PRINCIPLES OF MARKETING MGT-301

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Lesson – 1

PRINCIPLES OF MARKETING

Overview of Course:

This subject/course is designed to teach the basic principles of Marketing to diverse audience/students, including those who are studying this as a supporting subject for their bachelor degree program. This course is designed to provide you the foundations of Marketing whether you intend to work in field of the marketing or not.

Marketing is part of all of our lives and touches us in some way every day. To be successful each company that deals with customers on a daily basis must not only be customer-driven, but customer-obsessed. The best way to achieve this objective is to develop a sound marketing function within the organization. To be understandable and lively means that we need to communicate you. We start every chapter with learning objectives. The most important thing you will get out of this course is the basic skills required to succeed in today's competitive environment. Marketing is defined as *a social and managerial process by which, individuals and groups obtain what they need and want through creating and exchanging products and value with others.* Marketing is a key factor ***to*** business success. The marketing function not only deals with the production and distribution of products and services, but it also is concerned with the ethical and social responsibility functions found in the domestic and global environment.

Introduction of Marketing

What image comes to mind when you hear the word "marketing"? Some people think of advertisements or brochures, while others think of public relations (for instance, arranging for clients to appear on TV talk shows). The truth is, all of these—and many more things—make up the field of marketing. The Knowledge Exchange Business Encyclopedia defines marketing as "planning and executing the strategy involved in moving a good or service from producer to consumer."

With this definition in mind, it's apparent that marketing and many other business activities are related in some ways. In simplified terms, marketers and others help move goods and services through the creation and production process; at that point, marketers help move the goods and services to consumers. But the connection goes even further: Marketing can have a significant impact on all areas of the business and vice versa.

Understanding Marketing:

Marketing: It is the process of creating consumer value in the form of goods, services, or ideas that can improve the consumer's life.

Marketing is the organizational function charged with defining customer targets and the best way to satisfy needs and wants competitively and profitably. Since consumers and business buyers face an abundance of suppliers seeking to satisfy their ***everyday*** need, companies and nonprofit organizations cannot survive today by simply doing a good job. They must do an excellent job if they are to remain in the increasingly competitive global marketplace. This is what we say that survival of the fittest. Many studies have demonstrated that the key to profitable performance is to know and satisfy target customers with competitively superior offers. This process takes place today in an increasingly global, technical, and competitive environment.

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What is Marketing?

Marketing is not only restricted to selling and advertising as is perceived but is More than it advertising it ***identifies*** and ***satisfies*** customers needs. it functions revolve around wide variety and range of tasks and activities mostly termed as functions related to 4ps i.e. Product, price, place and promotion. Marketing is:

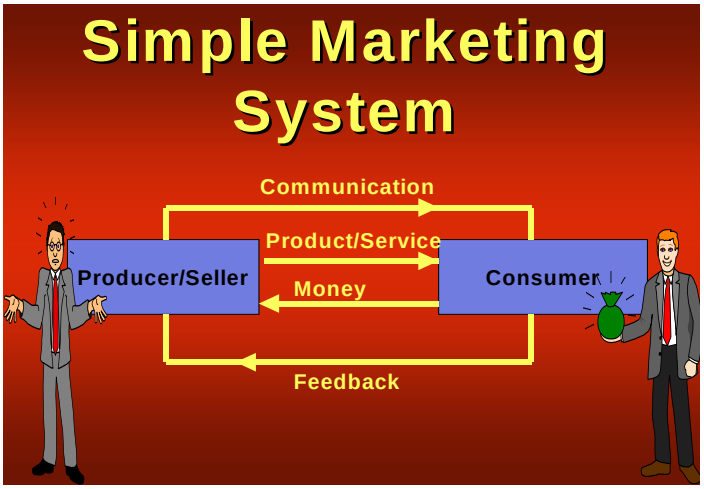


a. Creating customer value and satisfaction are at the very heart of modern marketing thinking and practice.
b. A very simple definition of marketing is that it is the delivery of customer satisfaction at a profit.
c. Sound marketing is critical to the success of every organization.

Marketing can also be defined as process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."

Simple Marketing System

The concept of Marketing System brings one full circle to the concept of marketing.

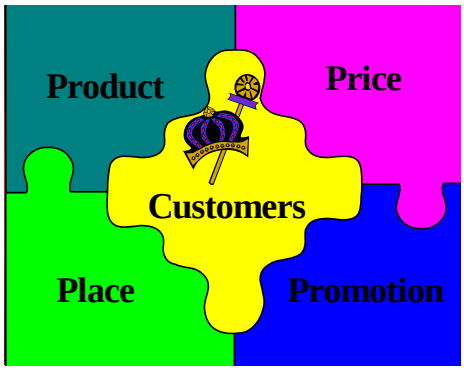


Simple marketing system comprises of different actors and factors like producer/seller, product/service something valuable to exchange in return of product/service (money), consumer/customer, communication process to have two way communication like to provide information about product or service to customer or consumer and to have feedback in same regard from the customer. Fig presents an example of a very simple marketing system. Marketing system has following basic activities:

1) Sellers must search for buyers, identify their needs, design good products and services, set prices for them, promote them, and store and deliver them.
2) A modern marketing system includes all of the elements necessary to bring buyers and sellers together. This might include such activities as product development, research, communication, distribution, pricing, and service..
3) Each of the major actors in a marketing system adds value for the next level of the system. There is often critical interdependency among network members.

To learn more about marketing fist we should learn about some basics that are some time termed as 4ps(Product, price, place, promotion) and some times even 6 or 7ps (Product, price, place promotion, position, personal relations, people and profit) lets have some definitions in this regard:

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- **Product**—what are you selling? (It might be a product or a service.)
- **Price**—what is your pricing strategy?
- **Place** or distribution—how are you distributing your product to get it into the marketplace?
- **Promotion**—how are you telling consumers in your target group about your product?
- **Positioning**—what place do you want your product to hold in the consumer's mind?
- **Personal relationships**—how are you building relationships with your target consumers?
- **People:** public who can have impact on organization or can be affected by organization.
- **Profits:** the basic objective of organization that to have something valuable in return of product or service mostly it is in form of money.

Marketing assumes that it will proceed in accordance with ethical actives. It Identifies the 4 marketing variables i.e. product, price, promotion, and distribution it also states that the public, the customer, and the client determine the marketing program. Marketing mainly emphasizes on creating and maintaining relationships and applies for both non-profit organizations and profit-oriented businesses. Major activities that are performed in marketing process include:
Personal selling Advertising, Making products available in stores and Maintaining inventories. Any thing like goods, services, experiences, events, persons, places, organizations, information and ideas can be marketed ***to*** the customers in return of something of value.

How Does an Organization Create a Customer?
Organizations (producer/ seller) can create the customers by Identifying customer needs, designing goods and services that meet those needs than communicating information about those goods and services to prospective buyers Making the goods or services available at times and places that meet customers' needs Pricing goods and services to reflect costs, competition, and customers' ability to buy and finally providing for the necessary service and follow-up to ensure customer satisfaction after the purchase



How is Marketing Done?
According to Peter F. Drucker If we want to know what a business is, we have to start with its purpose. And its purpose must lie outside the business itself. In fact, it must lie in society since a business enterprise is an organ of society. There is one valid definition of business purpose: to create a customer.

Reasons for Studying Marketing:
Marketing is part of all of our lives and touches us in some way every day. To be successful each company that deals with customers on a daily basis must not only be customer-driven, but customer-obsessed. The best way to achieve this objective is to develop a sound marketing function within the organization. Major reason to study marketing is:

- Marketing plays an important role in society

- It is Vital to business
- Marketing offers outstanding career opportunities
- Marketing effects your life every day

What do Marketers think about?

To have clearer concept in this regard lets consider an example of Opening a Book Shop on campus. To do so we have to answer different questions like:

1. Is there a need? (Of having book shop)
2. ***What*** is my target market? (Who will be buying products from your book shop)
3. What is my product?(Basic items to be sold)
4. How can I produce and deliver a "product" better than my competitors?
5. How shall I promote my product?
6. How can I insure customer loyalty?

Mostly before starting any activity of above-mentioned type marketer performs an analysis termed as SWOT (Strength, Weakness, Opportunity and Threat). Marketing is a process of getting the right products to the right people at the right price and at the right place and time with the right promotion. But this requires solution to certain simple question: like

Simple Questions, Hard Answers

1. Who are our customers? (Target Market)
2. What important & unique benefits do we provide? (Product/service)
3. Are these benefits sustainable? (Long-term competitive advantage)

These questions are apparently very simple but are very difficult to be answered theses questions like it is really difficult to define basic characteristics to be produced in product and services as per demands and requirements pf the customers; and then to precisely define your target market and to have long-term competitive advantage through customer satisfaction.

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Lesson – 2

Lesson overview and learning objectives:

In last Lesson we tried to understand the term of marketing its need and its impact on the organization. The focus in this discussion is to have concept of about different core concepts of the marketing and the increasingly important role of the marketing process in the ever-changing domestic and global business environment Today we will be covering following topics:

A. ROAD MAP
B. UNDERSTANDING MARKETING AND MARKETING PROCESS
C. CORE MARKETING CONCEPTS

Now we will discuss these topics one by one:

A. Road Map

We will cover following topics in our coming Lessons:

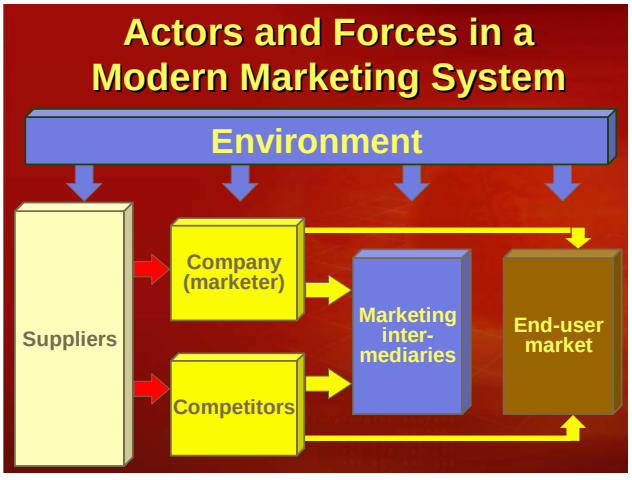
- Introduction-an overview of marketing.
- Understanding Marketing and Marketing Process
- Marketing Functions and Customer Relationship Management
- Marketing in Historical perspective and Evolution of Marketing
- Marketing Challenges in the 21st century
- Marketing Management Process
- Strategic Planning and Marketing Process
- The Marketing process
- Marketing Environment (Micro)
- Marketing Environment (Macro)
- Analyzing Marketing opportunities and developing strategies-MIS
- Marketing Research
- Consumer Market-understanding the consumer
- Consumer Markets and consumer buying behavior
- Buying Behaviors for New Products and services
- Business Buying Behavior
- Market segmentation
- Developing the Marketing Mix--- 4 P's
- Product Planning
- Service Strategy
- Pricing
- Pricing Strategies
- Price Adjustment and Price Changes
- Distribution Channels
- Logistics Management
- Retailing and wholesaling
- Promotion Planning
- Advertising

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- Public Relations
- Personal Selling
- Sales Promotion
- Sales Force Management
- Integrating and analyzing the marketing plan
- Global Marketing
- Technological developments and Marketing
- Web base Marketing
- Social Marketing
- Social, Ethical and Consumer issues
- Review
- Marketing in a Glance

B. Understanding Marketing and Marketing Process

Process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others is termed as marketing process. The marketing process consists of four steps: analyzing market opportunities; developing marketing strategies; planning marketing programs, which entails choosing the marketing mix (the four Ps of product, price, place, and promotion); and organizing, implementing, and controlling the marketing effort.
Marketing is the organizational function charged with defining customer targets and the best way to satisfy needs and wants competitively and profitably. Since consumers and business buyers face an abundance of suppliers seeking to satisfy their every need, companies and nonprofit organizations cannot survive today by simply doing a good job. They must do an excellent job if they are to remain in the increasingly competitive global marketplace. Many studies have demonstrated that the key to profitable performance is to know and satisfy target customers with competitively superior offers. This process takes place today in an increasingly global, technical, and competitive environment.
The concept of markets brings one full circle to the concept of marketing.



1). Sellers must search for buyers, identify their needs, design good products and services, set prices for them, promote them, and store and deliver them.

2). A modern marketing system includes all of the elements necessary to bring buyers and sellers together. This might include such activities as product development, research, communication, distribution, pricing, and service.

3). Each of the major actors in a marketing system adds value for the next level of the system. There is often critical interdependency among network members.
There are certain factors that can influence the marketing process directly or indirectly termed as, "actors and forces in marketing system". Let's have brief explanation of these actors and forces:
Company or **Marketing Organization** -marketing plans must accommodate the needs of other functional areas of the firm to coordinate product/service delivery effectively.

Suppliers - are the firms and persons that provide the resources needed by the company and competitors to produce goods and services.

Marketing Intermediaries - include various middlemen and distribution firms as well as marketing service agencies and financial institutions.

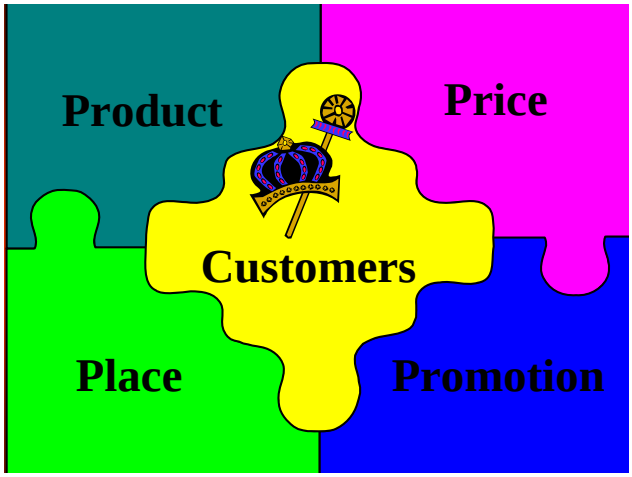
Customers -usually consist of consumer, industrial, reseller, government, and international markets**.**

Competitors - are usually considered those companies also serving a target market with similar products and services, although broader definitions may apply.

Publics - may consist of any group that perceives itself having an interest in the actions of the firm. Publics can have positive as well as negative influences on the company's objectives.
Other than factors above there are certain macro environmental factors that can have impact or that can affect the marketing process. These forces and environmental factors will be discussed in more detail in coming Lessons. As described in a fig: important connections with customers, connections with marketing partners, and connections with the World around us are to be made in order to perform the marketing process. The main connections required in this regard are connecting with marketing partners: (These connections occur by (a) connecting with other marketing departments, (b) connecting with suppliers and distributors, and (c) connecting through strategic alliances). Marketing companies do not operate in a vacuum. They have to be interacting with intermediaries that have information to share, ideas to explore, and experiences that are invaluable. New technologies can bring this information to the decision maker in new rapid ways. Finally companies need to have information about the competitors and other environmental factors and are need to have updated knowledge because for success, change adoption with change occurrence is required otherwise company will not able to stay in this completive era.

What image comes to mind when you hear the word "marketing"? Some people think of advertisements or brochures, while others think of public relations (for instance, arranging for clients to appear on TV talk shows). The truth is, all of these—and many more things—make up the field of marketing because as we have discussed in our last Lesson that marketing is more than just advertisement or promotion. The *Knowledge Exchange Business Encyclopedia* defines marketing as "planning and executing the strategy involved in moving a good or service from producer to consumer."
With this definition in mind, it's apparent that marketing and many other business activities are related in some ways. In simplified terms, marketers and others help move goods and services through the creation and production process; at that point, marketers help move the goods and services to consumers. But the connection goes even further: Marketing can have a significant impact on all areas of the business and vice versa. Lets have discussion on some basics of marketing: (already mentioned in first Lesson: (first the four P's, and then the six P's)

- Product—What are you selling? (It might be a product or a service.)
- Price—What is your pricing strategy?
- Place or distribution—How are you distributing your product to get it into the marketplace?
- Promotion—How are you telling consumers in your target group about your product?



- Positioning—What place do you want your product to hold in the consumer's mind?
- Personal relationships—How are you building relationships with your target consumers? So based upon all this discussion marketing process can be defined as a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others

The sum of the above is called the marketing mix. It is important to have as varied a mix as possible in marketing efforts, since each piece plays a vital role and boosts the overall impact.
Let's take a closer look at the basic P's of marketing and particularly at how they might affect what you do in business.

- **Product**

Marketers identify a consumer need and then provide the product or service to fill that need. The marketer's job is to pinpoint and understand existing needs, expand upon them, and identify new ones. For example, because there are more singles and small families these days than in years past, marketers might see a need for products to be sold in smaller quantities and offered in smaller packages.

How can this impact other professionals in the business/marketing process? Let's say your company has developed a new product that generates enormous consumer demand. Your marketing department may ask you to find a way to speed up the workflow in order to crank out more products faster. A year after the product is introduced, however, the market might be flooded with cheap imitations. Since one marketing strategy is to keep products price-competitive, a marketer may then ask you to find a way to make the product less expensively.
This relationship works both ways. There may be production and industrial engineers who may see a way to change the work process that would create additional options for consumers. Those engineers will also be instrumental in design and development of products for which human factors and ergonomics are important considerations. Maybe there's room to add another product line. For instance, that product X is still blue but new product Y is red. You can suggest this to your marketing department; it, in turn, would do research to gauge potential consumer demand for the new line.

- **Price**

Ideally, a marketer wants to be proactive in setting price rather than simply react to the marketplace. To that end, the marketer researches the market and competition and plots possible price points, looking for gaps that indicate opportunities. When introducing a new product, the marketer needs to be sure that the price is competitive with that of similar products or, if the price is higher, that the consumers perceive they're getting more value for their money.
Various other technical professionals can have an important impact on marketers' pricing decisions. Again, you may be asked to determine if productivity can be enhanced so that the product can be manufactured and then sold—for a lower price.

- **Place or distribution**

What good is a product if you can't get it to people who want to purchase it? When marketers tackle this issue, they try to figure out what the optimum distribution channels would be. For example, should the company sell the product to distributors who then wholesale it to retailers or should the company have its own direct sales force?
Marketers also look at where the product is placed geographically. Is it sold regionally, nationally, and internationally? Will the product be sold only in high-end stores or strictly to discounters? The answers to all of these questions also help shape how a product can be distributed in the best way.

Such distribution questions are potentially of great significance to many professionals, including industrial and other types of engineers in a company. For instance, whether a product will be marketed regionally or internationally can have enormous implications for package design as well as obvious areas of the supply chain: logistics, transportation, distribution, and warehousing.

- **Promotion**

Promotion encompasses the various ways marketers get the word out about a product—most notably through sales promotions, advertising, and public relations.

Sales promotions are special offers designed to entice people to purchase a product. These can include coupons, rebate offers, two-for-one deals, free samples, and contests.

Advertising encompasses paid messages that are intended to get people to notice a product. This can include magazine ads, billboards, TV and radio commercials, Web site ads, and so forth. Perhaps the most important factor in advertising success is repetition. We're all bombarded with an enormous number of media messages every day, so the first few times a prospective customer sees an ad, it usually barely makes a dent. Seeing the ad over and over is what burns the message into people's minds. That's why it's good to run ads as frequently as possible.

Public relations refer to any non-paid communication designed to plant a positive image of a company or product in consumers' minds. One way to accomplish this is by getting the company or product name in the news. This is known as media relations, and it's an important aspect of public relations.
As with price, changes in demand created by promotions can have a direct impact on the work of many other professionals.

- **Positioning**

By employing market research techniques and competitive analysis, the marketer identifies how the product should be positioned in the consumer's mind. As a luxury, high-end item? A bargain item that clearly provides value? A fun product? Is there a strong brand name that supports how the image is fixed in the consumer's mind? Once the marketer answers these kinds of questions, he or she develops, through a host of vehicles, the right image to establish the desired position.
This, too, can affect the work you do. If an upscale image is wanted, the materials used in the product and packaging are likely to be different from those used in a bargain product—a fact that could make the workflow significantly more complex. On the other hand, with your engineering knowledge, you may be able to suggest alternative materials that would preserve the desired image but be easier or less expensive to use.

- **Personal Relationships**

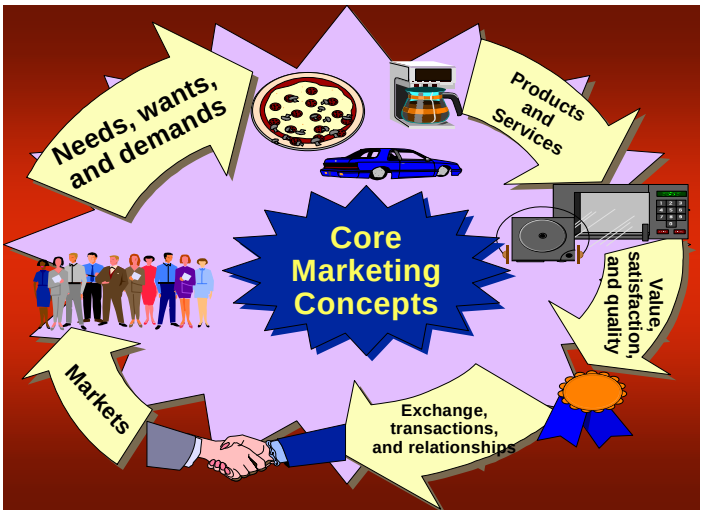
In recent years, personal relationships have come to the forefront of marketing programs. Now even the largest companies want their customers to feel that they have a personal relationship with the company. Companies do this in two ways: They tailor their products as much as possible to individual specifications, and they measure customer satisfaction.
The firm's contribution can significantly impact the area of personal relationships. If the work processes the firm creates cannot meet the customer time frames, the relationship will be damaged. If the firm develops manufacturing lines that cannot be tailored to fit individual customer needs, it will be difficult for the company to give consumers the perception of personal commitment. If salespeople promise delivery by a certain date, but the product cannot be produced on schedule, consumers will not be happy.

Marketing, engineering, and many other professional activities are interrelated and interdependent disciplines. By understanding the role that marketers play in moving a good or service to consumers, others can operate more effectively, for the present and the future.

C. Core Marketing Concepts

To have more clear view about the marketing and to understand the marketing process first we should discuss the some basic concepts, which we will be discussing in the coming Lessons and what is the main essence of the marketing process and we can say that the marketing revolves around theses concepts.

a. **Needs, wants, and demands**Needs Human needs are the most basic concept underlying marketing. A human *need* is a state of felt deprivation.



1). Humans have many complex needs.

a). Basic, physical needs for food, clothing, warmth, and safety.

b). Social needs for belonging and affection.

c). Individual needs for knowledge and self-expression.

2). These needs are part of the basic human makeup.

Wants A human *want* is the form that a human need takes as shaped by culture and individual personality**.**

Demands are human wants that are backed by buying power.

1). Consumers view products as bundles of benefits and choose products that give them the best bundle for their money.

2). People demand products with the benefits that add up to the most satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customer's needs, wants, and demands. The outstanding company strives to stay close to the customer.

b. Products and Services

A ***product*** is anything that can be offered to a market to satisfy a need or want.

A ***service*** is an activity or benefit offered for sale that is essentially intangible and does not result in the ownership of anything.

1). The concept of product is not limited to physical objects and can include experiences, persons, places, organizations, information, and ideas.

2). Be careful of paying attention to the product and not the benefit being satisfied.

3). "Marketing myopia" is caused by shortsightedness or losing sight of underlying customer needs by only focusing on existing wants.

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c. Value, satisfaction, and quality

Customer value is the difference between the values that the customer gains from owning and using a product and the costs of obtaining the product. Customers do not often judge product values and costs accurately or objectively--they act on perceived value.

Customer satisfaction depends on a product's perceived performance in
Delivering value relative to a buyer's expectations. If performance exceeds expectations, the buyer is delighted (certainly a worthy goal of the marketing company).

1). Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise.

2). The aim of successful companies today is total customer satisfaction.

3). Customer delight creates an emotional affinity for a product or service, not just a rational preference, and this creates high customer loyalty.

4). Quality has a direct impact on product or service performance. Quality is defined in terms of customer satisfaction.

The term *total quality management (TQM)* is an approach in which all the company's people are involved in constantly improving the quality of products, services, and marketing processes.

1). In the narrowest sense, quality can be defined as "freedom from defects."

2). Quality has a direct impact on product or service performance. Quality is defined in terms of customer satisfaction.

3). The fundamental aim of today's total quality movement has become total customer satisfaction.

d. Exchange, transactions, And relationships

Marketing occurs when people decide to satisfy needs and wants through exchange.

Exchange is the act of obtaining a desired object from someone by offering something in return. Exchange is only one of many ways to obtain a desired object. Exchange is the core concept of marketing. Conditions of exchange include:

1. At least two parties must participate.
2. Each must have something of value to the other.
3. Each must want to deal with the other party.

Each must be free to accept or reject the other's offer
Whereas exchange is a core concept of marketing, a ***transaction*** (a trade of values between two parties) is marketing's unit of measurement. Most involve money, a response, and action.
Transaction marketing is part of a larger idea of ***relationship marketing***. Beyond creating short-term transactions, marketers need to build long- term relationships with valued customers, distributors, dealers, and suppliers. Ultimately, a company wants to build a unique company asset called a marketing network (the company and all its supporting stakeholders). The goal of relationship marketing is to deliver long-term value to the customer and thereby secure customer satisfaction and retention of patronage.

1). Competition is increasingly between networks.

2). Build a good network of relationships with key stakeholders and profits will follow.

e. Markets

The concepts of exchange and relationships lead to the concept of a market. A *market* is the set of actual and potential buyers of a product.

