provides the consumer information that is qualitatively and quantitatively superior; and he gets it with the least effort on his part. In short, the web provides great 'search advantage' to the consumer.

Consumers can bargain on the net with a host of sellers : Most importantly, because of the interactive nature of the web, the consumer can actually bargain on the net with a host of sellers and get the best price and terms. He can compare a multitude of brands—feature by feature—and their prices, and secure the best deal. Sophisticated search engines on the web come to his help in this regard.

Chart 21.1: Benefits of Web Marketing

Benefits to the seller

- Access to all markets
- Renders global marketing feasible for even small firms
- Helps unimpeded and constraints-free growth
- Scope for enhancing customer value and customer service

Helps offer many services and products from a single stop

Helps target the customer individually

Imparts speed to all responses; and the speed becomes a source of customer value

- *Helps building 'relationship' with customers*
- Helps reduce costs

  Business costs

  Marketing costs

  Channel costs

  Communication/promotion costs

- Enhances marketing productivity.
- Keeps sales people together electronically and enables them work as a team in serving the customers
- Allows companies to function like beehives
- Enables to adjust quickly to market conditions
- Flexibility in marketing communications too
- A mass medium as well as personalised medium

Benefits to the consumer

- Convenience
- Scope for informed and competitive buying
- *Search advantage and options*
- Consumer can actually bargain on the net with a host of sellers
- Can get 'more for less'
- Transparency
- Accuracy
- Shifting of the power equation in favour of the consumer

Consumers can get 'more for less' : With web marketing, consumers can get more value for their money. As a rule, web marketers make competitive offers to the customers, voting for a policy of giving 'more for less' in a value-price equation. They do so largely because they know that in a borderless e-commerce world, consumers are in a position to buy from anywhere, wherever they will get the best price and value.

Transparency : Web marketing also provides for a very high degree of transparency, which was hiterto unknown in business transactions. There is no suppression of information. By browsing through the web, buyers can become aware of just about all sellers selling the particular product and their prices and terms.

Accuracy of information : Accuracy of information regarding schemes, discounts and validity guarantees are all available and this actually makes him want to buy more.

3. The Power Equation Shifts in Favour of the Consumer

In short, web marketing actually alters the power equation between the marketer and the buyer, in favour of the latter. In conventional marketing, marketers (retailers) concentrate more on the supply side and take the consumers for granted. They assume that the latter will take the trouble of coming to their stores as long as the stores are well stocked. With web marketing, they can no longer go by this assumption. They have to woo the consumers.

Chart 21.1 summarises the benefits of web marketing.

Growth of Web Marketing Worldwide

World over, e-commerce/web marketing is fast becoming the new marketing paradigm. The growth in e-commerce/web marketing has manifested itself in three ways :

(i) Growth in volume of business done on the net,

(ii) Enlargement in the range of products marketed, and

(iii) Growth in Internet subscriber base.

Growth in Volume

As per estimates of Forester Research Inc. USA, one of the leading research companies, global online transactions amounted to $ 109 billion in 1999. Some optimistic estimates talk of global e-commerce exploding to a trillion dollars by 2002 (over Rs. 400,000 crore) three times India's current gross national product. Even as per the projection by

Exhibit 21.1: Intel

- Intel ranks No. 1 in the world for overall e-commerce revenue.
- On an average, Intel is getting $ 1 billion worth of online orders every month from customers in 46 countries.
- Customers are checking products, specifications, prices, availability, order status and delivery dates in real time.
- All information is personalised for every company and for every type of user. Now, close to half of Intel's direct customers business is happening on-line

Source : PC Computing, July 1999, Reported in *Economic Times*, 23 September 1999.

Forester Research, by 2003 world business-to-business e-commerce is likely to grow to $ 1.3 trillion and business-to-consumer e-commerce to $ 108 billion.

Exhibit 21.1 gives details of e-commerce carried out by Intel, the largest revenue earner on the Net.

Enlargement in the Range of Products Marketed

The list of products available on the Web for sale also has been increasing steadily. It now spans a wide range, from toys and books to passenger cars, computers and education. And, this is true of India, as well. Exhibit 21.2 shows one relevant example from the Indian scene.

Growth in Subscriber Base of the Internet

The Internet has become a mass medium very fast. Over 100 million people use the Internet today. Optimistic predictions are that by 2005 there will be over 800 million Internet subscribers worldwide. The growth in the number of people hooked onto the Internet has a direct bearing on the growth of web marketing.

Limitations of Web Marketing and the Need for Moderating the Hype

Web marketing has its limitations, too. Marketers have to correctly size up the plus and minus of the web. They should in particular discount the hype.

All Products do not Lend Equally well for Web Marketing

The first limitation is that web marketing is not suited for any and every product. For example, when Philips India went in for web marketing, it had to select a few products and keep the others off.