1). Originally a market was a place where buyers and sellers gathered to exchange goods (such as a village square).

2). Economists use the term to designate a collection of buyers and sellers who transact in a particular product class (as in the housing market).

3). Marketers see buyers as constituting a market and sellers constituting an industry.

4). Modern economies operate on the principle of division of labor, where each person specializes in producing something, receives payment, and buys needed things with this money. Thus, modern economies abound in markets.

5). Marketers are keenly interested in markets.

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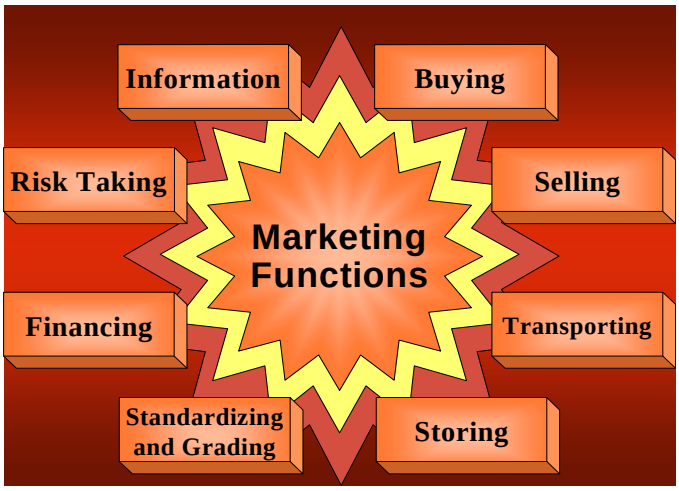
Lesson – 3

In last Lesson we had a detailed view of Marketing process and core marketing concepts. For today the focus of discussion is on the increasingly powerful role of customers in the marketing process and the need for marketers to provide value that exceeds customer expectations. Along with the concept of relationship marketing major functions performed by the marketing are also presented so today we will be discussing the following topics:

A. MARKETING FUNCTIONS
B. CUSTOMER RELATIONSHIP MANAGEMENT

Marketing Functions

There are eight Universal functions that are performed in marketing these are as shown in fig these are Buying, selling, transporting, storing, standardizing and grading, financing and finally risk taking now lets discuss these one by one:



- **Buying:** (Raw material to produce goods and services and to purchase finished goods or services as retailer or whole seller to sell them again for final customers and consumers). It is a function that ensures that product offerings are available in sufficient quantities to meet customer demands
- **Selling:** The function to be performed to sell the products/services/idea to satisfy customer needs or wants. Using advertising, personal selling, and sales promotion to match goods and services to customer needs
- **Transporting:** Function related to create the availability of product or services. It is used for moving products from their points of production to location convenient for purchases
- **Storing:** Warehouses are used to store the products for further distribution.
- **Standardizing and grading:** To provide more quality products and services without variation in the quality. Ensuring that product offerings meet established and grading quality and quantity control standards of size, weight, and other product variables
- **Financing:** Providing the financial resources to carry out different function e.g. promotion of product and providing credit for channel members (wholesalers retailers) or consumers
- **Risk taking:** Marketer takes a risk specifically when any new product is introduced in a market because there are equal chances of success and failure. Dealing with uncertainty about consumer purchases resulting from creation and marketing of goods and services that consumers may purchase in the future
- **Securing Marketing Information:** Collecting information about consumers, competitors, information and channel members (wholesalers, and retailers) for use in making marketing decisions Almost all marketing functions are based on information acquired from external

environment and information distributed out of organization. Marketer seeks information to find out customer needs and wants which are to be satisfied than after producing goods and services awareness about the availability is required so that consumer can purchase the available goods and services.

Marketing Management:

Marketing management is "the art and science of choosing target markets and building profitable relationships with them." Creating, delivering and communicating superior customer value is key. Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. The marketer's basic skill lies in influencing the level, timing, and composition of demand for a product, service, organization, place, person, idea, or some form of information.

Marketing Management is defined as the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives. Which are:

Demand Management - marketing management is concerned with increasing demand, as well as changing or even reducing demand. Marketing management is concerned not only with finding and increasing demand, but also with changing or even reducing it.

1). Demarketing: Marketing to reduce demand temporarily or permanently; the aim is not to destroy demand but only to reduce or shift it. Demarketing's aim is to reduce demand temporarily or permanently (move traffic away from a popular tourist attraction during peak demand times).

2). In reality, marketing management is really demand management.

Building Profitable Customer Relationships - Beyond designing strategies to attract new customers, marketing organizations also go all out to retain current customers and build lasting customer relationships. (This is our second topic to be discussed today).

Customer Relationship Management

Before going in the detail of customer relationship marketing first we should know that what is relationship marketing? It is basically Establishing a long-term continuous relationship with the customer, initiated and managed by the firm. This relationship must provide value to both parties. If a customer is lost, not only is that particular transaction lost, but perhaps all future transactions throughout the life of that customer.



As discussed earlier that marketing is the organizational function charged with defining customer targets and the best way to satisfy needs and wants competitively and profitably. Since consumers and business buyers face an abundance of suppliers seeking to satisfy their every need, companies and nonprofit organizations cannot survive today by simply doing a good job. They must do an excellent job if they are to remain in the increasingly competitive global marketplace. Many studies have demonstrated that the key to profitable performance is to know and satisfy target customers with competitively superior offers. This process takes place today in an increasingly global, technical, and competitive environment. When marketing helps everyone in a

firm really meet the needs of a customer both before and after a purchase, the firm doesn't just get a single sale. Rather, it has a sale and an ongoing *relationship* with the customer. That's why we emphasize that marketing concerns a *flow* of need-satisfying goods and services to the customer. Often, that flow is not just for a single transaction but rather is part of building a long-lasting relationship that is beneficial to both the firm and the customer.

1. **CRM Customer relationship management**

"CRM is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction." CRM Customer relationship management can be defined: as strategies focused on increasing customer satisfaction, loyalty, and profitability by leveraging superior customer knowledge acquired, stored, and acted upon with the aid of information technology.

2. **The basic goals of the CRM are:**

Customer relationship marketing provides the key to retaining customers and involves providing financial and social benefits as well as structural ties to the customers. Companies must decide how much relationship marketing to invest in different market segments and individual customers, from such levels as basic, reactive, accountable, proactive, and full partnership. Much depends on estimating customer lifetime value against the cost stream required to attract and retain these customers.

Total quality marketing is seen today as a major approach to providing customer satisfaction and company profitability. Companies must understand how their customers perceive quality and how much quality they expect. Companies must then strive to offer relatively higher quality than their competitors. This involves total management and employee commitment as well as measurement and reward systems. Marketers play an especially critical role in their company's drive toward higher quality. The basic goals of CRM are:

- The idea of CRM is that it helps businesses use technology to gain insight into the behavior of customers and the value of those customers. If it works as hoped, a business can:
- Provide better customer service
- Make call centers more efficient
- Help sales staff close deals faster
- Simplify marketing and sales processes
- Discover new customers Enable companies to provide excellent real-time customer service by developing a relationship with each valued customer through the effective use of individual account information
- Based on customer attributes, companies can customize market offerings, services, programs, messages, and media
- Reduces the rate of customer defection
- Increases the longevity of the customer relationship
- Enhances the growth potential of each customer through "share of wallet," cross-selling, and up-selling
- Makes low-profit customers more profitable or terminates them
- Focuses disproportionate effort on high value customers

CRM is mainly based upon the customer loyalty that is of great importance for the marketer because firms have realized the value of customer retention. Winning a new customer is usually 5-10 times more costly than retaining an existing customer Customers are usually more profitable the longer you keep them. The value of loyalty goes beyond single customer for the reason that loyal

customers provide more and more credible referrals but the angry gossip of disloyal customers can devastate a firm.

3. Building Profitable Customer Relationships

Managing demand means managing customers because:

1. A demand comes from new customers and repeat customers.
2. Today, besides making efforts to attract new customers, marketers are going all out to retain and build relationships with existing customers. It costs five times as much to attract a new customer as it does to keep a current customer satisfied.
3. Because of changing demographics, a slow-growth economy, more sophisticated competitors, and overcapacity in many industries, many markets and market shares are shrinking. The key to successful customer retention is superior customer value and satisfaction.

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Lesson – 4

Lesson overview and learning objectives:

In last Lesson the focus of discussion was core concepts of the marketing and the increasingly important role of the marketing process in the ever-changing domestic and global business environment Today we will be covering following topics:

A. MARKETING IN HISTORICAL PERSPECTIVE AND EVOLUTION OF MARKETING

The marketing concept is a matter of increased marketing activity, but it also implies better marketing programs and implementation efforts. In addition, the internal market in every company (marketing your company and products to and with the employees of the company) has become as challenging as the external marketplace due to diversity and many other social/cultural issues.

What image comes to mind when you hear the word "marketing"? Some people think of advertisements or brochures, while others think of public relations (for instance, arranging for clients to appear on TV talk shows). The truth is, all of these—and many more things—make up the field of marketing. *M*arketing as "planning and executing the strategy involved in moving a good or service from producer to consumer."

With this definition in mind, it's apparent that marketing and many other business activities are related in some ways. In simplified terms, marketers and others help move goods and services through the creation and production process; at that point, marketers help move the goods and services to consumers. But the connection goes even further: Marketing can have a significant impact on all areas of the business and vice versa. Lets discuss some Marketing Basics In introductory marketing you learned some basics—first the four P's, and then the six P's:

- Product—What are you selling? (It might be a product or a service.)
- Price—What is your pricing strategy?
- Place or distribution—How are you distributing your product to get it into the marketplace?
- Promotion—How are you telling consumers in your target group about your product?
- Positioning—What place do you want your product to hold in the consumer's mind?

Personal relationships—How are you building relationships with your target consumers?

Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. The marketer's basic skill lies in influencing the level, timing, and composition of demand for a product, service, organization, place, person, idea or some form of information.

There are several factors that participated role to evolution of marketing like:

1. Changes in Consumer Behavior

There have been many major marketing shifts during the last few decades that have shaped marketing in the 21st century. There is a view among professional marketers that there is no longer the substantial product loyalty that existed over the last few decades. Product and brand loyalty, many argue, has been replaced by something more akin to a consumer decision that is based on the absence of a better product or service. In addition, there are major changes in the way customers look at market offerings. During the 1980s customers were optimistic, and in the early 1990s they were pessimistic. Later in the 1990s, consumers appeared rather optimistic, but still cautious at

times. The following chart demonstrates some of the major shifts that have occurred to the present:

Increasingly it is clear that while the 4 Ps (product, price, promotion, and place) have value for the consumer, the marketing strategies of the 21st century will use the four "4 Cs" as added critical marketing variables:

1. Care: It has replaced service in importance. Marketers must really care about the way they treat customers, meaning that customers are really everything.
2. Choice: Marketers need to reassess the diversity and breadth of their offerings into a manageable good-better-best selection.
3. Community: Even national marketers must be affiliated, attached to neighborhoods wherever they operate stores.
4. Challenge: The task of dealing with the ongoing reality of demographic change.

2. End of the Mass Market

During the late 1990s, we witnessed the death of the concept of mass market. Regardless, some marketers continue to argue that database marketing will never replace mass marketing for most products. The view is that communicating with users by e-mail, Web site, mail, telephone, or fax will never become cost-efficient enough to justify the return. However, the success of the Internet provides considerable evidence that one-to-one marketing is and will be appropriate for many packaged goods and other high- and low-involvement products that in the past sold almost exclusively with brand advertising.

Through the 1970s, only high-end retailers and personal-service firms could afford to practice one-to-one marketing. For the most part, they did it the old-fashioned way with personal selling and index-card files.

During the 1990s, bookstore chains, supermarkets, warehouse clubs, and even restaurants began to track individual purchase transactions to build their "share of the customer." Many of these programs now run on Personal Computers platforms or workstation environments much more powerful than the most capable mainframes of the 1970s. It is possible today to track 5 or 6 million customers for the same real cost as tracking a single customer in 1950. With Internet-based databases and remote access, this capability literally has exploded in the last few years.

The situation will become even more interesting as one-to-one marketing becomes even increasingly pervasive. With an increasingly powerful array of much more efficient, individually interactive vehicles, the options are virtually unlimited, including on-site interactivity, Web site connections, fax-response, e-mail, and interactive television.

Most households today either have direct Internet access, or with TV sets that also provide real-time interactivity through the Internet. We are closing rapidly on the time where individuals will interact with their television and/or computer simply by speaking to it. Via various Web sites, computers work for us to enable us to remember transactions and preferences and find just the right entertainment, information, products, and services. Likewise, online capabilities enable providers to anticipate what a consumer might want today or in the future. Unfortunately, the system has been slower to protect consumers from commercial intrusions that they may not find relevant or interesting.

The increasing level of market definition and refinement (and resulting opportunities for marketers) is possible through the massive social, economic, and technological changes of the past three decades. Some of the important demographic shifts have been:

- *Increasing diversity of the population.* The United States has always been an immigrant nation. However, large numbers of immigrants from Latin America and Asia have increased the proportion of minorities in the country to one in three, up from one in five in 1980. This diversity is even more noticeable in the younger market.

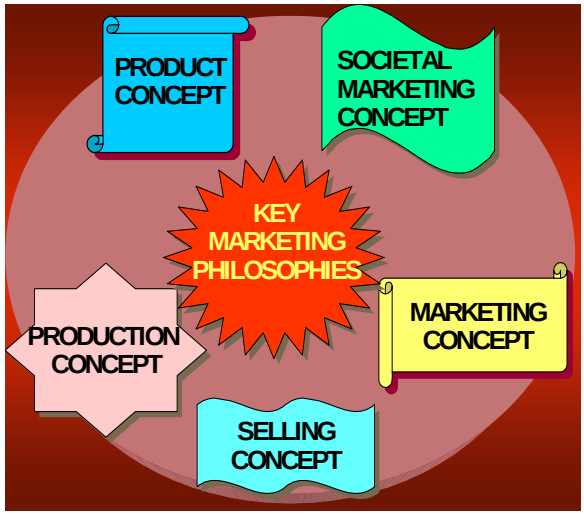
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- *Changing family and living patterns*. There has been a substantial rise in the divorce rate, cohabitation, non-marital births, and increased female participation in the labor force. In addition, married couples with one earner make up only 15 percent of all households. Dual-earner households have become much more common—the additional income is often necessary for the family to pay their bills. Thus, older have replaced the stereotypical family of the 1950s, working parents with much less time available.
- *Emergence of a new children's market*. Minorities are over-represented in the younger age brackets due to the higher fertility and the younger population structure of many recent immigrants. The result is that one in three children in the United States is black, Hispanic, or Asian. In addition, nearly all of today's children grow up in a world of divorce and working mothers. Many are doing the family shopping and have tremendous influence over household purchases. In addition, they may simply know more than their elders about products involving new technology such as computers.
- *Income and education increases* are two other important demographic factors impacting the marketing management arena. Generally, income increases with age, as people are promoted and reach their peak earning years, and the level of education generally has increased over the last few decades. Family units today often have higher incomes because they may have two earners. Accordingly, there is an increased need for products and services because they likely have children and are homeowners.

In sum, the need for market analysis and marketing decision-making, and managers to perform those tasks has never been greater. But, as the course will demonstrate, the complexities of, and analytical tools required for, these activities have never been greater. Be prepared for a challenging experience.

3. Marketing Management Philosophies:

There are several alternative philosophies that can guide organizations in their efforts to carry out their marketing goal(s). Marketing efforts should be guided by a marketing philosophy. Decisions about the weight, given the interests of the organization, customers, and society need to be made by marketing managers. There are five alternative concepts under which organizations conduct their marketing activities.



a. The Production Concept

The *production concept* holds that consumers will favor products that are available ad highly affordable and that management should, therefore, focus on improving production and distribution efficiency. This is one of the oldest philosophies that guide sellers. The production concept is useful when:

1). Demand for a product exceeds the supply.
2). The product's cost is too high and improved productivity is needed to bring it down.

The risk with this concept is in focusing too narrowly company operations. The production concept holds that consumers will favor products that are affordable and available, and therefore management's major task is to improve production and distribution efficiency and bring down prices.

b. The Product Concept

The product concept holds that consumers favor quality products that are reasonably priced, and therefore little promotional effort is required. The selling concept holds that consumers will not buy enough of the company's products unless they are stimulated through a substantial selling and promotion effort. The *product concept* states that consumers will favor products that offer the most quality, performance, and features, and that the organization should, therefore, devote its energy to making continuous product improvements. The product concept can also lead to "marketing myopia," the failure to see the challenges being presented by other products.

c. The Selling Concept

Many organizations follow the selling concept. The *selling concept* is the idea that consumers will not buy enough of the organization's products unless the organization undertakes a large-scale selling and promotion effort.

1). This concept is typically practiced with unsought goods (those that buyers do not normally think of buying e.g. insurance policies).
2). To be successful with this concept, the organization must be good at tracking down the interested buyer and selling them on product benefits.
3). Industries that use this concept usually have overcapacity. Their aim is to sell what they make rather than make what will sell in the market.
4). There are not only high risks with this approach but low satisfaction by customers.

d. The Marketing Concept

The *marketing concept* holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The marketing and selling concepts are often confused. The primary differences are:

1). The selling concept takes an "inside-out" perspective (focuses on existing products and uses heavy promotion and selling efforts).

2). The marketing concept takes an "outside-in" perspective (focuses on needs, values, and satisfactions). Many companies claim to adopt the marketing concept but really do not unless they commit to market-focused and customer-driven philosophies:

- Customer-driven companies research current customers to learn about their desires, gather new product and service ideas, and test proposed product improvements.
- Such customer-driven marketing usually works well when there exists a clear need and when customers know what they want.
- When customers do not know what they want, marketers can try customer driving marketing--understanding customer needs even better than customers themselves do, and creating products and services that will meet existing and latent needs now and in the future.

e. The Societal Marketing Concept

The *societal marketing concept* holds that the organization should determine the needs, wants, and interests of target markets. It should then deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and the society's well being.

1). The societal marketing concept is the newest of the marketing philosophies.

2). It questions whether the pure marketing concept is adequate given the wide variety of societal problems and ills.

3). According to the societal marketing concept, the pure marketing concept overlooks possible conflicts between short-run consumer wants and long- run consumer welfare.

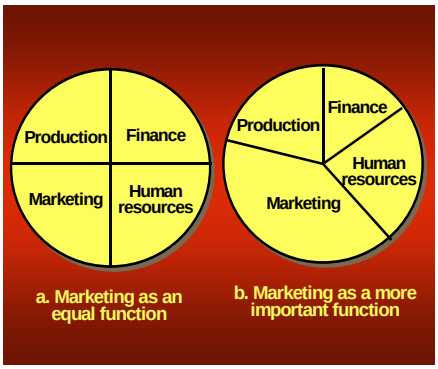
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4). The societal concept calls upon marketers to balance three considerations in setting their marketing policies:

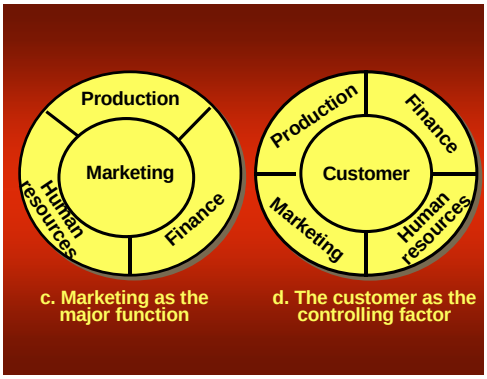
a). Company profits.
b). Customer wants.
c). Society's interests.

5). It has become good business to consider and think of society's interests when the organization makes marketing decisions.

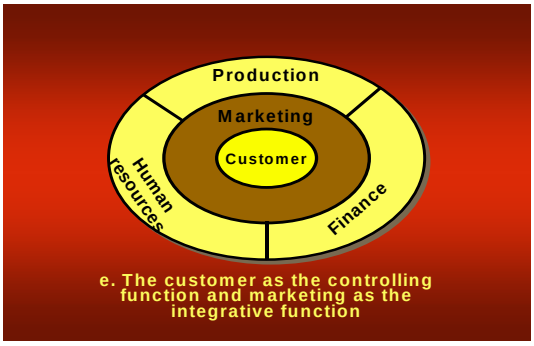
4. Evolving Views of Marketing's Role:



As expressed in figures initially the Marketing was considered to play equal function as other departments of the organization. But with the passage of times and growing importance of the customers marketing department attained more importance and attained the central part in the organization.



Afterwards the customer is now the main actor that is controlling almost all functions and efforts of the marketing department, because the success of any organization in today's competitive era depends upon the level of satisfaction provided by the company. Nowadays the marketing department is acting, as integration department to provide integration among the functions performed by the company and customer is acting as controlling factor in the organization



Lesson – 5

Lesson overview and learning objectives:

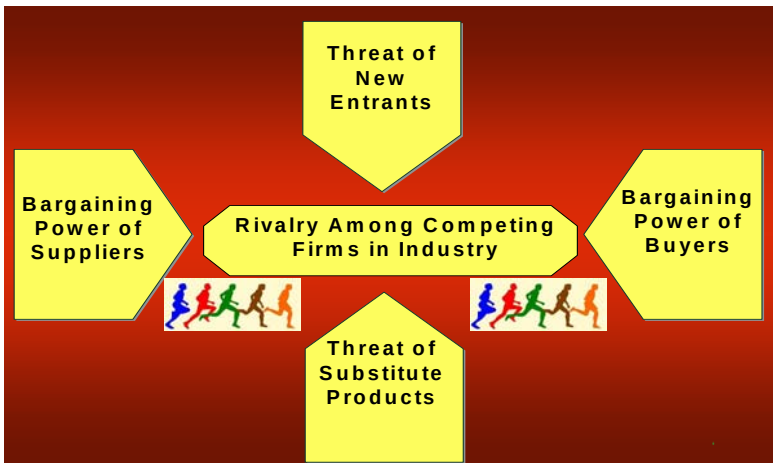
In last Lesson the focus of discussion was core concepts of the marketing and the increasingly important role of the marketing process in the ever-changing domestic and global business environment Today we will be covering following topics:

A. MARKETING CHALLENGES IN THE 21st CENTURY.

The marketing concept has changed dramatically over the last several decades, and recently the focus has increasingly moved to customers (versus products and selling) marketing globally and the various technology issues that impact the market. In addition, there is renewed emphasis in marketing on creating and innovating with new and better products and services rather than just competing against other firms and following the marketing patterns established by competitors.

A. Porter's 5 Forces Model of Competition:

Marketing is facing different challenges in the 21st century to meet these Before entering the business Porter model can be used to analyze the environment both for new and existing business and can be used to overcome and meet the challenges.



- **Threat of New Entrants**

Ratio of new entrants in the industry greater the ratio greater will be intensity of competition

- **Bargaining Power of Buyers:** When competition is intense and number of manufacturer is greater the buyer have more options for product switching over this will increase the buying power of buyer
- **Threat of Substitute:** As obvious from the term greater the threat of new entrants will result in greater higher completion that in tern will result in increase in the number of substitutes
- **Bargaining Power of Suppliers**: Greater number of the supplier will provide the stronger buying power to the manufacturer/customer and vice versa
- **Rivalry Among Competing Firms in Industry:** Larger number of the manufacturers and greater number of product variety increases the rivalry among the competitors, which demands for more quality and customer satisfy9ng products in order to meet the competition**.**

A. **The information technology revolution**

The information age, particularly the advent of the Internet is having a major impact on the direction of marketing science and practice.

Digitalization and Connectivity: The flow of digital information requires connectivity Intranets, Extranets, and the Internet are key drivers of the "new economy

Technologies for Connecting

b. The major force behind the new connectedness is technology.

c. The boom in computer, telecommunications, and information technology, as well as the merging of these technologies, has had a major impact on the way businesses bring value to their customers.

1). Using today's powerful computers, marketers create detailed databases and use them to target individual customers with offers designed to meet their specific needs and buying patterns.

2). Cell phones; fax machines, and CD-ROM to interactive TV are just a few of the tools being used to make connections.

a). Electronic commerce allows consumers to shop and buy without ever leaving home.

b). Virtual reality displays, virtual shopping, and virtual salespeople are just a few of the changes that consumers seem to be embracing. The Information Superhighway (and its backbone--the Internet) will link customers to companies in ways that were unimagined only a few years ago. The *Internet* is a vast and burgeoning global web of computer networks, with no central management or ownership. The user-friendly World Wide Web has changed us all.

1). The Internet has been hailed as the technology behind a new model for doing business.

2). New applications include:

a). Internet--connecting with customers.

b). Intranets--connecting with others in the company.

c). Extranets--connecting with strategic partners, suppliers, and dealers.

3). Marketplaces have now become market spaces.

2). However, new opportunities abound.

- Connections with Customers

Today, most marketers are realizing that they don't want to connect with just any customers. Instead, most are targeting fewer, potentially more profitable customers.

1). Greater diversity and new consumer connections have meant greater market fragmentation.

a). Marketers have responded by moving to more segmented marketing where they target carefully chosen sub markets or even individual buyers.

2). At the same time, companies are analyzing the value of the customer to the firm. What value does the customer bring to the organization? Are they worth pursuing?

a). Connect with those that will be bring in profits.

h. Connect for a customer's lifetime.

1). Rather than always looking for new customers, the focus has now shifted to keeping current customers and building lasting relationships based on superior satisfaction and value.

2). Long-term profits have superseded short-term gain.

3). Companies are spending more time considering "share of customer" and less time worrying about "share of market."

a). Employees are being trained in cross-selling.

b). Up-selling is now a common practice.

Today, beyond connecting more deeply, many companies are also taking advantage of new technologies that let them connect more directly with their customers.

1). Products are now available via telephone, mail-order catalogs, kiosks, and electronic commerce.

2). Business-to-business purchasing over the Internet has increased even faster than online consumer buying.

3). Some firms sell only via direct channels (Example: Dell Computer, Amazon.com).

4). Other firms use a combination of traditional selling and direct selling methods.

Direct marketing is redefining the buyer's role in connecting with sellers.

1). Buyers are now active participants in shaping the marketing offer and process.

2). Some companies allow buyers to design their own products online.

3). Some marketers have hailed direct marketing as the "marketing model of the next millennium."

- Connections with Marketing's Partners

Connecting inside the company--traditionally, marketers have played the role of intermediary, charged with understanding customer needs and representing the customer to different company departments, which then acted upon these needs.

1). Marketing no longer has sole ownership of customer interactions.

a). Now, every employee must be customer-focused.

b). Companies are reorganizing their operations to align them better with customer needs.

c). Teams coordinate efforts toward the customer.

Connecting with outside partners--most companies today are networked companies, relying heavily on partnerships with other firms.

1). Supply chain management--the supply chain describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. Each member of the supply chain creates and captures only a portion of the total value generated by the supply chain.

2). Supply chain management allows all partners to strengthen relationships for mode of payment and delivery.

3). Strategic alliances--companies need strategic partners.

a). Many strategic alliances take the form of marketing alliances--can be product or service oriented in which one company licenses another to produce its product, or two companies jointly market their complementary products.

b). Alliances could be promotional, logistical, or even pricing in nature.

c). Companies must be careful when choosing partners so as to complement strengths and offset weaknesses.

- Connections with the World Around Us

Marketers are taking a fresh look at how they connect with the broader world around them.

1). Global connections--geographical and cultural differences and distances have shrunk dramatically in the last decade.

2). Today, almost every company, large or small, is touched in some way by global competition.

a). Firms are challenged by international competitors in their once safe domestic market.

b). Companies are not only exporting, but buying more components and supplies from abroad.

c). Domestically purchased goods and services are hybrids (with components coming from many international sources).

d). The secret for business success in the next century will be to build good global networks.

The New Connected World of Marketing

Smart marketers of all kinds are taking advantage of new opportunities for connecting with their customers, marketing partners, and the world around them.

1). The old marketing thinking saw marketing as little more than selling or advertising. It emphasized:

a). Customer acquisition.

b). Short-term profit.

c). Goal--sell products.

2). The new marketing thinking believes that improving customer knowledge and customer connections is a corporate goal.

a). Target profitable customers.

b). Find innovative ways to capture and keep these customers.

c). Form direct connections and build lasting customer relationships.

- Use targeted media.
- Integrate communications.
- Use technologies to provide connections.
- View suppliers and distributors as partners, not adversaries.
- Deliver superior value.

B. **Rapid Globalisation**

Technological and economic developments continue to shrink the distances between countries. World is becoming global village due to advancement in the connecting technologies. The world is shrinking rapidly with the advent of faster communication, and transportation, and financial flows. In the Twenty-First century, firms can no longer afford to pay attention only to their domestic market, no matter how large it is. Many industries are global industries, and those firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and other prohibitive factors

Global Marketing into the Twenty-First Century:

a. The world is shrinking rapidly with advent of faster communication, transportation, and financial flows.

c. Domestic companies never thought about foreign competitors until they suddenly found them in their backyard. The firm that stays at home to play it safe might not only lose its chance to enter other markets but also risks losing its home market.

d. Although some companies would like to stem the tide of foreign imports through protectionism, this response would be only a temporary solution and, in the long run, would raise the cost of living and protect inefficient firms.

e. The longer that companies delay taking steps toward internationalizing; the more they risk being shut out of growing global markets.

h. A *global firm*, is a firm that, by operating in more than one country, gains marketing, production, R&D, and financial advantages in its costs and reputation that are not available to purely domestic competitors.

C. **The Changing World Economy**

Even as new markets open to rising affluence in such countries as the "new industrialised" pacific rim, poverty in many areas and slowed economies in previously industrial nations has already changed the world economy. The New Economy presents many new challenges and opportunities for the marketer. The most important point is that the New Economy assuredly places the customer more firmly in the driver's seat for decisions on her/his product and service choices (customization and customerization). In addition, there have been and will be many changes in business and marketing practices as both consumers and businesses have virtual and real-time access to literally millions of products, offers, options, prices, people, competitors, and sources of information that did not exist until recent years. As a result, the marketing mix will change as marketers and firms identify new uses for intangible assets and effective customer relationship

management that is more than a marketing term. We can assume that this increasingly rapid growth and rate of change will continue, and despite the dot-com bust, recession, and other major social, political, and economic adjustments, the Internet and the New Economy have changed marketers and marketing for the long-term future.

D. **The Call for More Ethics and Social Responsibility**

The greed of the 1980's and the problems caused by pollution in Eastern Europe and elsewhere has spurred a new interest in ethical conduct in business. Social and ethical issues in marketing: Connections with our values and social responsibilities--as the worldwide consumerism and environmentalism movements mature, today's marketers are being called upon to take greater responsibility for the social and environmental impact of their actions. The social responsibility and environmental movements will place even stricter demands on companies in the future. Those that resist will be forced into compliance by legislation or consumer outcries.

1. High Prices High *Costs of Distribution can* be misleading. Among other reasons, consumers want to know about products, it is expensive to advertise and promote, brands provide psychological benefits and quality standards, and distribution costs include delivering the product not just promoting it. *High Advertising and Promotion Costs* are determined in a competitive marketplace where consumers often have real choices. *Excessive Markups* are the exception rather than the rule and are more likely in uncompetitive industries. Ethics can influence strategic decisions on such pricing decisions as market penetration versus market skimming

2. High costs of distribution. It is often argued that middlemen are greedy and mark up prices beyond the value of their services. A comprehensive implementation of marketing ethics should include policies and guidelines for defining the company's relationship with distributors

3. High advertising and promotion costs. Modern marketing is also accused of pushing prices up to cover the costs of heavy advertising and sales promotion. When considered in light of increasing activism among consumer groups to regulate advertising, marketers have a unique opportunity to proactively address the needs for strong advertising ethical standards. While protecting free speech, marketers could adopt a statement on ethics in advertising that promotes accurate information exchange, encourages creative and innovative message generation.

4. Excessive middlemen gross profit margins. Critics say that middlemens gross margins are excessive.

5. Deceptive Practices *Deceptive pricing* includes practices such as falsely advertising "factory" or "wholesale" prices or a large price reduction from a phoney high 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.

6. **High-Pressure Selling People** are free to not respond to selling tactics. Moreover, most states have "cooling off" periods that allow buyers to return products or back out of a purchase for large ticket items.

7. **Unsafe Products** Dangerous products are most often illegal.

Corporate marketing policies can provide broad guidelines that everyone in the organization must follow

8. **Product Development.** Product development may be influenced by ethical codes seeking more desirable products or changes is salutary product concepts to make them more desirable.

E. **The New Marketing Landscape**

The new marketing landscape is a dynamic, fast-paced and evolving function of all these changes and opportunities. More than ever there is no static formula for success. Customer is known as the king in the marketing and all efforts of the organization rate directed towards the customer satisfaction this provides new landscape to the marketing and development of the connecting technologies are playing primary role in this concern.

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Lesson – 6

In last Lesson the focus of discussion was marketing challenges in the 21st century. Today we will discuss strategic planning, describe marketing management and planning process, identify sections of a marketing plan and specify the contents of each section. So today we will be covering following topics:

STRATEGIC PLANNING AND MARKETING PROCESS

1. Strategic planning

The process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities is called Strategic planning. Planning is basically concerned with what are we going to do and how are we going to do it? Organizations, which are not able to perform the effective planning, are actually planning for failures. To meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning involves developing a strategy to meet competition and ensure long-term survival and growth. The marketing function plays an important role in this process in that it provides information and other inputs to help in the preparation of the organization's strategic plan. Planning is performed to:

- Address changing environment and consumers
- Develop shared goals within organization
- Address competitive threat
- To anticipate the future
- Determine actions that are needed to achieve objectives

Strategic planning is mainly of three types:

(1) **Strategic Planning**: Major activities in strategic planning process include developing the company's goals and plans. Typically strategic planning focus on long-term issues and emphasize the survival, growth, and overall effectiveness of the organization.



(2) **Tactical Planning:** Tactical planning is concerned with translating the general goals and plans developed by strategic managers into objectives that are more specific and activities. These decisions, or *tactics,* involve both a shorter time horizon and the coordination of resources.

(3) **Operational Planning:** Operational planning is used to supervise the operations of the organization. It is directly involved with non-management employees, implementing the specific plans developed with tactical managers. This role is critical in the organization, because operational managers are the link between management and non-management personnel. Your first



management position probably will fit into this category.

2. Characteristics of a Strategic Plan

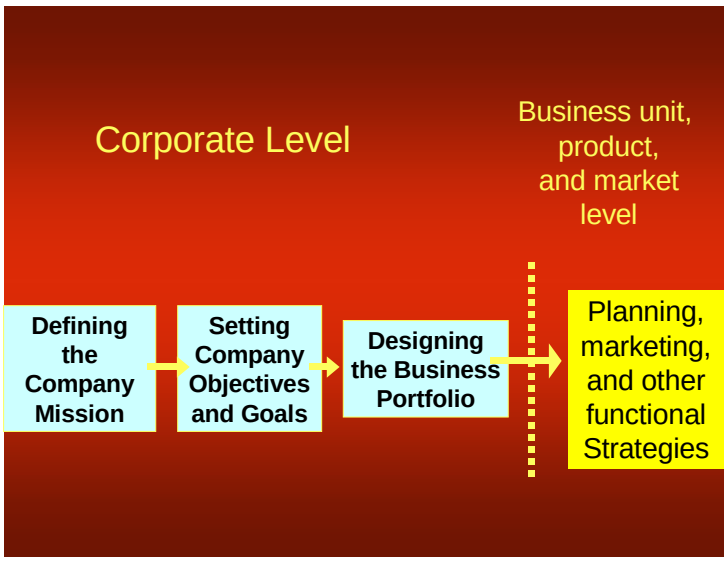
Strategic planning consists of developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines). Since most companies are interested in growth, this chapter explores several growth alternatives within the context of strategic planning and portfolio analysis. The product/market expansion grid shows four avenues for growth: market penetration, market development, product development, and diversification. Many companies operate without formal plans. However, formal planning can provide many benefits:

1). It encourages management to think ahead systematically.
2). It forces managers to clarify objectives and policies.
3). It leads to better coordination of company efforts.
4). It provides clearer performance standards for control.
5). It is useful for a fast-changing environment since sound planning helps the company anticipate and respond quickly to environmental changes and sudden developments.

3. Strategic planning Process:

It is defined as the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

1). Strategic planning sets the stage for the rest of the planning in the firm.
2). There are four steps to the strategic planning process:
a). stating a clear company mission.
b). Setting supporting company objectives.
c). Designing a sound business portfolio.
d). Planning and coordinating marketing and other functional strategies.



a. Defining the Company's Business and Mission

An organization exists to accomplish something. When management senses that the organization is drifting, it is time to renew its search for purpose by asking:

1). What is our business?
2). Who is our customer?
3). What do customers value?
4). What should our business be?

The first step in the strategic planning process is **defining the company mission**.

1). A ***mission statement*** is a statement of the organization's purpose—what it wants to accomplish in the larger environment.

2). A clear mission statement acts as an "invisible hand" that guides people in the organization.

3). Market definitions of a business are better than product or technological definitions. Products and technologies can become outdated, but basic market needs may last forever.



4). A market-oriented mission statement defines the business in terms of satisfying basic customer needs.
The mission statement must avoid being too narrow or too broad. Mission statements must:

1). Be realistic.
2). Be specific.
3). Fit the market environment.
4). Indicate distinctive competencies.
5). Be motivating.

b. Setting Company Objectives and Goals

The company's mission needs to be turned into detailed supporting objectives for each level of management. This second step in the strategic planning process requires the manager to **set company goals and objectives** and be responsible for achieving them.

1). The mission leads to a hierarchy of objectives including business and marketing objectives.
2). Objectives should be as specific as possible.

c. Designing the Business Portfolio

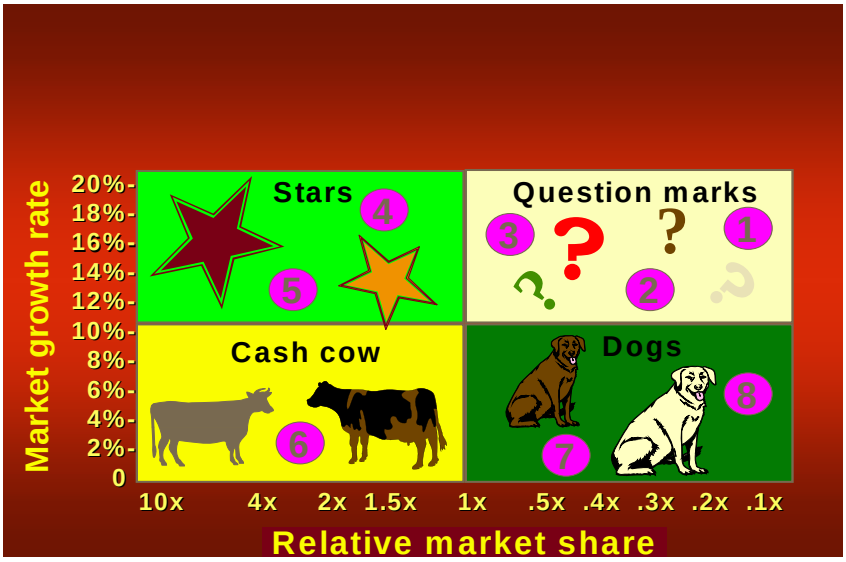
The third step in the strategic planning process is **designing the business portfolio**.

1). The ***business portfolio*** is a collection of businesses and products that make up the company.

2). The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

b. In order to design the business portfolio, the business must:

1). Analyze its current business portfolio and decide which business should receive more, less, or no investment.



2). Develop growth strategies for adding new products or businesses to the portfolio.

Analyzing the Current Business Portfolio

In order to analyze the current business portfolio, the company must conduct portfolio ***analysis*** (a tool by which management identifies and evaluates the various businesses that make up the company). Two steps are important in this analysis:

1). The first step is to identify the key businesses (SBUs). The ***strategic business unit (SBU)*** is a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses.

2). The SBU can be a company division, a product line within a division, or even a single product or brand.

3). The second step is to assess the attractiveness of its various SBUs and decide how much support each deserves. The best-known portfolio planning method is the Boston Consulting Group (BCG) matrix:

1). Using the BCG approach, where a company classifies all its SBUs according to the ***growth-share matrix***.

a). The vertical axis, market growth rate, provides a measure of market attractiveness.

b). The horizontal axis, relative market share, serves as a measure of company strength in the market.

2). Using the matrix, four types of SBUs can be identified:

a. Stars
b. Cash Cows
c. Question Marks
d. Dogs

a). **Stars** are high-growth, high-share businesses or products (they need heavy investment to finance their rapid growth potential).

b). **Cash Cows** are low-growth, high-share businesses or products (they are established, successful, and need less investment to hold share).

c). **Question Marks** are low-share business units in high-growth markets (they require a lot of cash to hold their share).

d). **Dogs** are low-growth, low-share businesses and products (they may generate enough cash to maintain themselves, but do not have much future). Once it has classified its SBUs, a company must determine what role each will play in the future. The four strategies that can be pursued for each SBU are:

1). The company can invest more in the business unit in order to **build** its share.
2). The company can invest enough just to **hold** at the current level.
3). The company can **harvest** the SBU.
4). The company can **divest** the SBU.

As time passes, SBUs change their positions in the growth-share matrix. Each has its own life cycle. The growth-share matrix has done much to help strategic planning study; however, there are problems and limitations with the method.

1). They can be difficult, time-consuming, and costly to implement.
2). Management may find it difficult to define SBUs and measure market share and growth.
3). They focus on classifying current businesses but provide little advice for future planning.
4). They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly. In spite of the drawbacks, most firms are still committed to strategic planning.

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Lesson – 7

Lesson overview and learning objectives:

All companies must look ahead and develop long-term strategies to meet the changing conditions in their industries. Each company must find the game plan that makes the most sense given its specific situation, opportunities, objectives, and resources. Keeping in view this fact the last Lesson was dedicated for the discussion to explore several growth alternatives within the context of strategic planning and portfolio analysis. The product/market expansion grid shows four avenues for growth: market penetration, market development, product development, and diversification.

PORTFOLIO ANALYSIS

A. MARKETING PROCESS

Analyzing the Current Business Portfolio

We have discussed in last Lesson that in order to analyze the current business portfolio, the company must conduct portfolio ***analysis*** (a tool by which management identifies and evaluates the various businesses that make up the company). Two steps are important in this analysis:

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d. The best-known portfolio planning method is the Boston Consulting Group (BCG) matrix:

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b). The horizontal axis, relative market share, serves as a measure of company strength in the market.

2). Using the matrix, four types of SBUs can be identified (Discussed in detail in last Lesson)

a). **Stars**
b). **Cash Cows**
c). **Question Marks**
d). **Dogs**

Once it has classified its SBUs, a company must determine what role each will play in the future. The four strategies that can be pursued for each SBU are:

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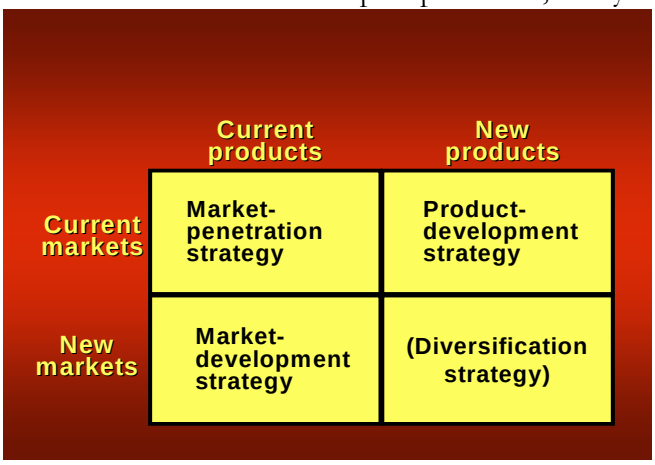
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4). They can lead the company to place too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly. In spite of the drawbacks, most firms are still committed to strategic planning. Based upon this analysis company designs the growth strategies:

Developing Growth Strategies

Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The ***product/market expansion grid*** is a portfolio-planning tool for identifying company growth opportunities through:

1). ***Market Penetration***—making more sales to present customers without changing products in any way. Market penetration means trying to increase sales of a firm's present products in its present markets probably through a more aggressive marketing mix. The firm may try to strengthen its relationship with customers to increase their rate of use or repeat purchases, or try to attract competitors' customers or current nonusers. New promotion appeals alone may not be effective. A firm may need to add a home page on the Internet to make it easier and faster for customers to place an order. Or, it may need to add more stores in present areas for greater convenience.



2). ***Market Development***—a strategy for company growth by identifying and developing new markets for current company products (example, demographic markets). Market development means trying to increase sales by selling present products in new markets. Firms may try advertising in different media to reach new target customers. Or they may add channels of distribution or new stores in new areas, including overseas.

3). ***Product Development***—a strategy for company growth by offering modified or new products to current markets. Product development means offering new or improved products for present markets. By knowing the present market's needs, a firm may see new ways to satisfy customers. Computer software firms like Microsoft boost sales by introducing new versions of popular programs.

4). ***Diversification***—a strategy for company growth by starting up or acquiring businesses outside the company's current products and markets. Diversification means moving into totally different lines of business perhaps entirely unfamiliar products, markets, or even levels in the production-marketing system.

Planning Cross-Functional Strategies

The final step in the strategic planning process is **planning functional strategies**.

1). Once the strategic plan is in place, more detailed planning must take place within each business unit.

2). Each department (such as marketing, finance, et cetera) provides information for strategic planning.

Marketing plays a key role in the company's strategic planning process by:

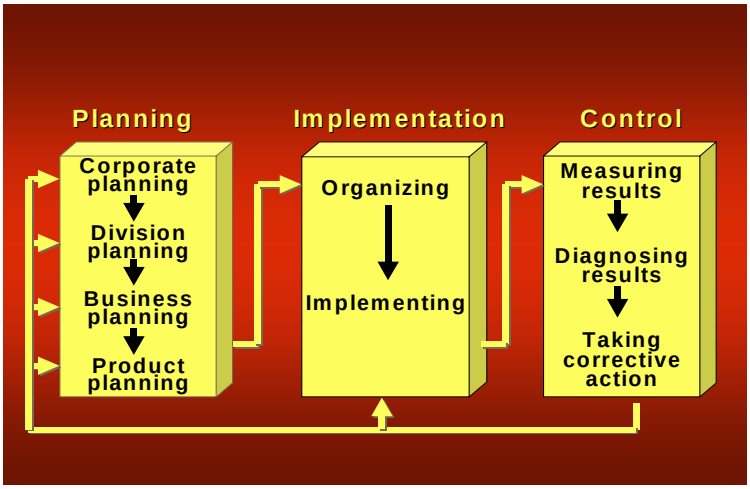
1). Providing a guiding **philosophy**.

2). Providing **inputs** to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them.

3). Within individual business units, marketing designs **strategies** for reaching the unit's objectives.

4). Marketers are challenged to find ways to get all departments to "think customer."

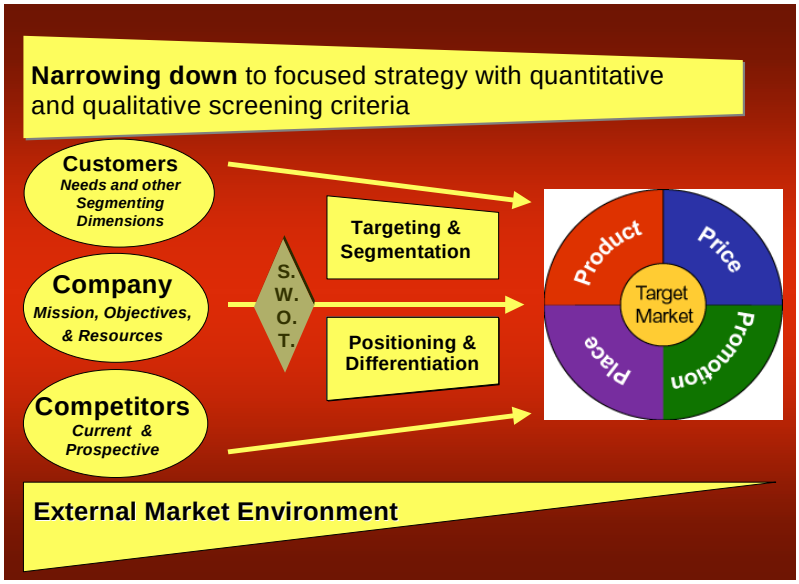
Strategic Planning, Implementation, and Control Process



The process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. It relies on developing a clear company mission, supporting objectives, a sound business portfolio and coordinated functional strategies. Business plans are more customers and competitor-oriented and better reasoned and more realistic than they were in the past. The plan is variously called a "business plan," a "marketing plan," and sometimes an "operating plan." Most marketing plans cover one year, but some cover a few years. The plans vary in their length from under ten pages to over 50 pages. Some companies take their plans very seriously, while others see them as only a rough guide to action. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus.

IMPLEMENTING THE MARKETING PLAN: Planning good strategy is only the start - it counts very little if the organization fails to implement it correctly. Main reasons for the poor implementation are isolated planning, Some organizations employ 'professional planners' while others leave the task of developing strategic plans to top management and leaving the details of implementation to lower-level managers can spell poor or no implementation at all.

Marketing strategy and marketing performance are linked by an implementation system consisting of five related elements. Finally marketing control involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance.



Marketing Strategy Planning Process

Whenever performing the marketing function company needs courses of the action known as the strategies. Marketing strategies and the planning process are based on the It is based on the SWOT analysis. SWOT analysis means to analyze the threats and opportunities that are part of external environment and strengths and weaknesses of the organization, which are part of the internal the environment. Based on this environmental analysis company formulates the strategies to find out the target customers designs objectives and mission statements to fulfill the needs of the target customers and strategies to respond to the competitive environment. After conducting SWOT analysis companies decides strategies about the marketing mix i.e. 4Ps (Product, Price, Place and Promotion) .

Marketing Process

The ***marketing process*** is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort.

This process has following main steps:

1. Analyzing marketing opportunities
2. Selecting target markets
3. Developing the marketing Mix
4. Managing the marketing effort

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Lesson – 8

Lesson overview and learning objectives:

In last Lesson we tried to understand the concept of Portfolio in detail and had a brief concept regarding the marketing process. The marketing process consists of four steps: analyzing market opportunities; developing marketing strategies; planning marketing programs, which entails choosing the marketing mix (the four Ps of product, price, place, and promotion); and organizing, implementing, and controlling the marketing effort. Today we will be covering Marketing process in more detail:

A. MARKETING PROCESS

The Marketing Process

Once the strategic plan has defined the company's overall mission and objectives, marketing plays a role in carrying out these objectives.

The ***marketing process*** is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. Target customers stand at the center of the marketing process. There are following steps in Marketing Process:

5. Analyzing marketing opportunities
6. Selecting target markets
7. Developing the marketing Mix
8. Managing the marketing effort

a. Analyzing marketing opportunities

First step of the marketing process is analyzing market opportunities and availing these opportunities to satisfy the customer's requirements to have competitive advantage. The marketing function of analyzing market opportunities is important in the marketing planning process. Any marketing manager must analyses the long-run opportunities in the market to improve the business unit's performance. To evaluate its opportunities firms needs to operate a reliable marketing information system.