Costs Involved are not Inconsequential

Another limitation is that the costs involved in web marketing are not as low as is often made out. The costs do not stop with a one-time expenditure on the setting up of the website. The marketer is required to keep spending sizeable sums on running, maintaining, and updating the site. Moreover, websites have to be kept alive round the clock and throughout the year, as customers are spread over different time zones, and want to do business on the net whenever they wish.

Question Marks about Profitability

One has to take note of the fact that as of now most web-marketers (B2C) are struggling to make their business viable and profitable. Even Amazon, the world's biggest online marketer, is yet to break even. The point is that while web marketing is full of potential, the execution part is beset with difficulties.

Exhibit 21.2: Management Education on the Net—Macmillan India and IIM-C

- Publishing house, Macmillan India Ltd, offers management development programmes on the Internet in collaboration with IIM-Calcutta.
- This is the first exclusive online executive education programme in India.
- The delivery of the programme is digitised and is accessible through a portal.
- The programme is a separate entity and not a part of other management development courses offered by the institute.
- Executives across the world can undergo management training through this programme.
- The programme has built-in-flexibility. It could be completed in a period ranging from a week to a month.

Web Marketing : Indian Scene

Quite a few studies have been conducted on e-commerce in India in recent years. They include the BCG-Nasscom study, the CII/IMRB study and the PwC study.

All estimates suggest that the scope is mostly for B2B e-commerce to begin with. Firms will deal with their suppliers, channels and business buyers on the net. In other words, business processes such as supply chain management and distribution management will pick up initially. Retailing to ultimate consumers on the web, which poses greater complexities and risks, may follow in due course. Service industries like insurance, banking, financial services, travel, information/communication, education and entertainment may be the pioneers here.

Regarding B2C, according to Boston Consulting Group-Nasscom survey, the volume of online transactions by individual consumers is expected to touch Rs. 3,000 crore in India by 2005.

Another study by IDC India shows that there will be 5 million Internet users in India by 2003. This should constitute a critical mass for a thrust in web marketing.

Problems Web Marketing Faces In India

In India, web marketing faces a number of problems. For convenience of discussion, we can divide them into four categories :

- Legal/regulatory problems
- Infrastructural problems
- Commercial problems
- Other problems.

Legal/Regulatory Problems

The first set of problems emanate from the absence of a legal and regulatory framework for e-commerce.

E-documentation not yet legally admissible : E-commerce does away with papers and uses electronic documentation for recording transactions. While most developed countries have embraced e-documentation as legal tender, in India it is not yet legally admissible. Current Indian laws do not provide for digital signatures, digital certification, electronic payment systems and online filling of statutory documents. As of now, a physical signature is necessary for approving of an online order. The absence of sanctity about the contracts that are entered into electronically inhibits individuals/corporates alike in their forays into e-commerce.

Web marketing also needs effective and trusted mechanisms for privacy and security. This has several dimensions such as confidentiality, authentication, non-repudiation and certification. Web marketing provides

for authentication, which enables either party in a transaction to be satisfied with the identity of the other party. Non-repudiation means the parties to the transaction can not subsequently deny their participation. The privacy and security mechanisms depend upon certification by a trusted third party, such as a government body. For the consumers, security relating to credit card numbers and password protection is a big concern. These aspects have their global as well as Indian dimensions. And, a framework is also needed for dealing with cyber crimes.

Absence of taxation law : Absence of appropriate taxation law covering e-commerce is the other major problem in this category. In India, the government is yet to come up with taxation laws for e-commerce systems. It has to address itself to questions such as how much tax should be charged and how it should be collected. Sharing the proceeding of taxation among countries, which is the larger issue in this regard, also needs.

In short, a lot of new legal enactment and amendments in existing enactments, such as the Evidence Act and the Excise and Customs Act, are required. Amendments are needed in banking regulations too. Overall, the absence of a legal framework covering cyber transactions is a hurdle in the spread of web marketing.

Infrastructural Problems

As of date, India does not have the sufficient infrastructure needed for effective web marketing. While individual firms may accept the limitations and make a beginning, for web marketing to become a normal form of marketing in the country, the infrastructural constraints must disappear.

Low density of telephone, PCs and Internet : In India, the telephone density, PC population and density of Internet access are all too low to support viable e-business. Currently, telephone density in India in just two per 100 persons. Internet density is practically minuscule. And even the few who have the access, face a difficulty in logging onto the Internet because of the poor quality of the last mile connection.

Bandwidth limitation : The bandwidth available is not enough to meet the user load. While those who use the Internet for downloading information or sending e-mail may put up with erratic lines, those who buy and sell products cannot afford to do so. They require a foolproof system with zero downtime. The entry of private ISPs into the service has no doubt made a difference; but it needs to be matched with increase in bandwidth. Setting up of independent gateways by private ISPs can, of course, solve the bandwidth problem to some extent. However, given the high costs involved, the nascent market, the competition and the slow return, many private ISPs may not be prepared to venture into the gateway business.

Networking limitation : The other barrier relates to networks. Networking is most essential for e-commerce. In India, though many companies do have networks of their own, they cannot be shared with anyone else because of India's telecom policy, which has all along been favouring closed user networks.

Infrastructural bottlenecks at the delivery end : Infrastructural bottlenecks at the delivery end also hamper web marketing in the country. For example, delivery of products is not easy. Indian roads and airways are unable to support 24 hour- or 48 hour-delivery schemes that are common in countries like the United States. Courier services/air express companies are also quite inadequate.

Commercial Problems

Problems relating to payment : Payment problem is one significant element of commercial problems. Apart from the legal dimension discussed earlier, there is a commercial dimension to the payment problem. The No. 1 malady is the low density of credit cards, debit cards and smart cards in India. Added to this, in India, even those who have such cards cannot make online payment through their cards to international sellers. The regulations in vogue constrain Indians in transacting through credit cards with suppliers in foreign countries.

Other Problems

Confidence in the system is low : Another problem is that confidence in the system on the part of the potential users is still low. The absence of legal framework already highlighted is one aspect. Corporates

Chart 21.2: Problems Web Marketing Faces in India

• Legal/Regulatory Problems E-documentation is not yet legally admissible Absence of an overall legal framework covering cyber transactions and payment Absence of taxation law	• Commercial problems Problem relating to payment Low density of credit cards Inability to pay foreign suppliers online (in foreign currency)
• Infrastructural problems Low density of telephone, PCs and Internet access Bandwidth limitation Networking limitation Infrastructural bottlenecks at the delivery end	• Other problems Confidence in the system is low Problem of hacking

and household-consumers alike seem to be still skeptical about the efficacy of the process. Surveys indicate that even those who are considered as prospects for the system are not happy to buy on the net; they feel that they cannot be sure of the quality of the products bought or their timely delivery. Marketers on the web in India obviously have a long way to go; they have to create the necessary confidence among the potential customers and persuade them to see web marketing as a perfectly normal way of doing business; they have to make them comfortable with the innovation.

Problems of hacking : The possibility of hackers misusing *e*-commerce is another issue, though it is not peculiar to India. Luckily, of late, improved software is providing they remedy to a good extent. Encryption is also being tried out to ensure safety of data in transit. Yet, the problem is not fully resolved.

Chart 21.2 summarises the problems which web marketing faces in India.

Government Tries to Remove the Roadblocks

In recent times, the government has initiated certain moves that will facilitate the growth of e-commerce and web marketing in the country. The New Telecom Policy, 1999, is one major move. The New Internet Policy, allowing private Internet service providers (ISPs) to offer Internet service is another. These policies will help develop connectivity, which is a part of the infrastructure needed for the speed of e-commerce. The opening up to private operators, for example, will lower the rates and enlarge the number of Internet subscribers/ surfers. And this will be one main driver for the spread of e-commerce.

Indian Firms Taking to Web Marketing

Notwithstanding these limitations, several companies in India have already made a beginning in e-commerce, especially in B-to-B. In B-to-C, however, we notice only very few endeavours as of now. Even in B-to-B e-commerce, money does into flow over the net yet; but all other transactions–requests, orders, amendments, schedules, delivery instructions, receipts, invoices, payment terms and clarifications–certainly flow over the net.

As for business-to-consumer web marketing, we see that firms in service industries, such as banking, airlines and entertainment (cinema halls), have made a beginning. We also see a few independent web marketers selling products like books and music records.

Banking industry : While almost all major banks in India have set up websites, only a handful of them have moved towards real net banking. ICICI Bank, IndusInd Bank, Citibank, and HDFC Bank are among the early birds. Exhibit 21.3 gives the details of net banking by ICICI Bank.

Entertainment industry : Cinema halls in metros like Delhi and Mumbai permit customers to book seats through the net. Delhi's premium cinema hall, PVR Anupam is an example, Customers can book seats at Anupam online.

Information service : Information is another service where some advancement in web marketing has taken place in India. Kotak Mahindra is an example. Kotak markets an online information service with the brand

name, *Matrix*. Selling information products on the web is the business. *Matrix* also facilitates payments through the net. When subscriber decides on the information, article he would like to download, he pays for it by keying in his credit card number.