Marketing research is an indispensable marketing tool for this purpose. Researching the market allows the company to gather information about their customers, competitors and any environmental changes to determine the market opportunities. Once the market opportunities have been analyzed then modern marketing practice calls for dividing the market into major market segments, evaluating each segment, and selecting and targeting those market segments that the company can best serve

b. Selecting the target Market:

To succeed in today's competitive marketplace, companies must be customer centered. They must win customers from competitors and keep them by delivering greater value.

- Sound marketing requires a careful, deliberate analysis of consumers.
- Since companies cannot satisfy all consumers in a given market, they must divide up the total market (market segmentation), choose the best segments (market targeting), and design strategies for profitably serving chosen segments better than the competition (market positioning).

Market segmentation is the process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes. *Market targeting* is the process of evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can generate the greatest

customer value and sustain it over time. A company may decide to serve only one or a few special segments, or perhaps it might decide to offer a complete range of products to serve all market segments. Special segments may be called "market niches." Most companies enter a new market by serving a single segment, and if this proves successful, they add segments.
Market positioning is arranging for a product to occupy a clear distinctive and desirable place relative to competing products in the minds of target consumers. In positioning a product, a company first needs to identify possible competitive advantages upon which to build the position. To gain competitive advantage, the company must offer greater competitive advantage to the target segment. The company's entire marketing program should support the chosen positioning strategy. Effective positioning begins with actually differentiating the company's marketing offer so that it gives consumers more value than they are offered by the competition.

c. Developing the Marketing Mix

Once the company has decided on its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. The ***marketing mix*** is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "four Ps."

1). **Product** stands for the "goods-and-service" combination the company offers to the target market.
2). **Price** stands for the amount of money customers have to pay to obtain the product.
3). **Place** stands for company activities that make the product available to target consumers.
4). **Promotion** stands for activities that communicate the merits of the product and persuade target consumers to buy it.

An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. Some critics feel that the four Ps omit or underestimate certain important activities.

1). "Where are services?" they ask.
2). "Where is packaging?"
3). The 4 Ps seems to take the seller's view rather than the buyer's view.
4). Perhaps a better classification would be the 4 Cs:
   a). Product = Customer Solution.
   b). Price = Customer Cost.
   c). Place = Convenience.
   d). Promotion = Communication.

d. Managing the Marketing Effort

The company wants to design and put into action the marketing mix that will best achieve its objectives in target markets. This involves four marketing management functions. The four functions are: **analysis, planning, implementation, and control**

a. Marketing Analysis:

Marketing analysis involves a complete analysis of the company's situation. The company performs analysis by Identifying environmental opportunities and threats. Analyzing company strengths and weaknesses to determine which opportunities the company can best pursue. Feeding information and other inputs to each of the other marketing management functions.

b. **Marketing Planning:**

Within each business unit, functional plans must be prepared, including marketing plans. Such plans include marketing plans which are aggregate plans consisting of plans for product lines, brands and markets.

Marketing planning involves deciding on marketing strategies that will help the company to attain its overall strategic objectives. A detailed plan is needed for each business, product, or brand. A product or brand plan should contain the following sections: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategies, action programs, budgets, and controls.



Contents of Marketing Plan

1. **Executive summary** - The opening section of the marketing plan that presents a short summary of the main goals and recommendations to be presented in the plan.
2. **Current marketing situation -** The section of a marketing plan that describes the target market and the company's position in it. The current marketing situation is the section of a marketing plan that describes the target market and the company's position in it. Important sections include:

1). A market description.
2). A product review.
3). Analysis of the competition.
4). A section on distribution.

3. **Opportunities and Issues Analysis-** This section requires the marketing manager to look ahead for threats and opportunities that the product(s) might face. A company marketing opportunity would be an attractive arena for marketing action in which the company would enjoy a competitive advantage. In the threats and opportunities section, managers are forced to anticipate important developments that can have an impact, either positive or negative, on the firm. Having studied the product's threats and opportunities, the manager can now set objectives and consider issues that will affect them.
4. **Objectives -** Objectives should be stated as goals the company would like to reach during the plan's term.
5. **Marketing strategy -** The marketing logic by which the business unit hopes to achieve its marketing objectives. Marketing strategy consists of specific strategies for target markets, marketing mix and marketing expenditure level. Strategies should be created for all marketing mix components. The marketing budget is a section of the marketing plan that shows projected revenues, costs, and profits. The last section of the marketing plan outlines the controls that will be used to monitor progress. This allows for progress checks and corrective action.

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6. **Action programs -** This section sets out what will be done, when, by whom and how much will be spent doing it.
7. **Projected profit-and-loss statement -** The marketing budget section of the plan shows projected revenues, costs and profits/surpluses.
8. **Controls -** This last section outlines the control measures that will be used to monitor progress. Goals may be set out weekly, monthly, quarterly, annually or for all such periods. Following evaluation of results, actions are recommended and implemented in the next period.

c. Marketing Implementation:

Marketing Implementation is the process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives. Whereas marketing planning addresses the and "why" of marketing activities, implementation addresses the "who", "where", "when", and "how". One firm can have essentially the same strategy as another, yet win in the market- place through faster or better execution. Successful implementation depends on an action program that pulls all of the people and activities together and forms sound formal organizational structure its decision and reward structure (HRM functions and procedures) and the firm's marketing strategies fitting with its company culture (the shared system of values and beliefs).

Marketing Department Organization

The company must design a marketing department that can carry out marketing analysis, planning, implementation, and control. Formats for organizing the department include:

1). The **functional organization** where different marketing activities are headed by a functional specialist (such as a sales manager, advertising manager, etc.).

2). The **geographic organization** where sales and marketing people are assigned to specific countries, regions, or districts.

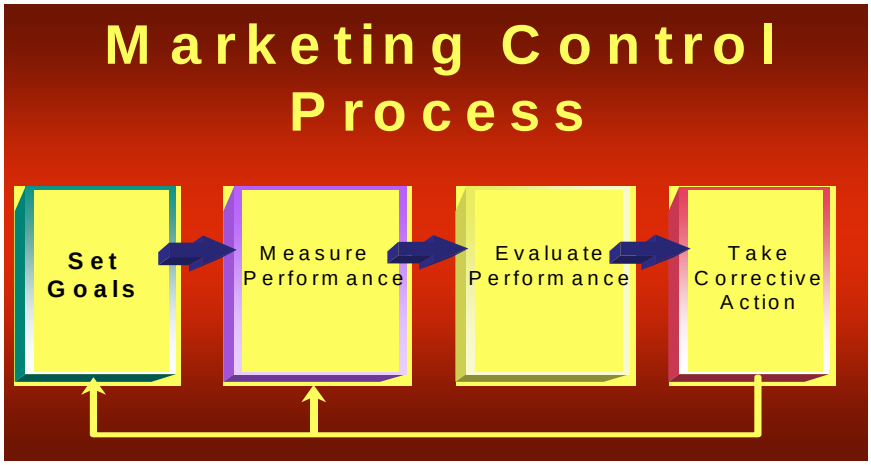
3). A **product management organization** where a product manager develops a complete strategy for a product or brand. Today, many firms are shifting to **customer equity management** where customer profitability is important.

4). A **market or customer management organization** where a specific market plan is developed for each specific market or customer.

5). A **combination plan** where large companies many times combine elements of any of the above.

d. Marketing Control

Marketing control is the process of measuring and evaluating the results of marketing strategies and plans, and taking corrective action to ensure that marketing objectives are attained. Implementation requires four steps:



1). Set specific goals (What do we want to achieve?).

2). Measure performance (What is happening?).

3). Evaluate performance (Why is it happening?).

4). Take corrective action (What should we do about it?).

Two broad forms of control are important:

1). **Operating control** involves checking ongoing performance against the annual plan and taking corrective action when necessary.

2). **Strategic control** involves looking at whether the company's basic strategies are well matched to its opportunities. The major tool for accomplishing this form of control is the marketing audit. The ***marketing audit*** is a comprehensive, systematic, independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities. The purpose is to recommend a plan of action to improve the company's marketing performance.

1). The marketing plan covers all major marketing areas of a business, and not just trouble spots.

2). If done correctly, the audit is normally conducted by an objective and experienced outside party who is independent of the marketing department.

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Lesson – 9

Lesson overview and learning objectives:

In last Lesson we discussed the marketing process. Marketing process consists of four steps: analyzing market opportunities; developing marketing strategies; planning marketing programs, which entails choosing the marketing mix (the four Ps of product, price, place, and promotion); and organizing, implementing, and controlling the marketing effort. This marketing process is influenced by some environmental factors that can be internal to organization or external to organization, today we will be covering Marketing Environment:

MARKETING ENVIRONMENT

In order to correctly identify opportunities and monitor threats, the company must begin with a thorough understanding of the marketing environment in which the firm operates. The marketing environment consists of all the actors and forces outside marketing that affect the marketing management's ability to develop and maintain successful relationships with its target customers. Though these factors and forces may vary depending on the specific company and industrial group, they can generally be divided into broad micro environmental and macro environmental components. For most companies, the micro environmental components are: the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics which combine to make up the company's value delivery system. The macro environmental components are thought to be: demographic, economic, natural, technological, political, and cultural forces. The wise marketing manager knows that he or she cannot always affect environmental forces. However, smart managers can take a proactive, rather than reactive, approach to the marketing environment.
As marketing management collects and processes data on these environments, they must be ever vigilant in their efforts to apply what they learn to developing opportunities and dealing with threats. Studies have shown that excellent companies not only have a keen sense of customer but an appreciation of the environmental forces swirling around them. By constantly looking at the dynamic changes that are occurring in the aforementioned environments, companies are better prepared to adapt to change, prepare long-range strategy, meet the needs of today's and tomorrow's customers, and compete with the intense competition present in the global marketplace. All firms are encouraged to adopt an environmental management perspective in the new millennium.

A company's *marketing environment* consists of the actors and forces outside marketing that affect marketing management's ability to develop and maintain successful relationships with its target customers.

1). Being successful means being able to adapt the marketing mix to trends and changes this environment.

2). Changes in the marketing environment are often quick and unpredictable.

3). The marketing environment offers both opportunities and threats.

4). The company must use its marketing research and marketing intelligence systems to monitor the changing environment.

5). Systematic environmental scanning helps marketers to revise and adapt marketing strategies to meet new challenges and opportunities in the marketplace.

The marketing environment is made up of a:

1. **Micro environmental**
2. **Macro-environment.**

1. **Micro environmental**

The microenvironment consists of five components. The first is the organization's internal environment—its several departments and management levels—as it affects marketing management's decision making. The second component includes the marketing channel firms that cooperate to create value: the suppliers and marketing intermediaries (middlemen, physical distribution firms, marketing-service agencies, financial intermediaries). The third component consists of the five types of markets in which the organization can sell: the consumer, producer, reseller, government, and international markets. The fourth component consists of the competitors facing the organization. The fifth component consists of all the publics that have an actual or potential interest in or impact on the organization's ability to achieve its objectives: financial, media, government, citizen action, and local, general, and internal publics. So the microenvironment consists of six forces close to the company that affect its ability to serve its customers:

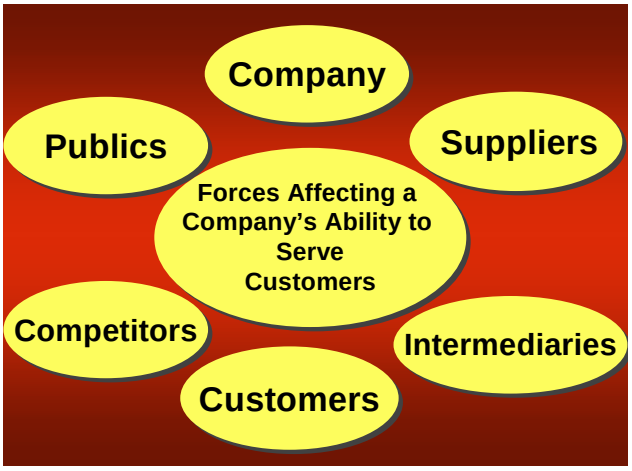
a. The company itself (including departments).
b. Suppliers.
c. Marketing channel firms (intermediaries).
d. Customer markets.
e. Competitors.
f. Publics.

1. **The Company's Microenvironment**

As discussed earlier the company's microenvironment consists of six forces that affect its ability to serve its customers. Lets discuss these forces in detail:

a. <u>The Company</u>

The first force is the **company** itself and the role it plays in the microenvironment. This could be deemed the internal environment.



1). Top management is responsible for setting the company's mission, objectives, broad strategies, and policies.

2). Marketing managers must make decisions within the parameters established by top management.

3). Marketing managers must also work closely with other company departments.

Areas such as finance, R & D, purchasing, manufacturing, and accounting all produce better results when aligned by common objectives and goals.

4). All departments must "think consumer" if the firm is to be successful. The goal is to provide superior customer value and satisfaction.

b. <u>Suppliers</u>

Suppliers are firms and individuals that provide the resources needed by the company and its competitors to produce goods and services. They are an important link in the company's overall customer "value delivery system."

1). One consideration is to watch supply availability (such as supply shortages).
2). Another point of concern is the monitoring of price trends of key inputs. Rising supply costs must be carefully monitored.

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c. Marketing Intermediaries

Marketing intermediaries are firms that help the company to promote, sell, and distribute its goods to final buyers.

1). **Resellers** are distribution channel firms that help the company find customers or make sales to them.

2). These include wholesalers and retailers who buy and resell merchandise.

3). Resellers often perform important functions more cheaply than the company can perform itself. However, seeking and working with resellers is not easy because of the power that some demand and use.

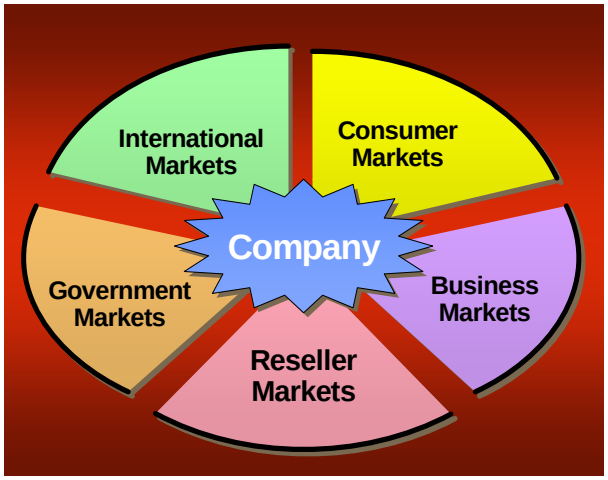
Physical distribution firms help the company to stock and move goods from their points of origin to their destinations. Examples would be warehouses (that store and protect goods before they move to the next destination).

Marketing service agencies (such as marketing research firms, advertising agencies, media firms, etc.) help the company target and promote its products.

Financial intermediaries (such as banks, credit companies, insurance companies, etc.) help finance transactions and insure against risks.

d. Customers

The company must study its customer markets closely since each market has its own special characteristics. These markets normally include:



1). **Consumer markets** (individuals and households that buy goods and services for personal consumption).

2). **Business markets** (buy goods and services for further processing or for use in their production process).

3). **Reseller markets** (buy goods and services in order to resell them at a profit).

4). **Government markets** (agencies that buy goods and services in order to produce public services or transfer them to those that need them).

5). **International markets** (buyers of all types in foreign countries).

e. Competitors

Every company faces a wide range of competitors. A company must secure a strategic advantage over competitors by positioning their offerings to be successful in the marketplace. No single competitive strategy is best for all companies.

f. Publics

A *public* is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. A company should prepare a marketing plan for all of their major publics as well as their customer markets. Generally, publics can be identified as being:

1). Financial publics--influence the company's ability to obtain funds.

2). Media publics--carry news, features, and editorial opinion.

3). Government publics--take developments into account.

4). Citizen-action publics--a company's decisions are often questioned by consumer organizations.

5). Local publics--includes neighborhood residents and community organizations.

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6). General publics--a company must be concerned about the general public's attitude toward its products and services.

7). Internal publics--workers, managers, volunteers, and the board of directors.

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Lesson – 10

Lesson overview and learning objectives:

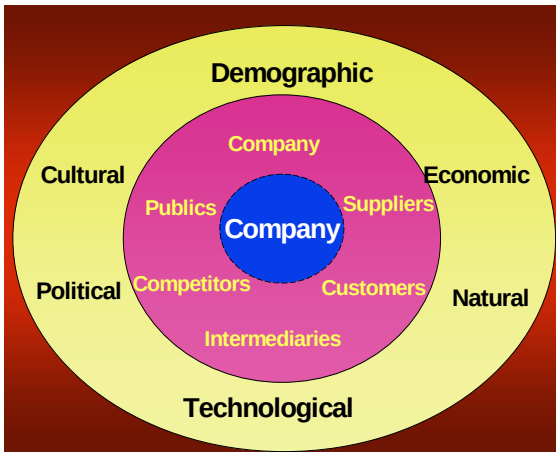
In last Lesson we discussed the marketing microenvironment factors or forces. Today we will continue the topic of Marketing environment and will discuss the Macro environmental factors in detail so our today's topic is:

B. MARKETING MACRO ENVIRONMENT

Marketing Environment

The Company's Macro environment

The company and all of the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to the company. There are six major forces (outlined below) in the company's macro environment. There are six major forces (outlined below) in the company's macro environment.



a. Demographic.
b. Economic.
c. Natural.
d. Technological.
e. Political.
f. Cultural.

a. Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistics. It is of major interest to marketers because it involves people and people make up markets. Demographic trends are constantly changing. Some more interesting ones are.

1). The world's population (though not all countries) rate is growing at an explosive rate that will soon exceed food supply and ability to adequately service the population. The greatest danger is in the poorest countries where poverty contributes to the difficulties. Emerging markets such as China are receiving increased attention from global marketers.

2). The most important trend is the changing age structure of the population. The population is aging because of a slowdown in the birth rate (in this country) and life expectancy is increasing. The *baby boomers* following World War II have produced a huge "bulge" in our population's age distribution. The new prime market is the middle age group (in the future it will be the senior citizen group). There are many subdivisions of this group.

a). Generation X--this group lies in the shadow of the boomers and lack obvious distinguishing characteristics. They are a very cynical group because of all the difficulties that have surrounded and impacted their group.

b). *Echo boomers* (baby boomlets) are the large growing kid and teen market. This group is used to affluence on the part of their parents (as different from the Gen Xers). One distinguishing characteristic is their utter fluency and comfort with computer, digital, and Internet technology (sometimes called Net-Gens).

c). Generational marketing is possible, however, caution must be used to avoid generational alienation.

Many in the modern family now "telecommute"--work at home or in a remote office and conduct their business using fax, cell phones, modem, or the Internet In general, the population is

becoming better educated. The work force is be-coming more white-collar. Products such as books and education services appeal to groups following this trend. Technical skills (such as in computers) will be a must in the future. The final demographic trend is the increasing ethnic and racial diversity of the population. Diversity is a force that must be recognized in the next decade. However, companies must recognize that diversity goes beyond ethnic heritage. One the important markets of the future are that disabled people (a market larger any of our ethnic minority groups).

b. Economic Environment

The *economic environment* includes those factors that affect consumer purchasing power and spending patterns. Major economic trends in the United States include:

1). Personal consumption (along with personal debt) has gone up (1980s) and the early 1990s brought recession that has caused adjustments both personally and corporately in this country. Today, consumers are more careful shoppers.

2). **Value marketing** (trying to offer the consumer greater value for their dollar) is a very serious strategy in the 1990s. Real income is on the rise again but is being carefully guarded by a value-conscious consumer.

3). **Income distribution** is still very skewed in the U. S. and all classes have not shared in prosperity. In addition, spending patterns show that food, housing, and transportation still account for the majority of consumer dollars. It is also of note that distribution of income has created a "two-tiered market" where there are those that are affluent and less affluent. Marketers must carefully monitor economic changes so they will be able to prosper with the trend, not suffer from it.

c. Natural Environment

The *natural environment* involves natural resources that are needed as inputs by marketers or that are affected by marketing activities. During the past two decades environmental concerns have steadily grown. Some trend analysts labeled the specific areas of concern were:

1). **Shortages of raw materials.** Staples such as air, water, and wood products have been seriously damaged and non-renewable such as oil, coal, and various minerals have been seriously depleted during industrial expansion.

2). **Increased pollution** is a worldwide problem. Industrial damage to the environment is very serious. Far-sighted companies are becoming "environmentally friendly" and are producing environmentally safe and recyclable or biodegradable goods. The public response to these companies is encouraging. However, lack of adequate funding, especially in third world countries, is a major barrier.

3). **Government intervention** in natural resource management has caused environmental concerns to be more practical and necessary in business and industry. Leadership, not punishment, seems to be the best policy for long-term results. Instead of opposing regulation, marketers should help develop solutions to the material and energy problems facing the world.

4). **Environmentally sustainable strategies.** The so-called green movement has encouraged or even demanded that firms produce strategies that are not only environmentally friendly but are also environmentally proactive. Firms are beginning to recognize the link between a healthy economy and a healthy environment.

d. Technological Environment

The *technological environment* includes forces that create new technologies, creating new product and market opportunities.

1). Technology is perhaps the most dramatic force shaping our destiny.

2). New technologies create new markets and opportunities.

3). The following trends are worth watching:

a). Faster pace of technological change. Products are being technologically outdated at a rapid pace.

b). There seems to be almost unlimited opportunities being developed daily. Consider the expanding fields of health care, the space shuttle, robotics, and biogenetic industries.

c). The challenge is not only technical but also commercial--to make practical, affordable versions of products.

d). Increased regulation. Marketers should be aware of the regulations concerning product safety, individual privacy, and other areas that affect technological changes. They must also be alert to any possible negative aspects of an innovation that might harm users or arouse opposition.

e. Political Environment

The *political environment* includes laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society. Various forms of legislation regulate business.

1). Governments develop **public policy** to guide commerce--sets of laws and regulations limiting business for the good of society as a whole.

2). Almost every marketing activity is subject to a wide range of laws and regulations.

Some trends in the political environment include:

1). Increasing legislation to:

a). **Protect companies** from each other.

b). **Protecting consumers** from unfair business practices.

c). **Protecting interests of society** against unrestrained business behavior.

2). Changing government agency enforcement. New laws and their enforcement will continue or increase. (See Table 3.2 for the various acts used to regulate and protect commerce and our economy.)

3). Increased emphasis on ethics and socially responsible actions. Socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

a). Enlightened companies encourage their managers to look beyond regulation and "do the right thing."

b). Recent scandals have increased concern about ethics and social responsibility.

c). The boom in e-commerce and Internet marketing has created a new set of social and ethical issues. Concerns are Privacy, Security, Access by vulnerable or unauthorized groups.

f. Cultural Environment

The *cultural environment* is made up of institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors. Certain cultural characteristics can affect marketing decision-making. Among the most dynamic cultural characteristics are:

1). Persistence of cultural values. People's core beliefs and values have a high degree of persistence. **Core** beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government.

Secondary beliefs and values are more open to change.

2). Shifts in secondary cultural values. Since secondary cultural values and beliefs are open to change, marketers want to spot them and be able to capitalize on the change potential. Society's major cultural views are expressed in:

a). **People's views of themselves.** People vary in their emphasis on serving themselves versus serving others. In the 1980s, personal ambition and materialism increased dramatically, with significant implications for marketing. The leisure industry was a chief beneficiary.

b). **People's views of others.** Observers have noted a shift from a "me-society" to a "we-society." Consumers are spending more on products and services that will improve their lives rather than their image.

c). **People's views of organizations.** People are willing to work for large organizations but expect them to become increasingly socially responsible.

Many companies are linking themselves to worthwhile causes. Honesty in appeals is a must.

d). **People's views of society.** This orientation influences consumption patterns. "Buy American" versus buying abroad is an issue that will continue into the next decade.

e). **People's view of nature.** There is a growing trend toward people's feeling of mastery over nature through technology and the belief that nature is bountiful. However, nature is finite. Love of nature and sports associated with nature are expected to be significant trends in the next several years.

f). **People's views of the universe.** Studies of the origin of man, religion, and thought-provoking ad campaigns are on the rise. Currently, Americans are on a spiritual journey. This will probably take the form of "spiritual individualism."

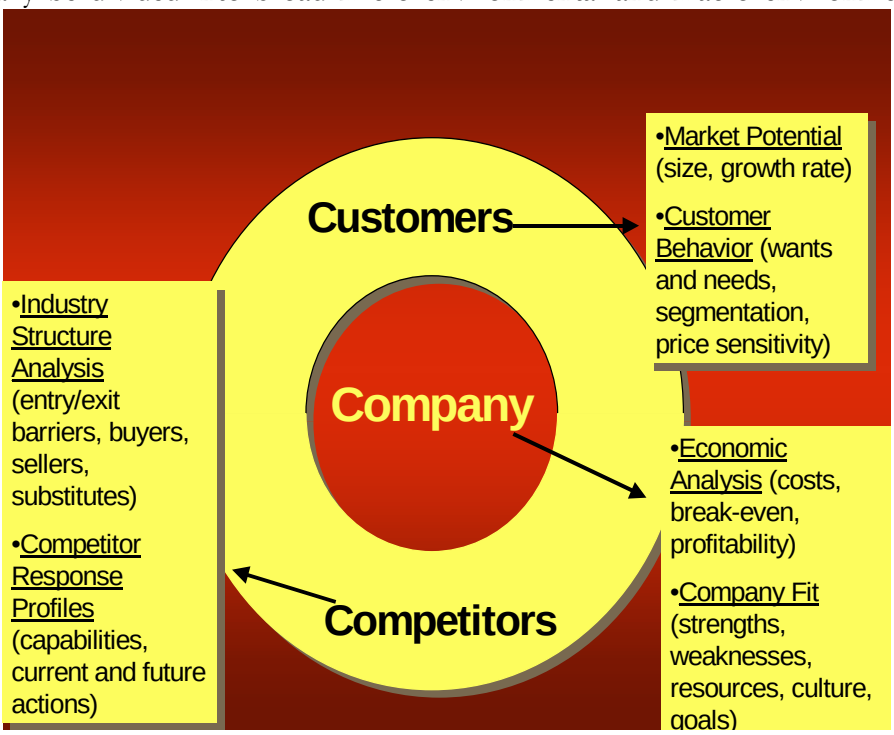
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Lesson – 11

Lesson overview and learning objectives:
In last Lesson we discussed the marketing environment factors or forces. Today we will study some strategies that a company designs to meet the requirements of the environment, to analyze the opportunities available. In order to analyze the environment company needs information that is acquired through marketing information system. Keeping in view this importance of the marketing information and research we will be covering the topic of MIS or marketing research system in this Lesson. Main objective of this Lesson is to eexplain the concept of marketing information system, emphasising ways of assessing information needs, the sources used for developing information and ways of distributing information.
So our today's topics are:

A. ANALYZING MARKETING OPPORTUNITIES AND DEVELOPING STRATEGIES
B. MIS

Analyzing Marketing opportunities and developing strategies
We discussed in last two Lessons those companies and their marketing departments' success depends upon the careful analysis of the marketing environment. Opportunities are need to be analyzed and capture in order to make the profits. Changing market opportunities must be explored and pursued.
In order to correctly identify opportunities and monitor threats, the company must begin with a thorough understanding of the marketing environment in which the firm operates. The marketing environment consists of all the actors and forces outside marketing that affect the marketing management's ability to develop and maintain successful relationships with its target customers. Though these factors and forces may vary depending on the specific company and industrial group, they can generally be divided into broad micro environmental and macro environmental components. For most companies, the micro environmental components are: the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics. The macro environmental components are thought to be: demographic, economic, natural, technological, political, and cultural forces. The wise marketing manager knows that he or she cannot always affect environmental forces. However, smart managers can take a proactive, rather than reactive, approach to the marketing environment.



As marketing management collects and processes data on these environments, they must be ever vigilant in their efforts to apply what they learn to developing opportunities and dealing with threats. Studies have shown that excellent companies not only have a keen sense of customer but an appreciation of the environmental forces swirling around them. By constantly looking at the dynamic changes that are occurring in the aforementioned environments, companies are better prepared to adapt to change, prepare long-range strategy, meet the needs of today's and tomorrow's customers, and compete with the intense competition present in the global marketplace.

A. Marketing Information System:

Marketing information is a critical element in effective marketing as a result of the trend toward global marketing, the transition from buyer needs to buyer wants, and the transition from price to non-price competition. All firms operate some form of marketing information system, but the systems vary greatly in their sophistication. In too many cases, information is not available or comes too late or cannot be trusted. Too many companies are learning that they lack an appropriate information system, still do not have an information system, lack appropriate information, or they do not know what information they lack or need to know to compete effectively.

a. The Marketing Information System

No matters what type of marketing organization we refer to, marketing managers need a great deal of information to carry out their marketing so as to provide superior value and satisfaction for customers. However, despite the growing supply of information, managers often lack enough information of the right kind or have too much information of the wrong kind. To overcome these problems, many companies are taking steps to improve their marketing information systems. In this Lesson the marketing information system is discussed, along with the marketing research process thus showing the types of information gathered and how it is gathered.

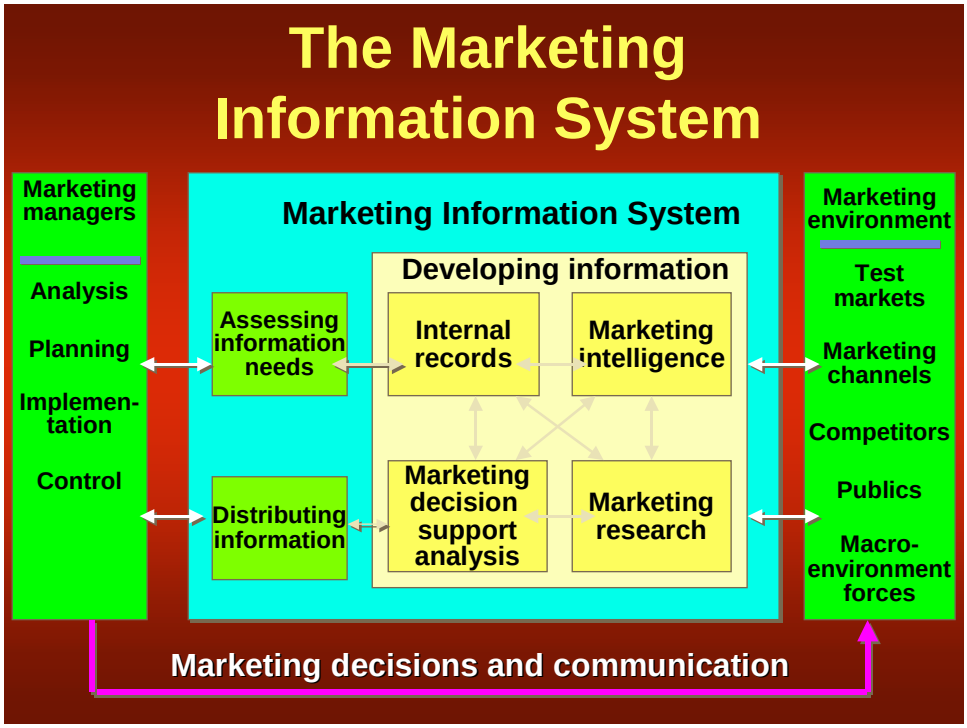
If a marketing organization is to produce superior value and satisfaction for customers, marketing managers need information at almost every turn. They need information about customers such as resellers, end-users (who tend to be called consumers), as well as competitors, governmental and other forces in the marketplace. A marketing information system (MIS) consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate information to marketing decision makers. MIS works in the following way:

- A well-designed marketing information system (MIS) begins and ends with the user. The MIS first assesses information needs by interviewing marketing managers and surveying their decision environment to determine what information is desired, needed, and feasible to offer.

- The MIS next develops information and helps managers to use it more effectively. Internal records provide information on sales, costs, inventories, cash flows, and accounts receivable and payable. Such data can be obtained quickly and cheaply, but must often be adapted for marketing decisions.
- Marketing intelligence supplies marketing executives with everyday information about developments in the external marketing environment. Intelligence can be collected from company employees, customers, suppliers, and resellers; or by monitoring published reports, conferences, advertisements, competitor actions, and other activities in the

environment. Marketing research involves collecting information relevant to a specific marketing problem facing the company.

- Finally, the marketing information system distributes information gathered from internal sources, marketing intelligence, and marketing research to the right managers at the right times. More and more companies are decentralizing their information systems through networks that allow managers to have direct access to information.



b. The working of the Marketing Information System:

If a marketing organization is to produce superior value and satisfaction for customers, marketing managers need information at almost every turn. They need information about customers such as resellers, end-users (who tend to be called consumers), as well as competitors, governmental and other forces in the marketplace. A marketing information system (MIS) consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate information to marketing decision makers.

I. Assessing information needs:

Marketing organizations must establish what information is needed or likely to be needed. This is a key feature of the MIS that underscores the importance of information.

II. Developing information:

Internal Records - provide a wealth of information, which is essentially raw data for decision-making. An effective MIS organizes and summaries balance sheets, orders, schedules, shipments, and inventories into trends that can be linked to management decisions on marketing mix changes.

III. Marketing Intelligence:

Provides the everyday information about environmental variables that managers need as the implement and adjust marketing plans. Sources for intelligence may vary according to needs but may include both internal and external sources.

IV. Marketing Research:

Marketing research links the consumer, customer, and public to the marketer through an exchange of information.

c. Subsystems of Marketing Information System:

A well-designed market information system consists of four subsystems.

- The first is the internal records system, which provides current data on sales, costs, inventories, cash flows, and accounts receivable and payable. Many companies have developed advanced computer-based internal reports systems to allow for speedier and more comprehensive information.

- The second market information subsystem is the marketing intelligence system, supplying marketing managers with everyday information about developments in the external marketing environment. characterized by the scientific method, creativity, multiple methodologies, model building, and cost/benefit measures of the value of information.

- The third subsystem, marketing research, involves collecting information that is relevant to specific marketing problems facing the company. The marketing research process consists of five steps: defining the problem and research objectives; developing the research plan; collecting information; analyzing the information; and presenting the findings.

- The fourth system is the Marketing Decision Support System (MDSS marketing system) that consists of statistical and decision tools to assist marketing managers in making better decisions. MDSS is a coordinated collection of data, systems, tools, and techniques with supporting software and hardware. Using MDSS software and decision models, the organization gathers and interprets relevant information from the business and the environment and turns it into a basis for marketing action. MDSS experts use descriptive or decision models, and verbal, graphical, or mathematical models, to perform analysis on a wide variety of marketing problems.

d. Why to acquire information:

Managers mostly want to be able to predict the future for a company and its products. That future embraces the total market demand and the nature of such demand, the company's share by brand and what competitors will be doing. They want this information so they can chart their own firm's future and thereby are proactive rather than be forced into reacting to a competitor's actions.

1. The firm's internal record system should be set up in such a way as to easily provide information in a form the manager can act on. But this is largely historical information such as sales by account, by territory, by salesperson and so on. Acquiring forward-looking information is the name of the game. By monitoring the relevant *intervening variables*, firms are able to monitor intentions to purchase among many other factors such as competitor's activities. Such intervening variables differ by industry sector and company. For consumer goods companies' measures of awareness, attitudes toward the brand, and distribution levels — among others — are indicators of future sales performance. In the case of industrial companies, relationships between buyers and sellers are all important. So measures of customer service levels, product performance measures and acceptability of the technical knowledge of the salespeople will be partial indicators of whether particular suppliers will be chosen. In both instances, economic indicators are scanned before companies decide on the level of marketing expenditure. That is, whether an expanding or contracting local and global economy faces the industry and firm.

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2. Well accepted salespeople invariably have stronger relationships with their clients, and being closer to them, are privy to more information on the buying company's performance, expectations of the future and even the views on the supplying companies strengths and weaknesses as well as their competitors. Often it is necessary to establish performance rankings in a formal manner.

In much the same manner as consumer companies assess the important criteria that consumers user to decide between brands, industrials conduct research that identifies the criteria purchasers use to choose and maintain suppliers, as well as the ratings for individual companies. Given the generally high education level of such as sales engineers, it is not uncommon for the field force to administer such research. Others use research companies.

e. Marketing Research

The systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization

Steps in the Marketing Research Process
The marketing research process consists of four steps:

1. Defining the problem and research objectives
2. Developing the research plan,
3. Implementing the research plan, and
4. Interpreting and reporting the findings.

f. Why to Conduct Business Research?

Marketing Research is a Systematic & objective process of designing, gathering, analyzing & reporting information that is used to solve a specific problem. It Provides information for aid in making business related decisions, to Identify opportunities and generate & refine actions. It is important for the mangers for many decisions like:

- Helps reduce risk inherent in decision-making
- Provides an important link to customers
- Allows implementation of the business concept
- Enables managers to identify & understand stakeholders wants & needs and to develop appropriate strategies to meet these needs

Lesson – 12

Lesson overview and learning objectives:

In last Lesson we discussed the marketing information system. Today's Lesson Outlines the marketing research process, including defining the problem and research objectives and developing the research plan. We will also discuss the key issues of planning primary data collection, implementing the research plan and interpreting and reporting the findings.

So our today's topics are:

A. THE MARKETING RESEARCH PROCESS:

a. Marketing Research an Introduction:

Every marketer needs marketing research, and most large companies have their own marketing research departments. Marketing research involves a four-step process. The first step consists of the manager and researcher carefully defining the problem and setting the research objectives. The objective may be exploratory, descriptive, or causal. The second step consists of developing the research plan for collecting data from primary and secondary sources. Primary data collection calls for choosing a research approach (observation, survey, experiment); choosing a contact method (mail, telephone, personal); designing a sampling plan (whom to survey, how many to survey, and how to choose them); and developing research instruments (questionnaire, mechanical). The third step consists of implementing the marketing research plan by collecting, processing, and analyzing the information. The fourth step consists of interpreting and reporting the findings. Further information analysis helps marketing managers to apply the information and provides advanced statistical procedures and models to develop more rigorous findings from the information.

Some marketers face special marketing research considerations, such as conducting research in small-business, non-profit, or international situations. Marketing research can be conducted effectively by small organizations with small budgets. International marketing researchers follow the same steps as domestic researchers but often face more challenging problems. All organizations need to understand the major public policy and ethics issues surrounding marketing research.

b. Uses & Application of Research in Marketing:

Decision-making is crucial process in all types of the organization. This decision-making requires then information that is collected and acquired through the marketing research process this information can be regarding customers companies or competitor or the other environmental factors. Major uses of the marketing research in the organizations are as following:

- Measurement of market potential.
- Analysis of market share.
- Determination of market characteristics
- Sales analysis.
- Product testing.
- Forecasting.
- Studies of business trends
- Studies of competitors' products.

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c. THE MARKETING RESEARCH PROCESS

Before researcher can provide managers with information, they must know what kind of problem the manager wishes to solve. Marketing research process has following steps:

1. Defining the problem and research objectives
2. Developing the research plan,
3. Implementing the research plan, and
4. Interpreting and reporting the findings.



Now we will discuss these steps in detail:

Step 1 Defining the Problem and Research Objectives

The marketing manager and the researcher must work closely together to define the problem carefully and agree on the research objectives. Marketing managers must know enough about marketing research to help in the planning and to interpret research results. Defining the problem and research objectives is often the hardest step in the process. After the problem has been defined carefully, the manager and researcher must set the research objectives. The three general types of objectives are:

1). **Exploratory research** where the objective is to gather preliminary information that will help to better define problems and suggest hypotheses for their solution.

2). **Descriptive research** is where the intent is to describe things such as the market potential for a product or the demographics and attitudes of customers who buy the product.

3). **Casual research** is research to test hypotheses about cause-and-effect relationships.

The statement of the problem and research objectives will guide the entire research process. It is always best to put the problem and research objectives statements in writing so agreement can be reached and everyone knows the direction of the research effort.

Step 2 Developing the Research Plan

In developing the research plan, the attempt is to determine the information needed (outline sources of secondary data), develop a plan for gathering it efficiently, and presenting the plan to marketing management. The plan spells out specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data. The firm should know what data already exists before the process of collecting new data begins. The steps that should be followed are. Developing the research plan involves all of the following:

1. Determining Specific Information Needs
2. Gathering Secondary Information
3. Planning Primary Data Collection

1). **Determine specific information needs.** In this step research objectives are translated into specific information needs. For example, determine the demographic, economic, and lifestyle characteristics of a target audience.

2). **Gathering secondary information.**

a). **Secondary data** is information that already exists somewhere, having been collected for another purpose. Sources of secondary data include both internal and external sources. Companies can buy secondary data reports from outside suppliers (i.e., commercial data sources).

Information can be obtained by using commercial online databases. Examples include CompuServe, Dialog, and Lexis-Nexus. Many of these sources are free. Advantages of secondary data include:

1. It can usually be obtained more quickly and at a lower cost than primary data.
2. Sometimes data can be provided that an individual company could not collect on its own.

Some problems with collecting secondary data include:

1. The needed information might not exist.
2. Even if the data is found, it might not be useable.
3. The researcher must evaluate secondary information to make certain it is relevant, accurate, current, and impartial. Secondary data is a good starting point; however, the company will often have to collect primary data.

b). Primary **data** is information collected for the specific purpose at hand.

Planning Primary Data Collection. A plan for primary data collection calls for a number of decisions on research approaches, contact methods, sampling plans, and research instruments.

Research Approaches:

a). Research approaches can be listed as:

1. **Observational research** where information is gained by observing relevant people, actions, and situations. However, some things such as feelings, attitudes, motives, and private behavior cannot be observed. Mechanical observation can be obtained through single source data systems. This is where electronic monitoring systems link consumers' exposure to television advertising and promotion (measured using television meters) with what they buy in stores (measured using store checkout scanners). Observational research can be used to obtain information that people are unwilling or unable to provide.

2. **Survey research** is the gathering of primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior. Survey research is best suited for gathering **descriptive** information. Survey research is the most widely used form of primary data collection The major advantage of this approach is flexibility while the disadvantages include the respondent being unwilling to respond, giving inaccurate answers, or unwilling to spend the time to answer.

3. **Experimental research** involves the gathering of primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors, and checking for differences in-group responses. This form of research tries to explain cause-and-effect relationships. Observation and surveys may be used to collect information in experimental research. This form is best used for **causal** information.

Lesson – 13

Lesson overview and learning objectives:

In last Lesson we discussed the marketing research process first two steps were discussed in that Lesson today we will continue the same topic and will be discussing the remaining steps of the marketing research process. Second topic of today's Lesson is an introduction to the consumer behavior.

So our today's topics are:

A. THE MARKETING RESEARCH PROCESS (Continued)
B. CONSUMER MARKET

Contact Methods:

Contact methods are used to obtain the information Contact methods can be listed as:

1. **Mail questionnaires**--used to collect large amounts of information at a low cost.
2. **Telephone interviewing**--good method for collecting information quickly.
3. **Personal interviewing** (which can be either **individual or group interviewing**).

A form of personal interviewing is "focus group interviewing".

Focus-group interviewing consists of inviting six to ten people to gather for a few hours with a trained interviewer to talk about a product, service, or organization. The interviewer "focuses" the group discussion on important issues.

4. Online (Internet) marketing research can consist of **Internet surveys** or **online focus groups**. Many experts predict that online research will soon be the primary tool of marketing researchers.
5. **Computer interviewing** is a new method being used in the technology age. Consumers read questions from a computer screen and respond.

Sampling plans are used to outline how samples will be constructed and used.

1. A sample is a segment of the population selected for marketing research to represent the population as a whole.
2. Marketing researchers usually draw conclusions about large groups of consumers by studying a small sample of the total consumer population.
3. Designing a sample calls for three decisions:
    a. **Who** is to be surveyed (what **sampling unit**)?
    b. **How many** people should be surveyed (what **sample size**)?
    c. **How** should the sample be **chosen** (what **sampling procedure**)?
4. Kinds of samples include:
    a. **Probability samples**--each population member has a known chance of being included in the sample, and researchers can calculate confidence limits for sampling error.
    b. **Nonprobability samples**--sampling error cannot be measured.

Research Instruments:

In collecting primary data, marketing researchers have a choice of two main research instruments—the **questionnaire and mechanical devices**. The questionnaire is by far the most common instrument, whether administered in person, by phone, or online. Questionnaires are very flexible—there are many ways to ask questions. However, they must be developed carefully and tested before they can be used on a large scale. A carelessly prepared questionnaire usually contains several errors.

In preparing a questionnaire, the marketing researcher must first decide what questions to ask. Questionnaires frequently leave out questions that should be answered and include questions that cannot be answered, will not be answered, or need not be answered. Each question should be checked to see that it contributes to the research objectives.

The form of each question can influence the response. Marketing researchers distinguish between closed-end questions and open-end questions. Closed-end questions include all the possible answers, and subjects make choices among them. Examples include multiple-choice questions and scale questions. Open-end questions allow respondents to answer in their own words. Open-end questions often reveal more than closed-end questions because respondents are not limited in their answers. Open-end questions are especially useful in exploratory research, when the researcher is trying to find out what people think but not measuring how many people think in a certain way. Closed-end questions, on the other hand, provide answers that are easier to interpret and tabulate.

Researchers should also use care in the wording and ordering of questions. They should use simple, direct, unbiased wording. Questions should be arranged in a logical order. The first question should create interest if possible, and difficult or personal questions should be asked last so that respondents do not become defensive.

Although questionnaires are the most common research instrument, mechanical instruments also are used. We discussed two mechanical instruments, people meters and supermarket scanners, earlier in the chapter. Another group of mechanical devices measures subjects' physical responses.

Step 3 Implementing the Research Plan

The researcher next puts the marketing research plan into action. This involves collecting, processing, and analyzing the information. Data collection can be carried out by the company's marketing research staff or by outside firms. The company keeps more control over the collection process and data quality by using its own staff. However, outside firms that specialize in data collection often can do the job more quickly and at a lower cost.
The data collection phase of the marketing research process is generally the most expensive and the most subject to error. The researcher should watch fieldwork closely to make sure that the plan is implemented correctly and to guard against problems with contacting respondents, with respondents who refuse to cooperate or who give biased or dishonest answers, and with interviewers who make mistakes or take shortcuts.

Step 4 Interpreting and Reporting the Findings
The final step in the marketing research process is **interpreting and reporting the findings.** The researchers should keep from overwhelming managers with numbers and fancy statistical techniques. Researchers should present important findings that are useful in the major decisions faced by management. Interpretation should not be left only to researchers. Marketing managers will also have important insights into the problems. Interpretation is an important phase of the marketing process. The best research is meaningless if the manager blindly accepts wrong interpretations from the researcher.

The researcher must now interpret the findings, draw conclusions, and report them to management. The researcher should not try to overwhelm managers with numbers and fancy statistical techniques. Rather, the researcher should present important findings that are useful in the major decisions faced by management.
However, interpretation should not be left only to the researchers. They are often experts in research design and statistics, but the marketing manager knows more about the problem and the

decisions that must be made. In many cases, findings can be interpreted in different ways, and discussions between researchers and managers will help point to the best interpretations. The manager will also want to check that the research project was carried out properly and that all the necessary analysis was completed. Or, after seeing the findings, the manager may have additional questions that can be answered through further sifting of the data. Finally, the manager is the one who ultimately must decide what action the research suggests. The researchers may even make the data directly available to marketing managers so that they can perform new analyses and test new relationships on their own.

Interpretation is an important phase of the marketing process. The best research is meaningless if the manager blindly accepts faulty interpretations from the researcher. Similarly, managers may be biased—they might tend to accept research results that show what they expected and to reject those that they did not expect or hope for. Thus, managers and researchers must work together closely when interpreting research results, and both must share responsibility for the research process and resulting decisions

A. Consumer Market:

a. Defining Consumer Market:

All individuals and households who buy or acquire goods and services for personal consumption are termed as consumers. Markets have to be understood before marketing strategies can be developed. People using consumer markets buy goods and services for personal consumption. Consumers vary tremendously in age, income, education, tastes, and other factors. *Consumer behavior* is influenced by the buyer's characteristics and by the buyer's decision process. *Buyer characteristics* include four major factors: cultural, social, personal, and psychological.



Consumer Markets:
Consumer Buying Behavior refers to the buying behavior of final consumers—individuals and households who buy goods and services for personal consumption.

The world consumer market consists of more than *6 billion* people. At present growth rates, the world population will reach almost 8 billion people by 2025
Consumers around the world vary tremendously in age, income, education level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers connect with each other and with other elements of the world around them impacts their choices among various products, services, and companies. Here we examine the fascinating array of factors that affect consumer behavior.

b. Why to Study Consumer Behavior:

Basic objective of the studying consumer behavior is that the firm needs to know who buys their product? How they buy? When and where they buy? Why they buy? How they respond to marketing stimuli. Because they study consumer behavior (CB) what Consumer Behavior is about?

How, why, where and when consumers make purchase decisions? Considers who influences the decisions? What is Consumer Behavior about? All these are important questions, which are to be known to the companies so that they can design, and implement marketing strategies to satisfy the customers. Consumers determine the sales and profits of a firm by their purchase decisions, thus the economic viability of the firm. In late 1990, US consumers were spending enough dollar bills to stretch from the Earth to the Sun and back, with enough left over for over 600 lines to the moon! Along with these questions companies should also be knowing some other factors like what is Disposable income and what is Discretionary income what is the stage of family life cycle stage because these all these factors influence the consumer behaviors which are very important to the marketers.

c. Consumer Behavior

Consumer behavior is the process through which the ultimate buyer makes purchase decisions. This can be defined as the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas, or experiences to satisfy needs and desires (Solomon, 1996). Those actions directly involved in obtaining, consuming and disposing of products and services, including the decision processes that precede and follow those actions (Engel et al. 1995). Consumer behavior examines mental and emotional processes in addition to the physical activities as by (Wilkie 1990).

d. Marketing Applications:

Consumer behaviors plays important role in almost all types of decisions to be made in marketing. For the reason being that all functions performed in marketing revolve around the customers and consumers. Like:

Positioning: Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Some firms find it easy to choose their positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then, each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeals to a substantial group within the segment.

The positioning task consists of three steps: identifying a set of possible competitive advantages upon which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

Segmentation: Dividing a market into distinct groups of buyers on the basis of needs, characteristics, or behavior who might require separate products or marketing mixes. Market segmentation reveals the firm's market segment opportunities. The firm now has to evaluate the various segments and decide how many and which ones to target. We now look at how companies evaluate and select target segments. The company also needs to examine major structural factors that affect long-run segment attractiveness. For example, a segment is less attractive if it already contains many strong and aggressive *competitors*. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* who can control prices or reduce the quality or quantity of ordered goods and services.

Product development: A strategy for company growth by offering modified or new products to current market segments. Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.

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Product development—offering modified or new products to current markets.