Exhibit 21.3: Net Banking of ICICI Bank, WWW. ICICI Bank.Com

- Net banking service of ICICI bank provides information about the bank and its products.
- Offers access to account information on the web.
- Provides select banking transactions through the web.
- A customer can track his account and download balances/accounts summaries.
- He can download account-opening forms and also apply for a chequebook.
- ICICI has given a brand name to its Internet banking service 'Infinity'.
- By 2000, the bank had already crossed the five lakh mark in individual online customers.
- The net banking also covers billing/payment of public utilities such as telecom and electricity. It also takes care to filing tax returns.
- ICICI's net banking is particularity useful to its NRI clients. In the regular banking system, it takes them days to know the status of funds transferred by them. With the net banking, they can know the status within 24 hours, ICICI is making efforts towards reducing this time lag further; its should finally be possible to give the information instantly.
- The bank's NRI deposits more than doubled within short span of time after the launch of its net banking. It went up to 10 per cent of the total deposits from 4.5 per cent.
- The bank has subsequently extended its online banking to its corporate clients also making a beginning with Hindustan Lever. HLL has linked ICICI Bank's Internet product with its main HLL dealers so as to facilitate instant payments from them for the supplies. The online billing will make transactions paperless and instant. The bank intends to extend the facility to other corporates.
- The bank has adopted 'Bank Away' software for their Internet banking.

Airways : Jet airways allows its travellers to book their tickets on the net.

Hotels : The Oberoi Group of Hotels informs its guests through its website about the availability of rooms. It also offers them the choice over the net.

Other Industries

In other industries, companies like Asian Paints and Philips India have now ventured into web marketing.

Asian Paints : While it has not yet started marketing its paints on the web, AP has put all the relevant information, including all the possible choice of shades, on the net. The customer can decide on his purchase by surfing the AP website. He can make the choice sitting at home. This builds traffic on the site, a prerequisite for successful marketing when AP eventually goes the whole hog towards web marketing.

Philips India : Philips India too has finalised its plans for marketing its products on the web, though for the present, its website serves only as showcase of the products under Philips brand. Philips has realised that all its products are not equally amenable for marketing on the web. It has decided to pick cyber-friendly products from its wide portfolio spanning four categories : Consumer electronics, business electronics, domestic appliances and lighting. It has done the required research on the possible demand of each of its products on the net. Philips online marketing endeavour has two goals : (*i*) to use the net as a medium to showcase its technological strength and build the Philips brand, and (*ii*) to build interactive relationships with consumers.

3. Green Marketing

The marketplace is greener now than ever before — and will become even more responsive to products and services promising environmental responsibility well into the 21st century. The reasons are many.

People are Worried

In the 1980s environmental calamities dominated the news. Almost daily, headlines trumpeted oil spills, toxic-waste dumps, and nuclear meltdowns. A hole punctured the ozone layer, a garbage barge searched in vain for a dumpsite, apples were not considered safe to eat. The issues were no longer in someone else's backward far away, but in our own.

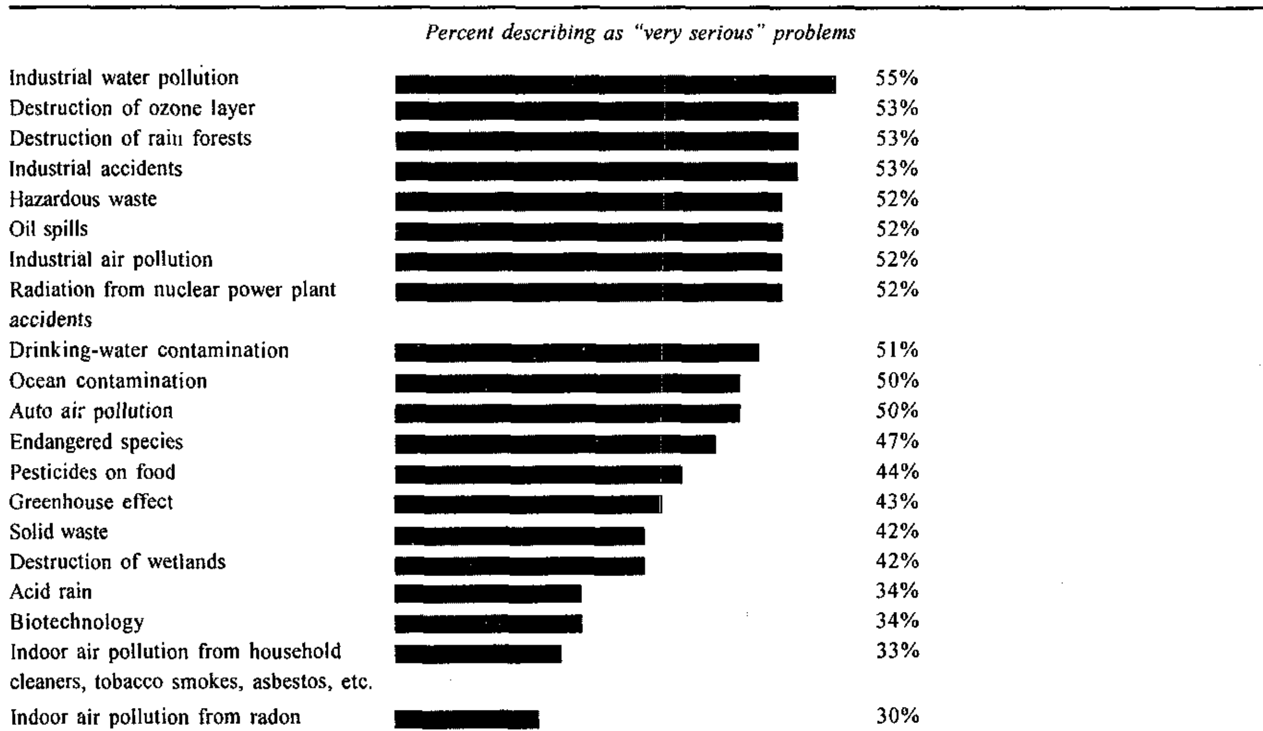
The environment rose to the top of the public's worry list. Children picketed the United Nations with "Ronald McToxic" in effigy. The 20th-anniversary celebration of Earth Day in 1990 attracted 100 million participants around the world, and *Time* magazine named spaceship Earth, "Planet of the Year."

In Maine, aseptic juice boxes were swept from grocery shelves because they were not broadly recycled. "To preserve its markets and safeguard its reputation, industry quickly greened up its products and issued environmental communiques and ads asserting its commitment to a cleaner Earth.

Consumers felt listened to. They began to recycle their Pepsi cans and aluminium foil, cut down on disposables, and take other environmental steps that gave them a sense of control over their day-to-day lives. The environment-related hysteria of the late 1980s and early 1990s is now behind us, but consumers' desire to quell their concerns is actually higher now than at the peak of the eco-craze. Their motivation : trepidation for what they see as a very shaky future.

Since the 1980s, the headlines have shifted away from wandering garbage barges and medical waste washing up on the New Jersey shore to genetic breakthroughs and Hollywood murders. However, people still worry about any number of such specific environmental issues as industrial air and water pollution, ozone layer depletion, radiation from nuclear power plants, and destruction of rain forests (see Exhibit).

"Very Serious" Environmental Concerns



Green Marketing Opportunities

Equipped with a better grasp of ecological issues, enlightened business people voluntarily adopt environmentally responsible business practices. A growing number of CEOs now appreciate the link between environmental responsibility and more efficient—and profitable—business practices. And more and more business

communicators know how to use green marketing strategies to take advantage of opportunities to boost their corporate environmental images.

More Profits

Many companies, and especially those in such highly polluting industries as chemical, oil, and electrical power generation, now have management systems in place to make sure corporate environmental profiles and products exceed consumers' expectations. Today, major U.S. corporations conduct environmental audits and recycle their waste. Countless others upgrade their facilities with energy-efficient technology. Such steps reduce operating costs and liability while boosting profits.

Producing eco-efficient products creates less waste, uses fewer raw materials, and saves energy, too. Thanks to innovative manufacturing processes suggested by highly motivated and environmentally trained employees.

The changes required to make and market environmentally sensitive products enhance employee morale and productivity with a payoff in improved customer relations and overall returns on investment. Enhanced corporate imagery ensues, and this can help attract investors and top talent.

Competitive Advantages

Many marketers now know that being the first to the shelf with an environmental innovation brings competitive advantage. Rayovac introduced Renewal brand reusable alkaline batteries and redefined the market for rechargeables. With 50 percent of the production capacity for phosphate detergents, German-based Henkel pioneered the market for zeolites and claimed market leadership when their consumers shifted to phosphate-free detergents. Philips Lighting, inventors of compact fluorescent lighting technology, stood ready when business and electric power utilities came calling for replacements for energy-guzzling incandescents. Wellman, Inc., has expanded its business definition from plastics recycler to pioneer in the market for branded polyester fiber made from used Coke bottles.

Many of these leaders are being showered with any number of eco-accolades now offered by industry, media, government, or environmental groups. One example is the Special Edison Award for Environmental Achievement bestowed by the American Marketing Association. It has been won by Fortune 1000 firms including 3M and Procter & Gamble as well as by a raft of up-and-coming firms with a deep-green orientation, such as Natural Cotton Colours, Patagonia, and Tom's of Maine.

Young, aggressive competitors adept at capturing the imaginations and winning the hearts of highly desirable environmentally and socially conscious customers are introducing some of the most exciting green products. The success of Patagonia outerwear, Stony-field Farm yogurt, and Tom's Maine toothpaste suggests that consumers now have higher expectations for the products they buy and that quality is an image that no longer stands apart from environmental impact.