Market development: A strategy for company growth by identifying and developing new market segments for current company products.
International marketing

Lesson – 14

Lesson overview and learning objectives:

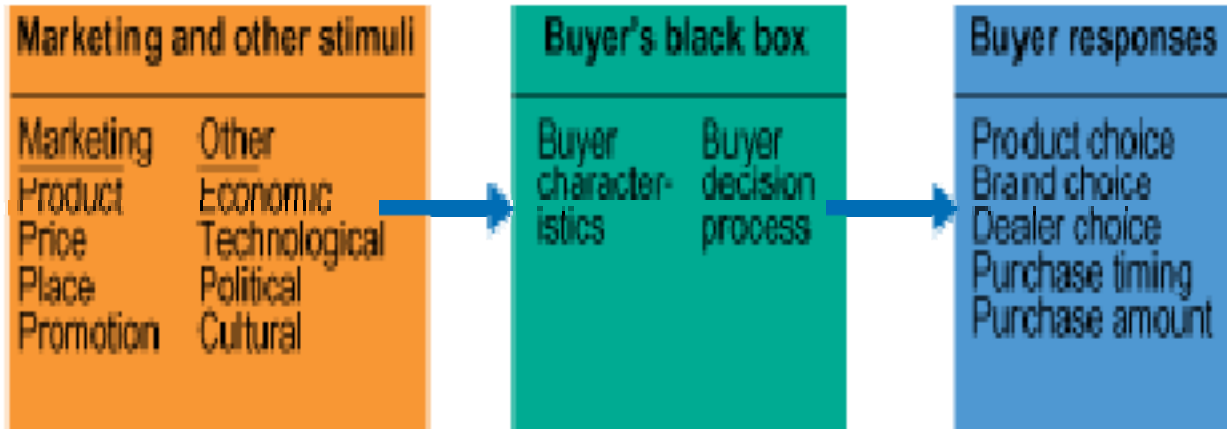
In last Lesson we discussed the Consumer Markets and consumer behavior and its importance and applications for the marketing process. Today we will be continuing the same topic and will discuss the Consumer buying model. Some factors that can influence the consumer decision regarding purchases will also be discussed in today's Lesson.
So our today's topic is:

CONSUMER BUYING BEHAVIOR:

A. Model of consumer behavior

Consumers make many buying decisions every day. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much. But learning about the whys of consumer buying behavior is not so easy—the answers are often locked deep within the consumer's head.
The central question for marketers is: How do consumers respond to various marketing efforts the company might use? The company that really understands how consumers will respond to different product features, prices, and advertising appeals has a great advantage over its competitors. The starting point is the stimulus-response model of buyer behavior shown in Figure . This figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's black box.[3]

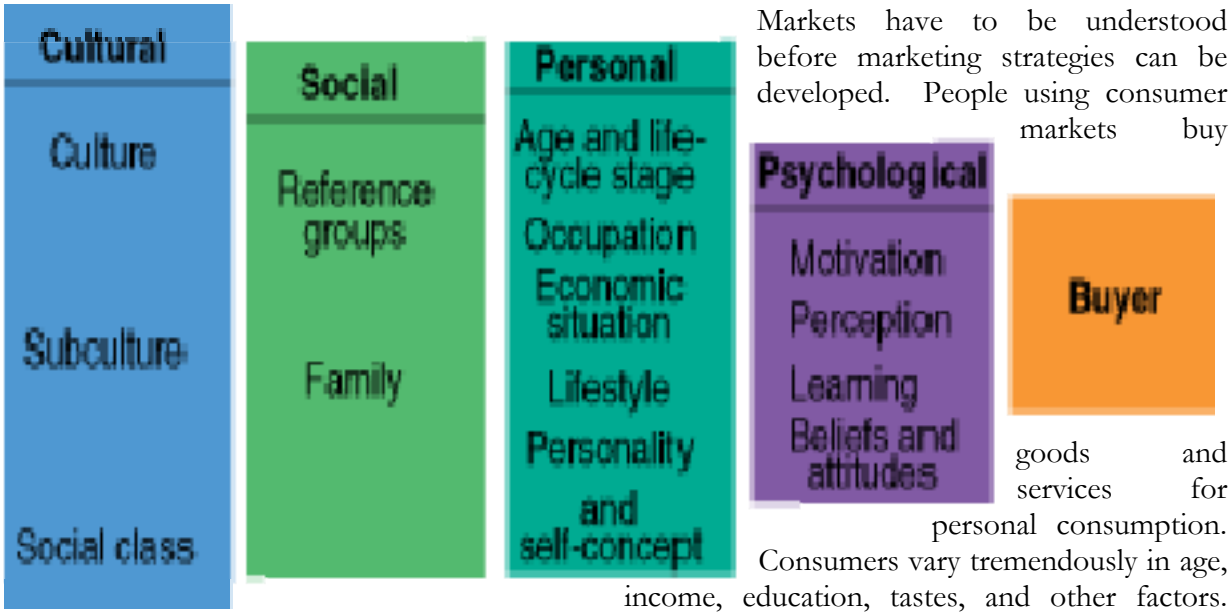
Model of consumer behavior



Marketing stimuli consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political, and cultural. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses: product choice, brand choice, dealer choice, purchase timing, and purchase amount.
The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer's behavior. This chapter looks first at buyer characteristics as they affect buying behavior, and then discusses the buyer decision process.

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics, as shown in Figure For the most part, marketers cannot control such factors, but they must take them into account.

B. Factors influencing consumer behavior



Markets have to be understood before marketing strategies can be developed. People using consumer markets buy goods and services for personal consumption. Consumers vary tremendously in age, income, education, tastes, and other factors. Consumer behavior is influenced by the buyer's characteristics and by the buyer's decision process. Buyer characteristics include four major factors: cultural, social, personal, and psychological. We can say that following factors can influence the Buying decision of the buyer:

a. Cultural
b. Social
c. Personal
d. Psychological

a. Cultural Factors

Cultural factors exert the broadest and deepest influence on consumer behavior. The marketer needs to understand the role played by the buyer's culture, subculture, and social class.

I. Culture

Culture is the most basic cause of a person's wants and behavior. Human behavior is largely learned. Growing up in a society, a child learns basic values, perceptions, wants, and behaviors from the family and other important institutions. A person normally learns or is exposed to the following values: achievement and success, activity and involvement, efficiency and practicality, progress, material comfort, individualism, freedom, humanitarianism, youthfulness, and fitness and health.

Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country. Failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes. For example, business representatives of a U.S. community trying to market itself in Taiwan found this out the hard way. Seeking more foreign trade, they arrived in Taiwan bearing gifts of green baseball caps. It turned out that the trip was scheduled a month before Taiwan elections, and that green was the color of the political opposition party. Worse yet, the visitors learned after the fact that according to Taiwan culture, a man wears green to signify that his wife has been unfaithful. The head of the community delegation later noted, "I don't know whatever happened to those green hats, but the trip gave us an understanding of the extreme

differences in our cultures." International marketers must understand the culture in each international market and adapt their marketing strategies accordingly.

II. Subculture

Each culture contains smaller subcultures or groups of people with shared value systems based on common life experiences and situations. 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. Here are examples of four such important subculture groups.

III. Social Class

Almost every society has some form of social class structure. Social Classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors.

Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth, and other variables. In some social systems, members of different classes are reared for certain roles and cannot change their social positions. Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior.

Social classes show distinct product and brand preferences in areas such as clothing, home furnishings, leisure activity, and automobiles.

b. Social Factors

A consumer's behavior also is influenced by social factors, such as the consumer's small groups, family, and social roles and status.

I. Groups

Many small groups influence a person's behavior. Groups that have a direct influence and to which a person belongs are called membership groups. In contrast, reference groups serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitudes or behavior. Reference groups to which they do not belong often influence people. Marketers try to identify the reference groups of their target markets. Reference groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self-concept, and create pressures to conform that may affect the person's product and brand choices.

The importance of group influence varies across products and brands. It tends to be strongest when the product is visible to others whom the buyer respects. Manufacturers of products and brands subjected to strong group influence must figure out how to reach opinion leaders—people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others.

Many marketers try to identify opinion leaders for their products and direct marketing efforts toward them. In other cases, advertisements can simulate opinion leadership, thereby reducing the need for consumers to seek advice from others.

The importance of group influence varies across products and brands. It tends to be strongest when the product is visible to others whom the buyer respects. Purchases of products that are bought and used privately are not much affected by group influences because neither the product nor the brand will be noticed by others.

II. Family

Family members can strongly influence buyer behavior. The family is the most important consumer buying organization in society, and it has been researched extensively. Marketers are interested in the roles and influence of the husband, wife, and children on the purchase of different products and services.

Husband-wife involvement varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles.

Such changes suggest that marketers who've typically sold their products to only women or only men are now courting the opposite sex. For example, with research revealing that women now account for nearly half of all hardware store purchases, home improvement retailers such as Home

Depot and Builders Square have turned what once were intimidating warehouses into female-friendly retail outlets. The new Builders Square II outlets feature decorator design centers at the front of the store. To attract more women, Builders Square runs ads targeting women in Home, House Beautiful, Woman's Day, and Better Homes and Gardens. Home Depot even offers bridal registries.

Similarly, after research indicated that women now make up 34 percent of the luxury car market, Cadillac has started paying more attention to this important segment. 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, knobs, 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 markings highlight where fluid fills go.

Children may also have a strong influence on family buying decisions. For example, it ran ads to woo these "back-seat consumers" in Sports Illustrated for Kids, which attracts mostly 8- to 14-year-old boys. "We're kidding ourselves when we think kids aren't aware of brands," says Venture's brand manager, adding that even she was surprised at how often parents told her that kids played a tie-breaking role in deciding which car to buy.

In the case of expensive products and services, husbands and wives often make joint decisions.

III. Roles and Status

A person belongs to many groups—family, clubs, organizations. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the persons around them.

Lesson – 15

Lesson overview and learning objectives:

In last Lesson we discussed the Consumer Buying behavior its model and characteristics that can influence the decision for buying process. Today we will be continuing the same topic and will discuss the remaining factors that influence the buying process and decision of consumers.
So our today's topic is:

CONSUMER BUYING BEHAVIOR (CONTINUED):

c Personal Factors

A buyer's decisions also are influenced by personal characteristics such as the buyer's *age* and *life-cycle stage, occupation, economic situation, lifestyle,* and *personality* and *self-concept.*

I. Age and Life-Cycle Stage

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the *family life cycle*—the stages through which families might pass as they mature over time. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage. Traditional family life-cycle stages include young singles and married couples with children.

II. Occupation

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more rugged work clothes, whereas white-collar workers buy more business suits. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.

III. Economic Situation

A person's economic situation will affect product choice. Marketers of income-sensitive goods watch 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 closely.

IV. Lifestyle

People coming from the same subculture, social class, and occupation may have quite different lifestyles. Life style is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major *AIO dimensions—activities* (work, hobbies, shopping, sports, social events), *interests* (food, fashion, family, recreation), and *opinions* (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.
Several research firms have developed lifestyle classifications. It divides consumers into eight groups based on two major dimensions: self-orientation and resources. *Self-orientation* groups include *principle-oriented* consumers who buy based on their views of the world; *status-oriented* buyers who base their purchases on the actions and opinions of others; and *action-oriented* buyers who are driven by their desire for activity, variety, and risk taking. Consumers within each orientation are further classified into those with *abundant resources* and those with *minimal resources,* depending on whether they have high or low levels of income, education, health, self-confidence, energy, and other factors. Consumers with either very high or very low levels of resources are classified without regard to their self-orientations (actualizers, strugglers). Actualizers are people with so

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many resources that they can indulge in any or all self-orientations. In contrast, strugglers are people with too few resources to be included in any consumer orientation.

V. Personality and Self-Concept

Each person's distinct personality influences his or her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analyzing consumer behavior for certain product or brand choices. For example, coffee marketers have discovered that heavy coffee drinkers tend to be high on sociability. Thus, to attract customers, Starbucks and other coffeehouses create environments in which people can relax and socialize over a cup of steaming coffee.

Many marketers use a concept related to personality—a person's *self-concept* (also called *self-image*). The basic self-concept premise is that people's possessions contribute to and reflect their identities; that is, "we are what we have." Thus, in order to understand consumer behavior, the marketer must first understand the relationship between consumer self-concept and possessions. For example, the founder and chief executive of Barnes & Noble, the nation's leading bookseller, notes that people buy books to support their self-images:

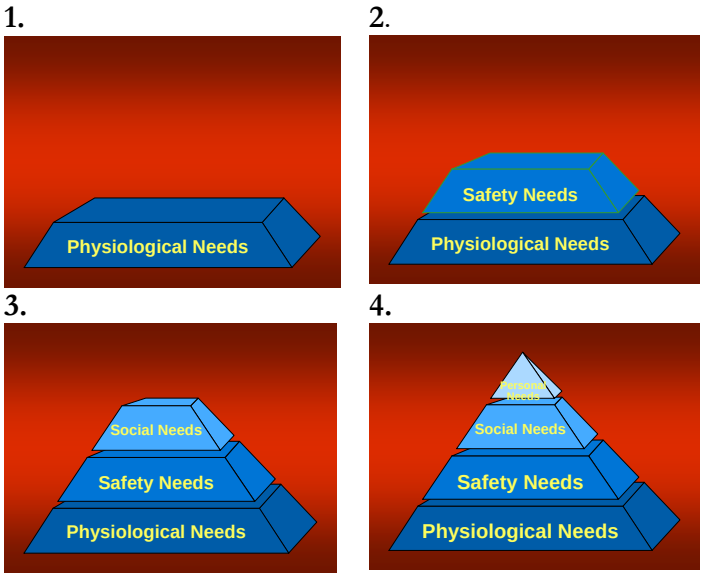
d Psychological Factors

A person's buying choices are further influenced by four major psychological factors: *motivation, perception, learning,* and *beliefs* and *attitudes.*

I. Motivation

A person has many needs at any given time. Some are *biological,* arising from states of tension such as hunger, thirst, or discomfort. Others are *psychological,* arising from the need for recognition, esteem, or belonging. Most of these needs will not be strong enough to motivate the person to act at a given point in time. A need becomes a *motive* when it is aroused to a sufficient level of intensity. A motive (or *drive*) is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular—the theories of Sigmund Freud and Abraham Maslow—have quite different meanings for consumer analysis and marketing.

II. Maslow's Theory of Motivation



Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. Maslow's hierarchy of needs is shown in Figure. In order of importance, they are *physiological* needs, *safety* needs, *social* needs, *esteem* needs, and *self-actualization* needs. A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need. For example, starving people (physiological need) will not take an interest in the latest happenings in the art world (self-actualization needs), nor in how they are seen or esteemed by others (social or esteem needs), nor even in whether they are breathing clean air (safety needs). But as each important need is satisfied, the next most important need will come into play.

III. Perception

A motivated person is ready to act. How the person acts is influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses: sight, hearing, smell, touch, and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way. Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. People are exposed to a great amount of stimuli every day. For example, the average person may be exposed to more than 1,500 ads in a single day. It is impossible for a person to pay attention to all these stimuli. *Selective attention*—the tendency for people to screen out most of the information to which they are exposed—means that marketers have to work especially hard to attract the consumer's attention.

Even noted stimuli do not always come across in the intended way. Each person fits incoming information into an existing mind-set. *Selective distortion* describes the tendency of people to interpret information in a way that will support what they already believe. Selective distortion means that marketers must try to understand the mind-sets of consumers and how these will affect interpretations of advertising and sales information.

IV. Learning

When people act, they learn. Learning describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of *drives, stimuli, cues, responses,* and *reinforcement.*

V. Beliefs and Attitudes

Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior. A belief is a descriptive thought that a person has about something.

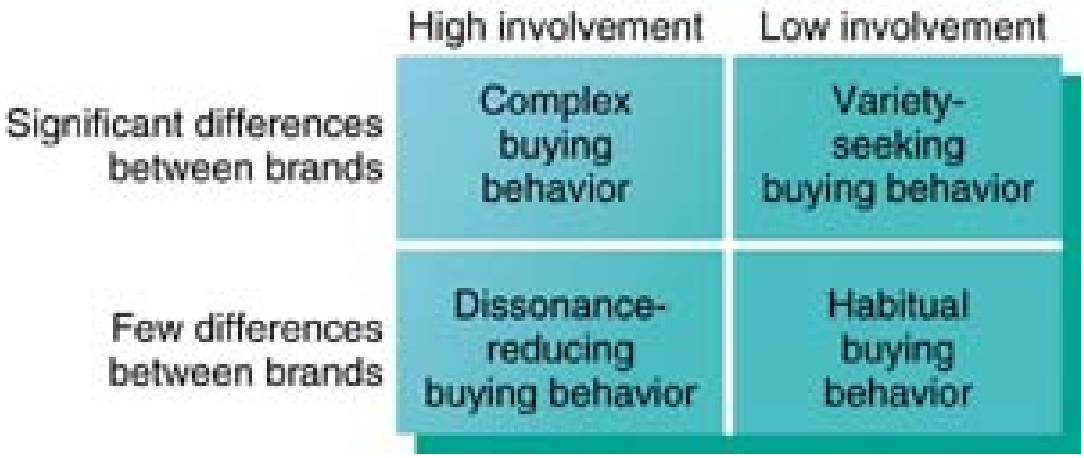
Buying behavior differs greatly for a tube of toothpaste, a tennis racket, an expensive camera, and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. Figure shows types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.

C. Types Buying Behaviors:

- **Complex Buying Behavior**

Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category. For example, a personal computer buyer

may not know what attributes to consider. Many product features carry no real meaning: a "Pentium Pro chip," "super VGA resolution," or "megs of RAM."



This buyer will pass through a learning process, first developing beliefs about the product, then attitudes, and then making a thoughtful purchase choice. Marketers of high-involvement products must understand the information-gathering and evaluation behavior of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance, and about what the company's brand offers on the important attributes. Marketers need to differentiate their brand's features, perhaps by describing the brand's benefits using print media with long copy. They must motivate store salespeople and the buyer's acquaintances to influence the final brand choice.

- **Dissonance-Reducing Buying Behavior**

Dissonance reducing buying behavior occurs when consumers are highly involved with an expensive, infrequent, or risky purchase, but see little difference among brands. For example, consumers buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or to purchase convenience.

After the purchase, consumers might experience *post purchase dissonance* (after-sale discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favorable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.

- **Habitual Buying Behavior**

Habitual buying behavior occurs under conditions of low consumer involvement and little significant brand difference. For example, take salt. Consumers have little involvement in this product category—they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products.

In such cases, consumer behavior does not pass through the usual belief-attitude-behavior sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Instead, they passively receive information as they watch television or read magazines. Ad repetition creates *brand familiarity* rather than *brand conviction.* Consumers do not form strong attitudes toward a brand; they select the brand because it is familiar. Because they are not highly involved with the product, consumers may not evaluate the choice even after purchase. Thus, the buying process involves

brand beliefs formed by passive learning, followed by purchase behavior, which may or may not be followed by evaluation.

Because buyers are not highly committed to any brands, marketers of low-involvement products with few brand differences often use price and sales promotions to stimulate product trial. In advertising for a low-involvement product, ad copy should stress only a few key points. Visual symbols and imagery are important because they can be remembered easily and associated with the brand. Ad campaigns should include high repetition of short-duration messages. Television is usually more effective than print media because it is a low-involvement medium suitable for passive learning. Advertising planning should be based on classical conditioning theory, in which buyers learn to identify a certain product by a symbol repeatedly attached to it.

Marketers can try to convert low-involvement products into higher-involvement ones by linking them to some involving issue. Procter & Gamble does this when it links Crest toothpaste to avoiding cavities. At best, these strategies can raise consumer involvement from a low to a moderate level. However, they are not likely to propel the consumer into highly involved buying behavior.

a. Variety-Seeking Buying Behavior

Consumers undertake variety seeking buying behavior in situations characterized by low consumer involvement but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when buying cookies, a consumer may hold some beliefs, choose a cookie brand without much evaluation, then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

In such product categories, the marketing strategy may differ for the market leader and minor brands. The market leader will try to encourage habitual buying behavior by dominating shelf space, keeping shelves fully stocked, and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, special deals, coupons, free samples, and advertising that presents reasons for trying something new.

D. Buyer Decision Process



Now that we have looked at the influences that affect buyers, we are ready to look at how consumers make buying decisions. Figure shows that the buyer decision process consists of five stages: *need recognition, information search, evaluation of alternatives, purchase decision,* and *post purchase behavior*. Clearly, the buying process starts long before actual purchase and continues long after. Marketers need to focus on the entire buying process rather than on just the purchase decision.

The figure implies that consumers pass through all five stages with every purchase. But in more routine purchases, consumers often skip or reverse some of these stages. A woman buying her regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure because it shows all the considerations that arise when a consumer faces a new and complex purchase situation.

- **Need Recognition**

The buying process starts with need recognition—the buyer recognizes a problem or need. The buyer senses a difference between his or her *actual* state and some *desired* state. The need can be triggered by *internal stimuli* when one of the person's normal needs—hunger, thirst—rises to a level high enough to become a drive. A need can also be triggered by *external stimuli.* At this stage, the

marketer should research consumers to find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product.
By gathering such information, the marketer can identify the factors that most often trigger interest in the product and can develop marketing programs that involve these factors.

- **Information Search**

An aroused consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, the consumer is likely to buy it then. If not, the consumer may store the need in memory or undertake an information search related to the need.
At one level, the consumer may simply enter *heightened attention.* The consumer can obtain information from any of several sources. These include *personal sources* (family, friends, neighbors, acquaintances), *commercial sources* (advertising, salespeople, dealers, packaging, displays, Web sites), *public sources* (mass media, consumer-rating organizations), and *experiential sources* (handling, examining, using the product). The relative influence of these information sources varies with the product and the buyer. Generally, the consumer receives the most information about a product from commercial sources—those controlled by the marketer. The most effective sources, however, tend to be personal. Commercial sources normally *inform* the buyer, but personal sources *legitimize* or *evaluate* products for the buyer.
People often ask others—friends, relatives, acquaintances, professionals—for recommendations concerning a product or service. Thus, companies have a strong interest in building such *word-of-mouth sources.* These sources have two chief advantages. First, they are convincing: Word of mouth is the only promotion method that is *of* consumers, *by* consumers, and *for* consumers. Having loyal, satisfied customers that brag about doing business with you is the dream of every business owner. Not only are satisfied customers repeat buyers, but they are also walking, talking billboards for your business. Second, the costs are low. Keeping in touch with satisfied customers and turning them into word-of-mouth advocates costs the business relatively little.
As more information is obtained, the consumer's awareness and knowledge of the available brands and features increases. The information also helped her drop certain brands from consideration. A company must design its marketing mix to make prospects aware of and knowledgeable about its brand. It should carefully identify consumers' sources of information and the importance of each source. Consumers should be asked how they first heard about the brand, what information they received, and what importance they placed on different information sources.

- **Evaluation of Alternatives**

We have seen how the consumer uses information to arrive at a set of final brand choices. How does the consumer choose among the alternative brands? The marketer needs to know about alternatives evaluation—that is, how the consumer processes information to arrive at brand choices. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work.
The consumer arrives at attitudes toward different brands through some evaluation procedure. How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating; instead they buy on impulse and rely on intuition. Sometimes consumers make buying decisions on their own; sometimes they turn to friends, consumer guides, or salespeople for buying advice.
Marketers should study buyers to find out how they actually evaluate brand alternatives. If they know what evaluative processes go on, marketers can take steps to influence the buyer's decision.

- **Purchase Decision**

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's purchase decision will be to buy the most preferred brand, but two factors can come between the purchase *intention* and the purchase *decision.* The first factor is the *attitudes of others.* The second factor is *unexpected situational factors.* The consumer may form a purchase intention based on

factors such as expected income, expected price, and expected product benefits. However, unexpected events may change the purchase intention. Thus, preferences and even purchase intentions do not always result in actual purchase choice.

- **Post purchase Behavior**

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in post purchase behavior of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the *consumer's expectations* and the product's *perceived performance*. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted.

The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should make product claims that faithfully represent the product's performance so that buyers are satisfied. Some sellers might even understate performance levels to boost consumer satisfaction with the product. For example, Boeing's salespeople tend to be conservative when they estimate the potential benefits of their aircraft. They almost always underestimate fuel efficiency—they promise a 5 percent savings that turns out to be 8 percent. Customers are delighted with better-than-expected performance; they buy again and tell other potential customers that Boeing lives up to its promises.

Almost all major purchases result in cognitive dissonance, or discomfort caused by post purchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. Consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some post purchase dissonance for every purchase.

Why is it so important to satisfy the customer? Such satisfaction is important because a company's sales come from two basic groups—*new customers* and *retained customers*. It usually costs more to attract new customers than to retain current ones, and the best way to retain current customers is to keep them satisfied. Customer satisfaction is a key to making lasting connections with consumers—to keeping and growing consumers and reaping their customer lifetime value. Satisfied customers buy a product again, talk favorably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company. Many marketers go beyond merely *meeting* the expectations of customers—they aim to *delight* the customer. A delighted customer is even more likely to purchase again and to talk favorably about the product and company.

A dissatisfied consumer responds differently. Whereas, on average, a satisfied customer tells 3 people about a good product experience, a dissatisfied customer gripes to 11 people. In fact, one study showed that 13 percent of the people who had a problem with an organization complained about the company to more than 20 people. Clearly, bad word of mouth travels farther and faster than good word of mouth and can quickly damage consumer attitudes about a company and its products.

Therefore, a company would be wise to measure customer satisfaction regularly. It cannot simply rely on dissatisfied customers to volunteer their complaints when they are dissatisfied. Some 96 percent of unhappy customers never tell the company about their problem. Companies should set up systems that *encourage* customers to complain. In this way, the company can learn how well it is doing and how it can improve. The 3M Company claims that over two-thirds of its new-product ideas come from listening to customer complaints. But listening is not enough—the company also must respond constructively to the complaints it receives.