Looking to cash in on the potential for future green-oriented sales, well-established mass marketers now shop for green companies with promising green brands; recent acquisitions include Earth's Best Baby Foods (by Heinz), Murphy's Oil Soap (Colgate-Palmolive), and Earth Rite Cleaning Products (Reckitt & Colman). After nearly two decades of compromising on quality — and languishing on once-dusty health-food-store shelves as a result — todays's crop of green products finally embody all that consumers demand: an opportunity to clean up the mess without having to give up price or quality. With the deepened consumer confidence in green products that results, the market becomes legitimized.

Increased Market Share

Time are tough for marketers of branded products. Brand loyalty is near all-time lows, and the percentage of Americans who feel that some brands are worth paying more for is declining. In this tough competitive climate, environmental compatibility breaks ties at the shelf. Pragmatic consumers skew purchases to those

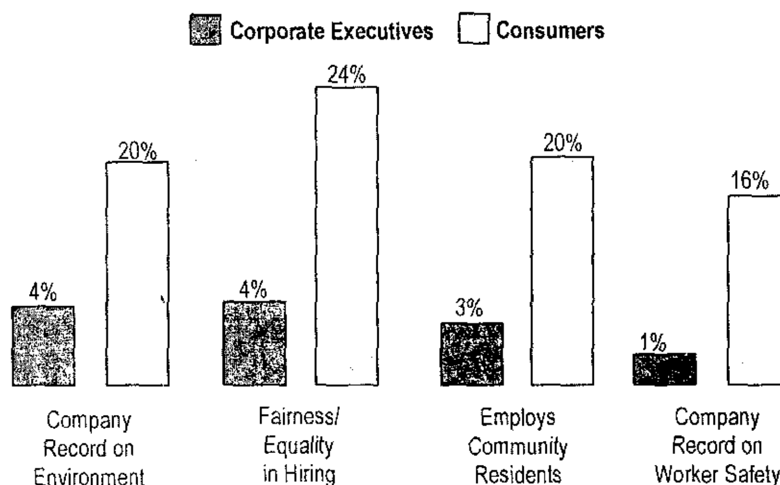
products and packages that can be recycled or otherwise safely disposed of in their communities. All else being equal, the biggest group of consumers do their bit by happily switching brands—"buycotting" companies and products deemed environmentally sound and boycotting the brands of companies with disappointing environmental track records.

These growth opportunities have not been on such market leaders as Procter & Gamble, McDonald's, and Compaq. They offer the greenest of mainstream products and take pains to project environmentally appropriate corporate images. Pick up a bottle of Tide laundry detergent and learn how it is "phosphate-free," contains "biodegradable cleaning agents," and is packaged in a "recycled-content bottle." Check out the basic brown paper carry out bags and speckled (recycled) napkins at McDonald's (they are now testing "Earth Shell" compostable food wraps), and buy a Compaq PC emblazoned with the ENERGY STAR energy-saving designation.

Many executives would be shocked to discover just how many consumers are aware of—and act upon — their knowledge of corporations' track records for environmental and social responsibility. In one poll conducted by the Porter Novelli public relations firm, for example, consumers were five times more apt to think that a company's record on the environment was an "important" factor in their purchasing decisions that corporate executives believed.

Executives Underestimate the Role of Corporate Environment and Social Responsibility in Consumers' Purchasing Decisions

Percent saying a factor is "important" in consumer buying decision



Source : Porter Novelli, Survey of Factors influencing Purchasing Decisions, 1995. DDB Needham Lifestyle Survey, 1995.

Better Products

While much brand-switching is conducted in the name of altruism, what attracts most consumers to greener products is quite simply the prospect of higher quality : water-saving shower heads slash energy bills, concentrated laundry detergents are easier to carry and store, and nontoxic garden products are safer for children. Expect these enhanced primary benefits — of performance, convenience, price, and safety, for example, that accompany environmental improvements to continue to propel the market for environmentally preferable products in the years and decades ahead.

Personal Rewards, Too

Green marketing offers a rare opportunity to integrate our values into the workplace. Creating products that are more in sync with nature allows us to personally contribute to environmental cleanup and helps ensure a more secure future for our children.

A mind once expanded never goes back to where it was. No longer content to promise consumers that their clothes will become "whiter than white" or that their breath is "fresher than fresh," green marketers — like their bosses who manage for a double bottom line—cultivate higher levels of satisfaction and reward. They offer their consumers the prospect of healthier, more fulfilled lives, and the power to make the world a better place. These promises the personal rewards for the marketers.

Why Conventional Marketing Won't Work

Conventional marketing is out. Green marketing is in. Effectively addressing the needs of consumers with a raised environmental consciousness cannot be achieved with the same assumptions and formulas that guided consumer marketing in the high production-high consumption postwar era. New strategies and innovative product and service offering are required.

Conventional marketing entails developing products that meet consumers' need at affordable prices and then communicating the benefits of those products in a compelling way. Environmental marketing is more complex. It serves two key objectives :

- to develop products that balance consumers' needs for quality, performance, affordable pricing, and convenience with *environmental compatibility,* that is, minimal impact on the environment.
- to project an image of high quality, including *environmental sensitivity,* relating to both a product's attributes and its manufacturer's track record for environmental achievement.

These objectives cannot be met using conventional marketing strategies. Marketers in the age of environmental consumerism face tough new standards. Environmental consumerism represents deep psychological and sociological shifts, as did its predecessors — Naderism and feminism. Naderism spurred marketers to produce safer, higher-quality products and to advertise those products with more credible claims. Feminism forced marketers to develop convenient products and to portray women with a new respect. Meeting the challenges of environmental consumerism presents its own mandates for corporate processes, product quality, and promotion.

To realize that conventional strategies won't succeed, one need only recall the unsavoury backlash that pioneering green marketers incurred over what was perceived by environmentalists, regulators, and the press as inconsistent and often misleading labels and claims. Marketers, desirous of keeping in step with competitors and encouraged by polls erroneously suggesting that overwhelming majorities of consumers would pay hefty premiums for greener goods, rushed headlong to underscore the environmental benefits of their offerings, however insignificant or coincidental. Indeed, according to J. Walter Thompson Company, green claims quadrupled between 1989 and 1990. Trash bags and diapers were touted as "degradable" and hair sprays were branded as "ozone friendly." One product label even claimed "earth friendly since 1889."

The resulting deluge of skepticism, confusion, and regulatory nightmares that these green claims spawned quickly proved that environmental marketing involves more than tweakng one or two product attributes and dressing up packages with meaningless (and often misleading) claims. Too many marketers learned the hard way that partaking of environmentally related opportunities requires a total corporate commitment to greening one's products and communications. It affects how a corporation interacts with all the groups and individuals who may be affected by its environmental practices. As such, this commitment needs to be founded on a thorough greening of one's entire company—and values

The New Marketing Paradigm

A new paradigm is now in the making. Basic assumptions about how best to cater to consumer needs are in question. Successful green marketers no longer view consumers as individuals with insatiable appetites for material goods, but as human beings concerned about the condition of the world around them, how they themselves interact with the rest of nature, and cognizant of how material goods impact their lives positively as well as negatively, short term as well as long term.

Products are no longer designed in a linear "cradle-to-grave" fashion, with no regard for the long-term impact on society of their eventual disposal or no appreciation for the value of natural resources they represent. A "one-size-fits-all" system of nationally marketed brands now gives way to more flexible product offerings the best fit regional environmental considerations. Yesterday's resource-intensive products are being replaced by innovative products with radical new designs, even with "dematerialized services." These offerings are marketed with ads and promotions that derive added value from the educational messages they impart and the values they project.

The corporations that excel at green marketing are those that are pro-active in nature. Aiming to surpass minimal compliance standards, they define the rules by which they and their competitors will be judged. Ideologically responsive corporations consider themselves to be like nature's processes interdependent. These corporations join with corporate environmental stakeholders in cooperative, positive alliances, and they work hand in hand with suppliers and retailers to manage environmental issues throughout the value chain. Internally, crossfunctional teams convene to find the best possible holistic solutions to environmental challenges. Long-term rather than short-term in their orientation, these companies manage with a double bottom line—one bottom line for profits, the other one reflecting their contribution to society.

The New Green Marketing Paradigm

	Conventional Marketing	*Green Marketing*
Consumers	Consumers with lifestyles	Human beings with lives*
Products	"Cradle-to-grave"	"Cradle-to-cradle"
	One-size-fits-all	Flexible
	Products	Services
Marketing and Communications	Selling-oriented	Educational
	End benefits	Values
Corporate	Reactive	Pro-active
	Independent	Interdependent
	Competitive	Cooperative
	Departmentalized	Holistic
	Short-term oriented	Long-term oriented
	Profit-maximizing	Double bottom line

**William McDonough*

Source : J. Ottman Consulting, Inc.

The Seven Strategies Of Green Marketing Success

The currency of the green business world is innovation, flexibility, change, and heart. New rules have emerged from the cloud of green marketing dust kicked up in the late 1980s and early 1990s. We know better what works — and what does not. Seven strategies that work are listed. Using these strategies, eco-entrepreneurs Gary Hirshberg and Samuel Kayman set a greener pace that others now must follow.