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- **The Buyer Decision Process for New Products**

We have looked at the stages buyers go through in trying to satisfy a need. Buyers may pass quickly or slowly through these stages, and some of the stages may even be reversed. Much depends on the nature of the buyer, the product, and the buying situation.

We now look at how buyers approach the purchase of new products. A new product is a good, service, or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the adoption process as "the mental process through which an individual passes from first learning about an innovation to final adoption, and *adoption* as the decision by an individual to become a regular user of the product.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product:

- *Awareness:* The consumer becomes aware of the new product, but lacks information about it.
- *Interest:* The consumer seeks information about the new product.
- *Evaluation:* The consumer considers whether trying the new product makes sense.
- *Trial:* The consumer tries the new product on a small scale to improve his or her estimate of its value.
- *Adoption:* The consumer decides to make full and regular use of the new product.

This model suggests that the new-product marketer should think about how to help consumers move through these stages. A manufacturer of large-screen televisions may discover that many consumers in the interest stage do not move to the trial stage because of uncertainty and the large investment. If these same consumers were willing to use a large-screen television on a trial basis for a small fee, the manufacturer should consider offering a trial-use plan with an option to buy.

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Lesson – 16

Lesson overview and learning objectives:
In last Lesson we discussed the Consumer Buying behavior. Today
We will discuss business buyer behaviour, types of buying situations, participants in the business buying process, and major influences on business buyers so our today's topic is:

BUSINESS MARKETS AND BUYING BEHAVIOR

The *business market* includes firms that buy goods and services in order to produce products and services to sell to others. It also includes retailing and wholesaling firms that buy goods in order to resell them at a profit. Because aspects of business-to-business marketing apply to *institutional markets* and *government markets*, we group these together. The business marketer needs to know the following: Who are the major participants? In what decisions do they exercise influence? What is their relative degree of influence? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, interpersonal, and individual influences on the buying process.

A. What is a Business Market?

The business market comprises all the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. In the business buying process business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands. Companies that sell to other business organizations must do their best to understand business markets and business buyer behavior.

B. Characteristics of Business Markets

In some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences, are in the market structure and demand, the nature of the buying unit, and the types of decisions and the decision process involved.

Business markets also have their own characteristics. In some ways, they are similar to consumer markets, but in other ways they are very different. The main differences include:

1. Market structure and demand.

Business markets typically deal with far fewer but far larger buyers. They are more geographically concentrated. Business markets have d*erived demand* (business demand that ultimately comes from or derives from the demand for consumer goods). Many business markets have *inelastic demand*; that is, total demand for many business products is not affected much by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, will increase consumer demand for shoes. Finally, business markets have more *fluctuating demand*. The demand for many business goods and services tends to change more—and more quickly—than the demand for consumer goods and services does. A small percentage increase in consumer demand can cause large increases in business demand. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand during the next period.

2. Nature of the Buying Unit:

Compared with consumer purchases, a business purchase usually involves more decision participants and a more professional purchasing effort. Often, business buying is done by trained purchasing agents who spend their working lives learning how to make better buying decisions. Buying committees made up of technical experts and top management are common in the buying of major goods. Companies are putting their best and brightest people on procurement patrol. Therefore, business marketers must have well-trained salespeople to deal with well-trained buyers.

3. Types of Decisions and the Decision Process

Business buyers usually face *more complex* buying decisions than do consumer buyers. Purchases often involve large sums of money, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, business buyers may take longer to make their decisions. The business buying process tends to be *more formalized* than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval. The buying firm might even prepare policy manuals that detail the purchase process.

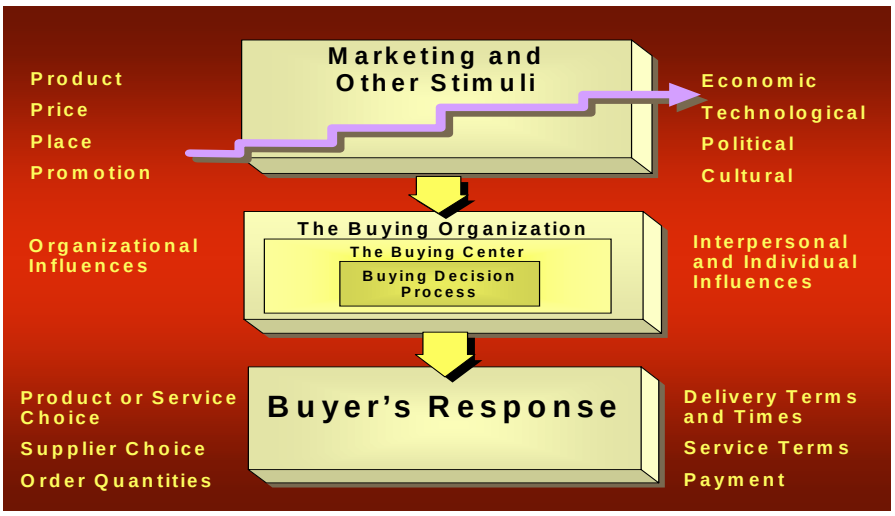
Finally, in the business buying process, buyer and seller are often much *more dependent* on each other. Consumer marketers are often at a distance from their customers. In contrast, business marketers may roll up their sleeves and work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after-sale operation. They often customize their offerings to individual customer needs. In the short run, sales go to suppliers who meet buyers' immediate product and service needs.

C. Business Buyer Behavior

The model in Figure suggests four questions about business buyer behavior: What buying decisions do business buyers make? Who participates in the buying process? What are the major influences on buyers? How do business buyers make their buying decisions?

a. A Model of Business Buyer Behavior

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces in the environment: economic, technological, political, cultural, and competitive. These stimuli enter the organization and are turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service, and payment terms. In order to design good marketing mix strategies, the marketer must understand what happens within the organization to turn stimuli into purchase responses.



Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision, and the buying decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors.

b. Major Types of Buying Situations

There are three major types of buying situations. At one extreme is the *straight rebuy,* which is a fairly routine decision. At the other extreme is the *new task,* which may call for thorough research. In the middle is the *modified rebuy,* which requires some research.

In a **straight rebuy** the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. "In" suppliers try to maintain product and service quality.

In a **modified rebuy**, the buyer wants to modify product specifications, prices, terms, or suppliers. The modified rebuy usually involves more decision participants than the straight rebuy. The in suppliers may become nervous and feel pressured to put their best foot forward to protect an account. Out suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a **new-task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be. The new-task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information.

The buyer makes the fewest decisions in the straight rebuy and the most in the new-task decision. In the new-task situation, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of these decisions varies with each situation, and different decision participants influence each choice.

c. Participants in the Business Buying Process

The decision-making unit of a buying organization is called its buying center: all the individuals and units that participate in the business decision-making process. The buying center includes all members of the organization who play any of five roles in the purchase decision process.

- **Users** are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
- **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
- **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
- **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.
- **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

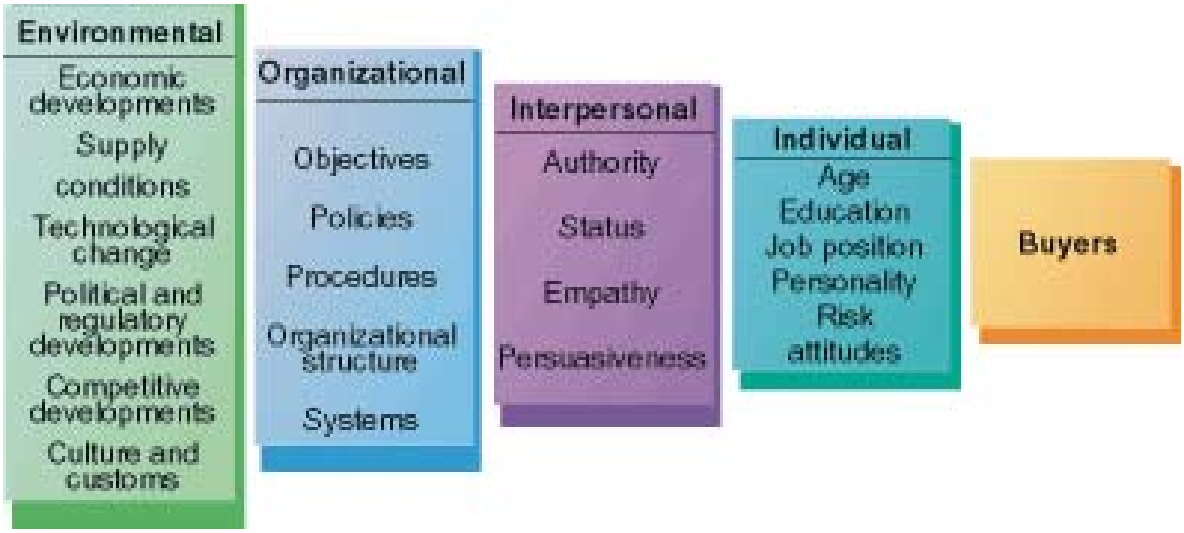
The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. Business marketers working in global markets may face even greater levels of buying center influence. The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what

evaluation criteria each decision participant uses. The buying center usually includes some obvious participants who are involved formally in the buying decision.

d. Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most business-to-business marketers recognize that emotion plays an important role in business buying decisions. When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizational goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factors. Figure lists various groups of influences on business buyers—environmental, organizational, interpersonal, and individual.



Major Influences on Business Buyers

- **Environmental Factors**

Business buyers are influenced heavily by factors in the current and expected *economic environment,* such as the level of primary demand, the economic outlook, and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories.

An increasingly important environmental factor is shortages in key materials. Many companies now are more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers also are affected by technological, political, and competitive developments in the environment. Culture and customs can strongly influence business buyer reactions to the marketer's behavior and strategies, especially in the international marketing environment. The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

- **Organizational Factors**

Each buying organization has its own objectives, policies, procedures, structure, and systems. The business marketer must know these *organizational factors* as thoroughly as possible. Questions such

as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company's policies and limits on its buyers?

Interpersonal Factors

The buying center usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of *interpersonal factors* and group dynamics enter into the buying process. Participants may have influence in the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

Individual Factors

Each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

D. The Business Buying Process

There are eight stages of the business buying process. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

a. Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products provide solutions.

b. General Need Description

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others—engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

c. Product Specification

The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

d. Supplier Search

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search, or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to

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find suppliers. For marketers, this has leveled the playing field—smaller suppliers have the same advantages as larger ones and can be listed in the same online catalogs for a nominal fee:
The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

e. Proposal Solicitation

In the proposal solicitation stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.
Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

f. Supplier Selection

The members of the buying center now review the proposals and select a supplier or suppliers. During supplier selection, the buying center often will draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history, and reputation. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.
As part of the buyer selection process, buying centers must decide how many suppliers to use. In the past, many companies preferred a large supplier base to ensure adequate supplies and to obtain price concessions. These companies would insist on annual negotiations for contract renewal and would often shift the amount of business they gave to each supplier from year to year. Increasingly, however, companies are reducing the number of suppliers. There is even a trend toward single sourcing, using one supplier. With single sourcing there is only one supplier to handle and it is easier to control newsprint inventories. Using one source not only can translate into more consistent product performance, but it also allows press rooms to configure themselves for one particular kind of newsprint rather than changing presses for papers with different attributes.

Many companies, however, are still reluctant to use single sourcing. They fear that they may become too dependent on the single supplier or that the single-source supplier may become too comfortable in the relationship and lose its competitive edge. Some marketers have developed programs that address these concerns.

g. Order-Routine Specification

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items.

h. Performance Review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The performance review may lead the buyer to continue, modify, or drop

the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

We have described the stages that typically would occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying decision process. The actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements. Different buying center participants may be involved at different stages of the process. Although certain buying process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process.

E. Institutional and Government Markets

So far, our discussion of organizational buying has focused largely on the buying behavior of business buyers. Much of this discussion also applies to the buying practices of institutional and government organizations. However, these two nonbusiness markets have additional characteristics and needs. In this final section, we address the special features of institutional and government markets.

a. Institutional Markets

The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. Many institutional markets are characterized by low budgets and captive patrons. For example, hospital patients have little choice but to eat whatever food the hospital supplies. A hospital-purchasing agent has to decide on the quality of food to buy for patients. Because the food is provided as a part of a total service package, the buying objective is not profit. Nor is strict cost minimization the goal—patients receiving poor-quality food will complain to others and damage the hospital's reputation. Thus, the hospital-purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers.

b. Government Markets

The government market offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowance for the supplier's superior quality or reputation for completing contracts on time. Many companies that sell to the government have not been marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

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Key Terms

Business Markets: The *business market* includes firms that buy goods and services in order to produce products and services to sell to others.

Straight Re-buy the buyer reorders something without any modifications.

Modified Re-buy the buyer wants to modify product specifications, prices, terms, or suppliers.

New Task Buying A company buying a product or service.

Users are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.

Influencers Often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.

Buyers have formal authority to select the supplier and arrange terms of purchase.

Deciders have formal or informal power to select or approve the final suppliers.

Gatekeepers control the flow of information to others.

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Lesson – 17

Lesson overview and learning objectives:
The Lesson emphasizes the key steps in: market segmentation; market targeting, and market positioning. Market segmentation provides a method to divide or segment the market into narrow segments (using a variety of different meaningful variables. Today we will be discussing the major variables that can be used to segment the consumer markets.

MARKET SEGMENTATION

A. Market Segmentation:

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. Companies today recognize that they cannot appeal to all buyers in the marketplace, or at least not to all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identify the parts of the market that it can serve best and most profitably.

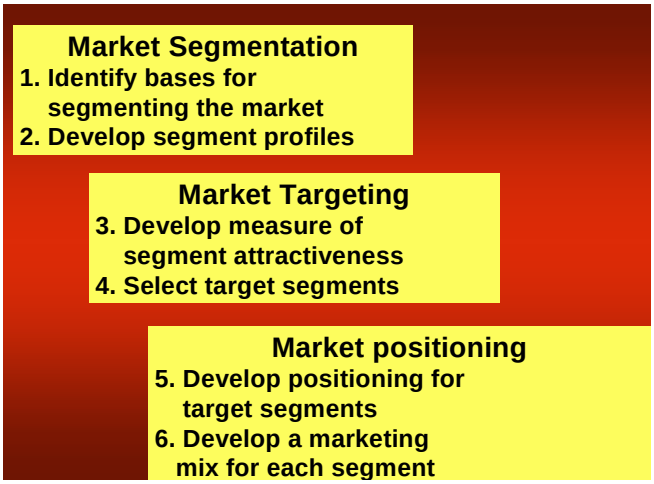
Thus, most companies are more selective about the customers with whom they wish to connect. Most have moved away from mass marketing and toward market segmentation and targeting—identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each. Instead of scattering their marketing efforts firms are focusing on the buyers who have greater interest in the values they create best.

B. Steps in Target Marketing:

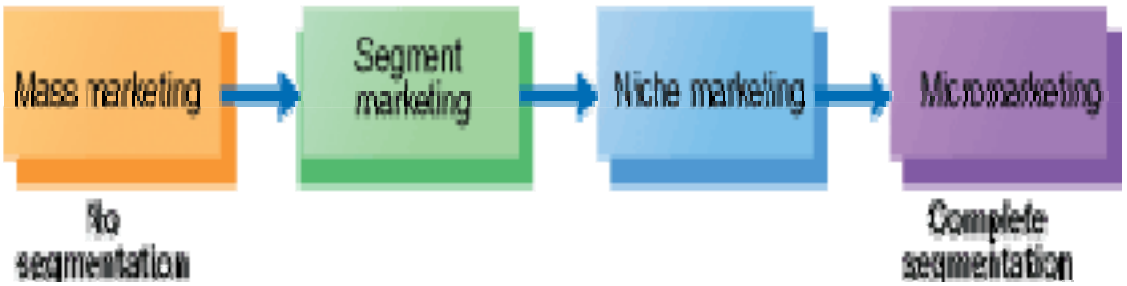
Figure shows the three major steps in target marketing. The first is **market segmentation**—dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. The second step is market **targeting**—evaluating each market segment's attractiveness and selecting one or more of the market segments to enter. The third step is **market positioning**—setting the competitive positioning for the product and creating a detailed marketing mix. We discuss each of these steps in turn.

C. Levels of Market Segmentation

Because buyers have unique needs and wants, each buyer is potentially a separate market. Ideally, then, a seller might design a separate marketing program for each buyer. However, although some companies attempt to serve buyers individually, many others face larger numbers of smaller buyers and do not find complete segmentation worthwhile. Instead, they look for broader classes of buyers who differ in their product needs or buying responses. Thus, market segmentation can be carried out at several different levels. Figure shows that companies can practice no segmentation (mass marketing), complete segmentation



(micromarketing), or something in between (segment marketing or niche marketing).

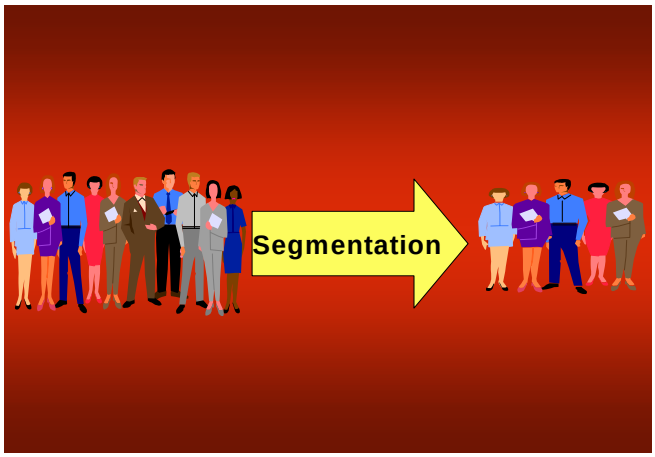


Levels of marketing segmentation

a) Mass Marketing

Companies have not always practiced target marketing. In fact, for most of the 1900s, major consumer products companies held fast to mass marketing—mass producing, mass distributing, and mass promoting about the same product in about the same way to all consumers. Henry Ford epitomized this marketing strategy when he offered the Model T Ford to all buyers; they could have the car" in any color as long as it is black." Similarly, Coca-Cola at one time produced only one drink for the whole market, hoping it would appeal to everyone.

The traditional argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can translate into either lower prices or higher margins. However, many factors now make mass marketing more difficult. The proliferation of distribution channels and advertising media has also made it difficult to practice "one-size-fits-all" marketing.



b) Segment Marketing

A company that practices segment marketing isolates broad segments that make up a market and adapts its offers to more closely match the needs of one or more segments. Thus, Marriott markets to a variety of segments—business travelers, families, and others—with packages adapted to their varying needs. Segment marketing offers several benefits over mass marketing. The company can market more efficiently, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably. The company can also market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments. The company may face fewer competitors if fewer competitors are focusing on this market segment.

c) Niche Marketing

Market segments are normally large, identifiable groups within a market—for example, luxury car buyers, performance car buyers, utility car buyers, and economy car buyers. Niche marketing focuses on subgroups within these segments. A niche is a more narrowly defined group, usually identified by dividing a segment into sub segments or by defining a group with a distinctive set of traits who may seek a special combination of benefits. Whereas segments are fairly large and normally attract several competitors, niches are smaller and normally attract only one or a few competitors. Niche marketers presumably understand their niches' needs so well that their customers willingly pay a price premium.

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d) Micro marketing

Segment and niche marketers tailor their offers and marketing programs to meet the needs of various market segments. At the same time, however, they do not customize their offers to each individual customer. Thus, segment marketing and niche marketing fall between the extremes of mass marketing and micro marketing. Micro marketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micro marketing includes local marketing (Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics) and individual marketing (tailoring products and marketing programs to the needs and preferences of individual customers).

D. Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. The major variables that might be used in segmenting are major geographic, demographic, psychographics, and behavioral variables.

a) Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. It is common to localize products, advertising, promotions, and sales efforts to fit the needs of geographical areas (regions, cities, and even neighborhoods).

b) Demographic Segmentation

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other bases, such as benefits sought or behavior, their demographic characteristics must be known in order to assess the size of the target market and to reach it efficiently. Demographic variables are easier to measure than most other types of variables.

I. Age and Life-Cycle Stage

Age and life cycle segmentation consists of offering different products or using different marketing approaches for different age and life-cycle groups. Marketers must guard against stereotypes when using this form of segmentation. While certain age and life cycle groups do behave similarly, age is often a poor predictor of a person's life cycle, health, work or family status, needs, and buying power. Consumer needs and wants change with age. Some companies use age and life cycle segmentation, offering different products or using different marketing approaches for different age and life-cycle groups.

II. Gender segmentation

calls for dividing a market into different groups based on sex. This segmentation form has long been used for clothing, cosmetics, toiletries, and magazines. New opportunities in this area are emerging such as automobiles, deodorants, and financial services. There is an increased emphasis on marketing and advertising to women. Specialized Web sites are becoming very popular with this group.

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III. Income segmentation

It consists of dividing a market into different income groups. Marketers for automobiles, boats, clothing, cosmetics, financial services, and travel have long used this form of segmentation. Using this form, marketers must remember that they do not always have to target the affluent. Other income groups are also viable and profitable market segments.

c) Psychographics segmentation

It calls for dividing a market into different groups based on social class, lifestyle, or personality characteristics. People in the same demographic class can exhibit very different psychographics characteristics. As previously seen in, **lifestyle** also affects people's interest in various goods, and the goods they buy express those lifestyles. This method of segmentation is gaining in popularity. **Personality** variables can also be used to segment markets. Marketers will give their products personalities that correspond to consumer personalities.

d) Behavioral segmentation

It involves dividing a market into groups based on consumer knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments. Occasion segmentation consists of dividing the market into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item. Benefit segmentation involves dividing the market into groups according to the different benefits the consumers seek from the product. Companies can use benefit segmentation to clarify the benefit segment to which they are appealing, its characteristics, and the major competing brands. They can also search for new benefits and establish brands that deliver them. **User status** can also be used to divide the market. Segments of nonusers, ex-users, potential users, first-time users, and regular users of a product are potential ways to segment. **Usage rates** are another way that marketers segment markets. These categories might be light, medium, and heavy user groups. **Loyalty status** can also be used to segment markets. Consumers can be loyal to brands, stores, and companies. Consumers can be completely loyal, somewhat loyal, or not loyal at all. An amazing amount of information can be uncovered by studying loyalty patterns.

Today there is a trend toward targeting multiple segments. Very often, companies begin their marketing with one targeted segment, and then expand into other segments. This often boosts a company's competitive advantage and knowledge of the customer base. One of the most promising developments in multivariable segmentation is "geodemographic" segmentation based upon both geographic and demographic variables.

KEY TERMS

Market segmentation	dividing a market into smaller groups
Market targeting	evaluating each market segment's attractiveness and selecting one or more of the market segments to enter
Market positioning	setting the competitive positioning for the product
Geographic segmentation	dividing the market into different geographical units
Demographic segmentation	divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, and nationality.
Behavioral segmentation	involves dividing a market into groups based on consumer knowledge, attitudes, uses, or responses to a product.

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Lesson – 18

Lesson overview and learning objectives:
In last Lesson we studied the segmentation to day we will continue the same topic and market targeting, and market positioning

MARKET SEGMENTATION (CONTINUED)

A. Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically or by benefits sought, user status, usage rate, or loyalty status. Additional variables unique to this market would be business customer demographics (industry, company size), operating characteristics, purchasing approaches, situational factors, and personal characteristics. By going after segments instead of the whole market, companies have a much better chance to deliver value to consumers and to receive maximum rewards for close attention to customer needs. Within a chosen industry, a company can further segment by customer size or geographic location. Many marketers believe that **buying behavior** and **benefits** provide the best basis for segmenting business markets.

Segmenting International Markets Companies can segment international markets using one or more of a combination of variables. The chief factors that can be used are: **Geographic location**. **Economic factors**. **Political and legal factors**. **Cultural factors**. Many companies use an approach called *intermarket segmentation.* In this approach, companies form segments of consumers who have similar needs and buying behavior even though they are located in different countries. For example, the world's teens have a lot in common.

B. Requirements for Effective Segmentation

There are many ways to segment, but not all segmentations are effective. To be useful, market segments must have certain characteristics. Among the most significant of these are:

1) **Measurability** is the degree to which the size, purchasing power, and profiles of a market segment can be measured.
2) Accessibility refers to the degree to which a market segment can be reached and served.
3) **Substantiality** refers to the degree to which a market segment is sufficiently large or profitable.
4) **Differentiation** refers to the degree to which a market segment can conceptually be distinguished and has the ability to respond differently to different marketing mix elements and programs.
5) **Action ability** is the degree to which effective programs can be designed for attracting and serving a given market segment.

C. Market Targeting

Market segmentation reveals the firm's market segment opportunities. The firm now has to evaluate the various segments and decide how many and which ones to target. We now look at how companies evaluate and select target segments.

a) Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics. But "right size and growth" is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may lack the skills and resources needed to serve the larger segments or may find these segments too

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competitive. Such companies may select segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.