J. Ottman Consulting's Seven Winning

Strategies of Green Marketing

1. Do your homework. Understand the full range of environmental, economic, political, and social issues that affect your consumer and your products and services now and over the long term.
2. Create new products and services that balance consumers' desires for high quality, convenience, and affordable pricing with minimal environmental impact over the entire life of your products.
3. Empower consumers with solutions. Help them understand the issues that affect your business as well as the benefits of your environmentally preferable technology, materials, and designs.
4. Establish credibility for your marketing efforts.
5. Build coalitions with corporate environmental stakeholders.
6. Communicate your corporate commitment and project your values.
7. Don't quit. Continuously strive for "zero" environmental impact of your products and processes; learn from your mistakes.

Green by Design

Environmental product issues are varied and complex. They span every phase of a product's life cycle, and include a plethora of sub-issues, such as conservation of natural resources like water and land, energy efficiency, and protection of natural habitats and endangered species.

Upgrading products and packaging to minimize environmental impact can be tricky. What may appear to be an environmental benefit may actually result in little or no added value to the environment. For example, plastic trash bags that are technically designed to disintegrate in the presence of sunlight will not degrade when buried in a landfill. Sometimes, the presumed greening of one attribute can actually increase overall environmental impact. CPC, the makers of Mueller's pasta, found that converting to recycled carton material would actually add about 20 percent to the width of their packaging material. This would at least partially offset savings to the environment, considering the added energy needed to ship the new boxes. For these reasons, and also to prevent backlash from consumers, environmental groups, and other stakeholders, all of whom may be quick to point out the short-comings of products and packaging touted as green, a thorough approach to "greening" is required. A tool called life cycle inventory (LCI) can help.

An LCI, the first step in conducting a full life cycle analysis of a product, is a process that quantifies the use of energy, resources, and emission to the environment associated with a product throughout its life cycle. It accounts for the environmental impact of raw-material procurement, manufacturing and production, packaging, distribution, and in-use characteristics straight through to after-use and disposal.

An LCI of cotton versus disposable diapers, for example, would quantify the amount of pesticides and water used to grow cotton, as well as the water and energy needed to manufacture the diapers and transport them to stores and homes. Finally, it would consider the amount of water and energy used to launder the cloth diapers. An LCI of disposable diapers would take into account the environmental implications of cutting down and processing trees for wood pulp, along with the environmental burdens of extraction and refining the petroleum required to produce the plastic backsheets. It would quantify the energy used in manufacturing and transportation, as well as the amount of solid waste eventually sent to landfills.

Initially developed during the 1970s to help reduce the amount of energy used for developing and distributing products, an LCI is extremely useful for

- comparing the costs associated with energy and resource usage and environmental emissions associated with existing products and their alternatives
- identifying significant areas for reducing energy use and waste
- comparing energy and resource usage and environmental emissions associated with possible alternative ways to manufacture of package products

Green Product Development Issues

Raw Materials Acquisition and Processing

- Conservation of natural resources like water, land, and air
- Protection of natural habitats and endangered species
- Waste minimization and pollution prevention, especially the use and release of toxins
- Transportation
- Use of renewable resources: sustainable use to resources
- Use of recycled materials
- Energy consumption

Manufacturing and Distribution Issues

- Minimal use of materials
- Toxic use/release
- By-product/waste generation and handling
- Energy consumption
- Water use
- Emissions to air, land, and water

Product Use and Packaging Issues

- Energy efficiency
- Conservation to natural resources such as water required for the use of the product
- Consumer health and environmental safety

After-Use/Disposal Issues

- Recyclability; ease of reuse, remanufacture, and repair
- Durability
- Biodegradability/combustibility
- Safety when incinerated or landfilled.

Ideas for Action

Use the following checklist to explore the myriad opportunities for refining existing products or developing new ones that meet environmental imperatives and satisfy consumers' primary demands.

Raw Material Procurement

- Can we minimize the potential for our raw-materials procurement process to avoid tropical deforestation ? Land stripping ? Oil spills ?
- Can we use renewable resource or resources that are sustainably managed ?

Manufacturing

- What steps can we take to prevent or otherwise reduce the production of solid and hazardous waste in our manufacturing processes ? How can we reduce our use of water ? Emissions to air and waterways ?

Use

- Can we redesign our products to make them more energy- or resource-efficeint and therby reduce operating costs ?
- Can we make our products safer or more pleasant to use ?
- Can we use alternative ingredients that help to minimize risks to health and the environment ?

After-Use Recovery and Disposal

- Can we design our products to be durable? Refillable? Reusable? Repairable? Remanufacturable? Rechargeable?
- Can we redesign our products or packages to reduce the need for landfilling?
- Can we make our products and packaging safer to landfill or incinerate?
- Can we use materials and ingredients that are inherently biodegradable or compostable?