The company also needs to examine major structural factors that affect long-run segment attractiveness. For example, a segment is less attractive if it already contains many strong and aggressive *competitors*. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* who can control prices or reduce the quality or quantity of ordered goods and services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources in relation to that segment. Some attractive segments could be dismissed quickly because they do not mesh with the company's long-run objectives. Even if a segment fits the company's objectives, the company must consider whether it possesses the skills and resources it needs to succeed in that segment. If the company lacks the strengths needed to compete successfully in a segment and cannot readily obtain them, it should not enter the segment. Even if the company possesses the *required* strengths, it needs to employ skills and resources *superior* to those of the competition in order to really win in a market segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

a) Undifferentiated Marketing

Using an undifferentiated marketing (or mass-marketing) strategy, a firm might decide to ignore market segment differences and go to the whole market with one offer. This mass-marketing strategy focuses on what is *common* in the needs of consumers rather than on what is *different*. The company designs a product and a marketing program that will appeal to the largest number of buyers. It relies on mass distribution and mass advertising, and it aims to give the product a superior image in people's minds. As noted earlier in the chapter, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more focused firms that do a better job of satisfying the needs of specific segments and niches.

b) Differentiated Marketing

Using a differentiated marketing strategy, a firm decides to target several market segments or niches and designs separate offers for each. General Motors tries to produce a car for every "purse, purpose, and personality." Nike offers athletic shoes for a dozen or more different sports, from running, fencing, and aerobics to bicycling and baseball. By offering product and marketing variations, these companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments. Procter & Gamble gets more total market share with eight brands of laundry detergent than it could with only one. But differentiated marketing also increases the costs of doing business. A firm usually finds it more expensive to develop and produce, say, 10 units of 10 different products than 100 units of one product. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel management. Trying to reach different market segments with different advertising increases promotion costs. Thus, the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

c) Concentrated Marketing

A third market-coverage strategy, concentrated marketing, is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a

large share of one or a few segments or niches. Today, the low cost of setting up shop on the Internet makes it even more profitable to serve seemingly minuscule niches. Concentrated marketing provides an excellent way for small new businesses to get a foothold against larger, more resourceful competitors. Through concentrated marketing, firms achieve strong market positions in the segments or niches they serve because of their greater knowledge of the segments' needs and the special reputations they acquire. They also enjoy many operating economies because of specialization in production, distribution, and promotion. If the segment is well chosen, firms can earn a high rate of return on their investments.
At the same time, concentrated marketing involves higher-than-normal risks. The particular market segment can turn sour. Or larger competitors may decide to enter the same segment.

d) Choosing a Market-Coverage Strategy

Many factors need to be considered when choosing a market-coverage strategy. Which strategy is best depends on *company resources*. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of *product variability*. Undifferentiated marketing is more suited for uniform products such as grapefruit or steel. Products that can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration. The *product's life-cycle stage* also must be considered.
When a firm introduces a new product, it is practical to launch only one version and undifferentiated marketing or concentrated marketing makes the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense. Another factor is *market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, *competitors' marketing strategies* are important. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

e) Socially Responsible Target Marketing

Smart targeting helps companies to be more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies reach specific groups of consumers with offers carefully tailored to satisfy their needs. However, target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products. In market targeting, the issue is not really *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company but also the interests of those targeted.

f) Positioning for Competitive Advantage

Once a company has decided which segments of the market it will enter, it must decide what positions it wants to occupy in those segments. A product's position is the way the product is *defined by consumers* on important attributes—the place the product occupies in consumers' minds relative to competing products. Positioning involves implanting the brand's unique benefits and differentiation in customers' minds. Thus, Tide is positioned as a powerful, all-purpose family detergent; In the automobile market, Toyota and Subaru are positioned on economy, Mercedes and Cadillac on luxury Consumers are overloaded with information about products and services. They cannot re evaluate products every time they make a buying decision. To simplify the buying process, consumers organize products into categories—they "position" products, services, and companies in their minds. A product's position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products. Consumers

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position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

b) Choosing a Positioning Strategy

Some firms find it easy to choose their positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then, each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits those appeals to a substantial group within the segment.

The positioning task consists of three steps: identifying a set of possible competitive advantages upon which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

c) Identifying Possible Competitive Advantages

The key to winning and keeping customers is to understand their needs and buying processes better than competitors do and to deliver more value. To the extent that a company can position itself as providing superior value to selected target markets it gains competitive advantage. But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must then *deliver* the promised quality and service. Thus, positioning begins with actually *differentiating* the company's marketing offer so that it will give consumers more value than competitors' offers do.

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every point where it comes in contact with customers. In what specific ways can a company differentiate its offer from those of competitors? A company or market offer can be differentiated along the lines of *product, services, channels, people,* or *image.*

Companies can gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. Thus, Disney people are known to be friendly and upbeat. Singapore Airlines enjoys an excellent reputation largely because of the grace of its flight attendants.

d) Choosing the Right Competitive Advantages

Suppose a company is fortunate enough to discover several potential competitive advantages. It now must choose the ones on which it will build its positioning strategy. It must decide *how many* differences to promote and *which ones.*

I. How Many Differences to Promote?

Many marketers think that companies should aggressively promote only one benefit to the target market. Each brand should pick an attribute and tout itself as "number one" on that attribute. Thus, Crest toothpaste consistently promotes its anti cavity protection. A company that hammers away at one of these positions and consistently delivers on it probably will become best known and remembered for it.

Other marketers think that companies should position themselves on more than one differentiating factor. This may be necessary if two or more firms are claiming to be the best on the same attribute. Today, in a time when the mass market is fragmenting into many small segments, companies are trying to broaden their positioning strategies to appeal to more segments.

In general, a company needs to avoid three major positioning errors. The first is *under positioning*—failing to ever really position the company at all. Some companies discover that buyers have only a vague idea of the company or that they do not really know anything special about it. The second error is *over positioning*—giving buyers too narrow a picture of the company.

II. Which Differences to Promote?

Not all brand differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. Therefore, the company must carefully select the ways in which it will distinguish itself from competitors. A difference is worth establishing to the extent that it satisfies the following criteria:

- ***Important:*** The difference delivers a highly valued benefit to target buyers.
- ***Distinctive:*** Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- ***Superior:*** The difference is superior to other ways that customers might obtain the same benefit.
- ***Communicable:*** The difference is communicable and visible to buyers.
- ***Preemptive:*** Competitors cannot easily copy the difference.
- ***Affordable:*** Buyers can afford to pay for the difference.
- ***Profitable:*** The company can introduce the difference profitably.

Many companies have introduced differentiations that failed one or more of these tests.

e) Selecting an Overall Positioning Strategy

Consumers typically choose products and services that give them the greatest value. Thus, marketers want to position their brands on the key benefits that they offer relative to competing brands. The full positioning of a brand is called the brand's value proposition—the full mix of benefits upon which the brand is positioned. It is the answer to the customer's question "Why should I buy your brand?" Volvo's value proposition hinges on safety but also includes reliability, roominess, and styling, all for a price that is higher than average but seems fair for this mix of benefits.

f) Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy. Positioning the company calls for concrete action, not just talk. If the company decides to build a position on better quality and service, it must first *deliver* that position. Designing the marketing mix—product, price, place, and promotion—essentially involves working out the tactical details of the positioning strategy. Thus, a firm that seizes on a "for more" position knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers, and advertise in high-quality media. It must hire and train more service people, find retailers who have a good reputation for service, and develop sales and advertising messages that broadcast its superior service. This is the only way to build a consistent and believable "more for more" position. Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication. It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead, a product's position should evolve gradually as it adapts to the ever-changing marketing environment.

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Lesson – 19

Lesson overview and learning objectives:
In this chapter we commence an examination of the marketing mix elements the so-called 4P's of marketing, or if considering the extended marketing mix, the 7P's of marketing. 1st p of these 4PS is *Product* is a complex concept that must be defined carefully**.**

A. 4PS

- **Product**

a. Marketing Mix

Marketing is a process that revolves around the customers and in order to meet the requirements of the customer marketers formulate and design the marketing mix that is also known as 4Ps (– Four marketing activities—product, Price, Place and Promotion—that a firm can control to meet the needs of customers within its target market). The marketing mix variables are: Product: Goods, services, or ideas that satisfy customer needs, **Price:** Decisions and actions that establish pricing objectives and policies and set product prices. **Place:** The ready, convenient, and timely availability of products and finally the **Promotion:** Promotion can be defined as activities that are used to inform customers about the organization and its products. These elements of the marketing mix and strategies related to these elements or the variables are designed by keeping in view all the environmental factors either macro or micro that can influence the marketing in any context. Today is the era of value driven marketing, Value can be defined as a customer's subjective assessment of benefits relative to the costs in determining the worth of a product. Customer is ready to pay the cost of given product if that product is of some value. This value can be determined as a capability of the product to satisfy the customer's needs and wants.



When ever customer or the consumer makes the purchasing decisions they (Consumers) don't buy products; they buy benefits that can be functional benefits(relating to the practical purpose a product serves) or the Psychological benefits (relating to how a product makes one feel) for the reason being products are always purchased in order to fulfill certain needs that are definitely fulfilled through acquiring certain benefits of the product. Today, as products and services become more and more commoditized, many companies are moving to a new level in creating value for their customers. To differentiate their offers, they are developing and delivering total customer experiences. Whereas products are tangible and services are intangible, experiences are memorable. Whereas products and services are external, experiences are personal and take place in the minds of individual consumers. Companies that market experiences realize that customers are really

buying much more than just products and services. They are buying what those offers will do for them—the experiences they gain in purchasing and consuming these products and services.

b. WHAT IS A PRODUCT?

A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.' Pure' Services are distinguished from 'physical' products on the basis of intangibility, inseparability, variability and perish ability. Services are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.

Product is a complex concept that must be carefully defined. As the first of the four marketing mix variables, it is often where strategic planning begins. Product strategy calls for making coordinated decisions on individual products, product lines, and the product mix.

a) Levels of Product and Services

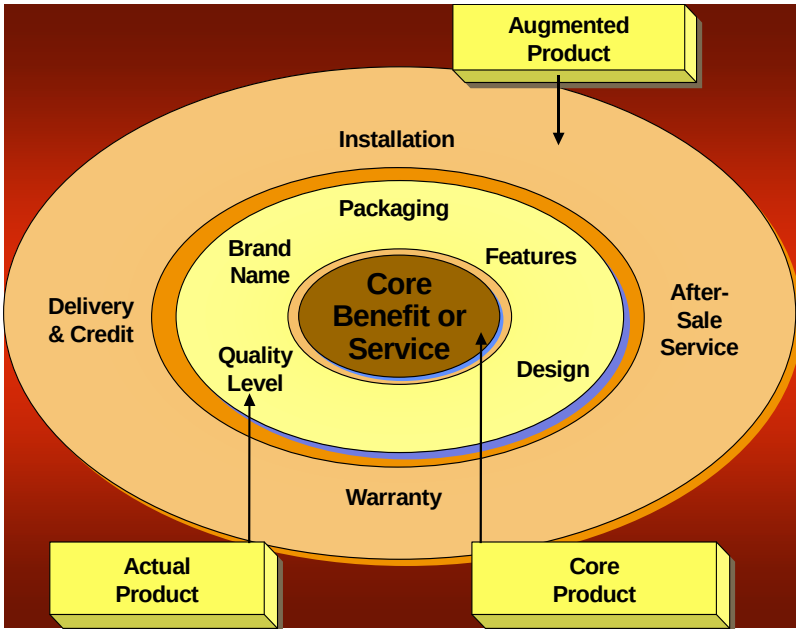
As shown in the fig each product item offered to customers can be viewed on three levels. Therefore product planners need to think about products and services on three levels:

1). **The core product** is the core, problem solving benefits that consumers are really buying when they obtain a product or service. It answers the question what is the buyer really buying?

2). **The actual product** may have as many as five characteristics that combine to deliver core product benefits. They are:

a). Quality level.
b). Features.
c). Design.
d). Brand name.
e). Packaging.

3). **The augmented product** includes any additional consumer services and benefits built around the core and actual products.



Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products, marketers must: 1). Identify the core consumer needs that the product will satisfy. 2). Design the actual product and finally 3). Find ways to augment the product in order to create the bundle of benefits that will best satisfy consumer's desires for an experience. The product. For example, a Sony camcorder is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been combined carefully to deliver the core benefit—a convenient, high-quality way to capture important moments. Sony must offer more than just a camcorder. It must provide consumers with a complete solution to their picture-taking problems. Thus, when consumers buy a Sony camcorder, Sony and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the camcorder, quick repair services when needed, and a toll-free telephone number to call if they have problems or questions (augmented level).

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Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

b) Product Classification

There are three basic types of product classifications. Durable products are used to over an extended period of time. Nondurable products are more quickly consumed, usually in a single use or a few usage occasions. 'Pure' Services are activities or benefits offered for sale which are intangible, inseparable from the consumer, perishable in that they are experiential and do not result in ownership of anything. Either consumer or industrial customers can buy each of these products. Consumer products are sold to the final end-user for personal consumption. Individuals and other organizations to use in their administrative or processing operations buy business-to-business products. Industrial products are the most widely used of these products and consist of consumables such as paper clips or raw materials that are converted to finished products. Lets discuss these classifications in detail:

I. Consumer Products

Consumer products are those bought by final consumers for personal consumption. Marketers usually classify these goods further based on how consumers go about buying them. Consumer products include *convenience products, shopping products, specialty products,* and *unsought products.* These products differ in the ways consumers buy them and therefore in how they are marketed

- **Convenience products** are consumer products and services that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort. Examples include soap, candy, newspapers, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need them.

- **Shopping products** are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. Examples include furniture, clothing, used cars, major appliances, and hotel and motel services.

- **Shopping products** marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

- **Specialty products** are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high-priced photographic equipment, designer clothes, and the services of medical or legal specialists. A Lamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.

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- **Unsought products** are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

II. Industrial Products

Industrial products are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the purpose for which the product is bought. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

The three groups of industrial products and services include materials and parts, capital items, and supplies and services. **Materials and parts** include raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important. The demand for industrial products is derived from the demand for consumer products. This is known as "derived demand." ***Capital items*** are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). They have a shorter life than installations and simply aid in the production process.

The final group of business products is ***supplies and services***. Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

III. Organizations, Persons, Places, and Ideas

In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other "marketable entities" namely, organizations, persons, places, and ideas. Organizations often carry out activities to "sell" the organization itself. Organization marketing consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers towards an organization. Both profit and nonprofit organizations practice organizational marketing. People can also be thought of as products. Person marketing consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. All kinds of people and organizations practice person marketing. Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest provides the most effective decay prevention

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Lesson – 20

Lesson overview and learning objectives:
In last Lesson we discussed the concept of the marketing mix elements. We had a detailed view about the classification of the product today we will continue with same topic i.e. Product.

o PRODUCT

A. Individual product decisions

We will focus on the important decisions in the development and marketing of individual products and services. These decisions are about product attributes, branding, packaging, labeling, and product support services. Companies have to develop strategies for the items of their product lines. Marketers make individual product decisions for each product including: product attributes decisions, brand, packaging, labeling, and product-support services decisions. Product attributes deliver benefits through tangible aspects of the product including features, and design as well as through intangible features such as quality and experiential aspects. A brand is a way to identify and differentiate goods and services through use of a name or distinctive design element, resulting in long-term value known as brand equity. The product package and labeling are also important elements in the product decision mix, as they both carry brand equity through appearance and affect product performance with functionality. The level of *product-support services* provided can also have a major effect on the appeal of the product to a potential buyer.



Individual product decisions

a) Product Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated to and delivered by product attributes such as *quality, features, style and design.*

i. Product Quality

Quality is one of the marketer's major positioning tools. Product quality has two dimensions—level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's position in the target market. Here, product quality means *performance quality*—the ability of a product to perform its functions beyond quality level, high quality also can mean high levels of quality *consistency*. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality.

ii. Product Features

A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the

company. Features that customers value little in relation to costs should be dropped; those that customers value highly in relation to costs should be added.

iii. Product Style and Design

Another way to add customer value is through distinctive *product style and design*. Some companies have reputations for outstanding style and design. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks.

Good style and design can attract attention, improve product performance, cut production costs, and give the product a strong competitive advantage in the target market

b) Branding

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands of their products and services. A brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. For example, most consumers would perceive a bottle of White Linen perfume as a high-quality, expensive product. But the same perfume in an unmarked bottle would likely be viewed as lower in quality, even if the fragrance were identical. Branding has become so strong that today hardly anything goes unbranded. Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also tell the buyer something about product quality. Buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. Branding also helps the seller to segment markets.



i. Brand:

A *brand* is a name, sign, symbol, or design, or a combination of these that identifies the maker or seller of a product or service.

ii. Brand equity

is the value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships. Powerful brand names command strong consumer preference and are

powerful assets. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands. Measuring the actual equity of a brand name is difficult. However, the advantages of having it include:

1). High consumer awareness and loyalty.

2). Easier to launch brand extensions because of high brand credibility.

3). A good defense against fierce price competition.

4). It is believed to be the company's most enduring asset. **Customer equity** tends to aid marketing planning in assuring **loyal customer lifetime value.**

iii. Selecting The Brands Name:

Selecting a brand name is an important step. The brand name should be carefully chosen since a good name can add greatly to a product's success. Desirable qualities of a good brand name include:

1). It should suggest something about the product's benefits and qualities.

2). It should be easy to pronounce, recognize, and remember.

3). It should be distinctive.

4). It should translate easily into foreign languages.

5). It should be capable of registration and legal protection. Once chosen, the brand name must be protected.

iv. Sponsorship options for Branding:

A manufacturer has four sponsorship options:

1). A **manufacturer's brand (or national brand)** is a brand created and owned by the producer of a product or service (Examples include IBM and Kellogg).

2). A **private brand (or middleman, distributor, or store brand)** is a brand created and owned by a reseller of a product or service.

3). A **licensed brand** (a company sells it's output under another brand name).

4). **Co-branding** occurs when two companies go together and manufacture one product (General Mills and Hershey's make Reese's' Peanut Butter Puffs cereal).

Combined brands create broader customer appeal and greater brand equity.

It may allow a company to expand its existing brand into a category it might otherwise have difficulty entering alone. But at the same time there are certain disadvantages of combine branding like:

- Complex legal contracts and licenses are involved.
- Coordination efforts are often difficult.
- Trust is essential between partners. It is often hard to come by.

At one time manufacturer's brands were the most popular and profitable. Today, however, an increasing number of private brands are doing well. Though hard to establish and maintain, *private brands* can yield higher profit margins. "**The battle of the brands**" (the competition between manufacturer's and private brands) causes resellers to have advantages, and they charge manufacturer's *slotting fees* (payments demanded by retailers from producers before they will accept new products and find "slots" for them on the shelves). As store brands are improving in quality, they are posing a stronger threat to the manufacturer's brands. This is especially true in supermarkets.

v. Branding Strategy:

A company has four choices when it comes to **brand strategy**. It can:

1). Introduce *line extensions*. Existing brand names are extended to new forms, sizes, and flavors of an existing product category. A company might introduce line extensions as a low-cost, low-risk way of introducing new products in order to:

a). Meet consumer desires for variety.
b). Meet excess manufacturing capacity.
c). simply command more shelf space.

Risks include:

a). An overextended brand might lose its specific meaning.
b). Can cause consumer frustration or confusion.

2). Introduce *brand extensions*. Existing brand names are extended to new or modified product categories. Advantages include:

a). Helps a company enter new product categories more easily.
b). Aids in new product recognition.
c). Saves on high advertising cost.

3). Introduce **multibrands**. New brand names are introduced in the same product category. Advantages include:

a). They gain more shelf space.
b). Offering several brands to capture "brand switchers." The company can establish **flanker or fighter brands** to protect its major brand.
c). It helps to develop healthy competition within the organization.

Drawbacks include:

a). Each brand may only obtain a small market share and be unprofitable.

4). Introduce **new brands**. New brand names in new categories are introduced.

Advantage include:

a). Helps move away from a brand that is failing.
b). Can get new brands in new categories by corporate acquisitions. Some companies are now pursuing **mega brand** strategies.

Drawbacks can include:

a). Spreading resources too thin.

c) Packaging

Packaging involves designing and producing the container or wrapper for a product. The package may include the product's primary container (the tube holding Colgate toothpaste); a secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Colgate); and the shipping package necessary to store, identify, and ship the product (a corrugated box carrying six dozen tubes of Colgate toothpaste). Labeling, printed information appearing on or with the package, is also part of packaging.

Traditionally, the primary function of the package was to contain and protect the product. In recent times, however, numerous factors have made packaging an important marketing tool. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks—from attracting attention, to describing the product, to making the sale. Companies are realizing the power of good packaging to create instant consumer recognition of the company or brand. Developing a good package for a new product requires making many decisions. First, the company must establish the *packaging concept,* which states what the package should *be* or *do* for the product. Should it mainly offer product protection, introduce a new dispensing method, suggest certain qualities about the product, or something else? Decisions then must be made on specific elements of the package, such as size, shape, materials, color, text, and brand mark. These elements must work together to support the product's position and marketing strategy. The package must be consistent with the product's advertising, pricing, and distribution.

d) Labeling

Labels may range from simple tags attached to products to complex graphics that are part of the package. They perform several functions. At the very least, the label identifies the product or brand, such as the name Sunkist stamped on oranges. The label might also describe several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might promote the product through attractive graphics.

e) Product Support Services

Customer service is another element of product strategy. A company's offer to the marketplace usually includes some services, which can be a minor or a major part of the total offer. Later in the chapter, we will discuss services as products in themselves. Here, we discuss *product support services*—services that augment actual products. More and more companies are using product support services as a major tool in gaining competitive advantage.

A company should design its product and support services to profitably meet the needs of target customers. The first step is to survey customers periodically to assess the value of current services and to obtain ideas for new ones. For example, Cadillac holds regular focus group interviews with owners and carefully watches complaints that come into its dealerships. From this careful monitoring, Cadillac has learned that buyers are very upset by repairs that are not done correctly the first time.

Once the company has assessed the value of various support services to customers, it must next assess the costs of providing these services. It can then develop a package of services that will both delight customers and yield profits to the company.

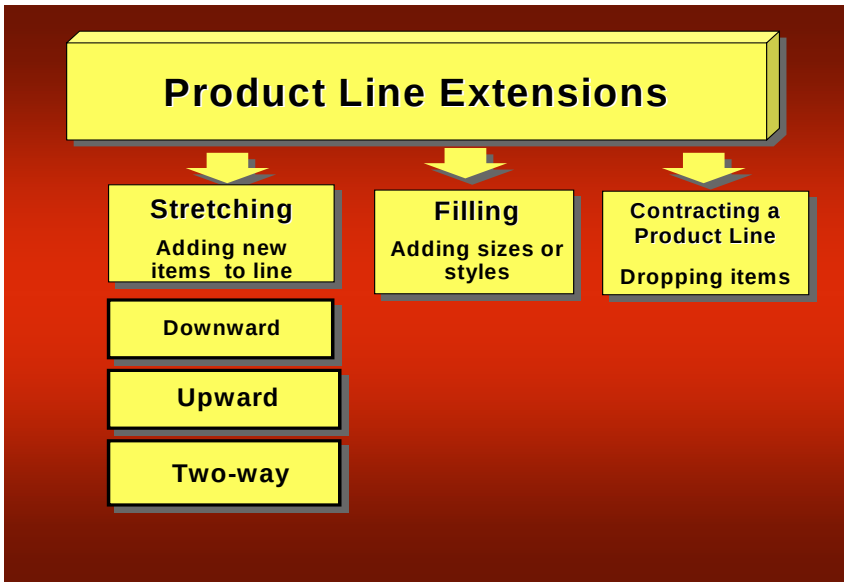
Lesson – 21

Lesson overview and learning objectives:
In last Lesson we discussed the concept regarding some individual decisions about the product like product attributes, labeling and packaging. Today we will continue the same topic and will discuss the process of new product development again as well.

- **PRODUCT**
- **NEW PRODUCT DEVELOPMENT PROCESS**

A. Product Line Strategies

We have looked at product strategy decisions such as branding, packaging, labeling, and support services for individual products and services. But product strategy also calls for building a product line. A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and Motorola produces several lines of telecommunications products. In developing product line strategies, marketers face a number of tough decisions. The major product line decision involves product line length—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Company objectives and resources influence product line length. Product lines tend to lengthen over time. The sales force and distributors may pressure the product manager for a more complete line to satisfy their customers. Or, the manager may want to add items to the product line to create growth in sales and profits. However, as the manager adds items, several costs rise: design and engineering costs, inventory costs, manufacturing changeover costs, transportation costs, and promotional costs to introduce new items. Eventually top management calls a halt to the mushrooming product line. Unnecessary or unprofitable items will be pruned from the line in a major effort to increase overall profitability. This pattern of uncontrolled product line growth followed by heavy pruning is typical and may repeat itself many times.

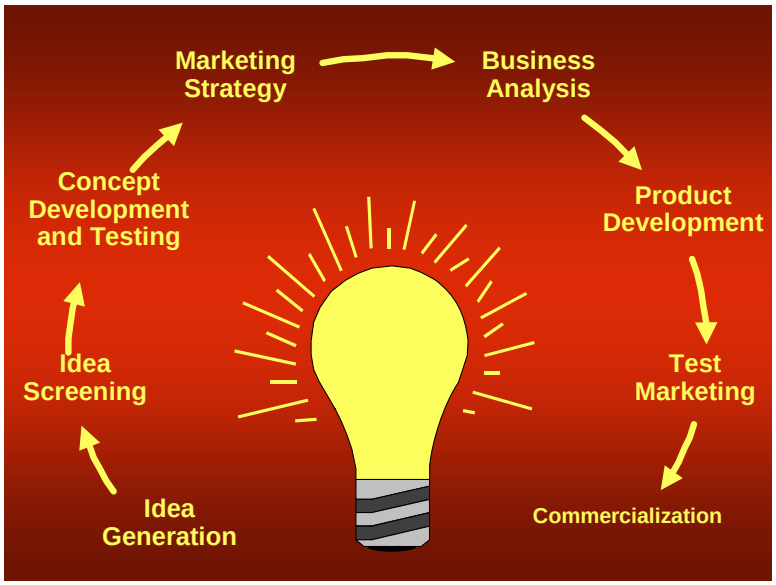


The company must manage its product lines carefully. It can systematically increase the length of its product line in two ways: by stretching its line and by filling its line. Product line stretching stretches its line downward, upward, or both ways.

Many companies initially locate at the upper end of the market and later stretch their lines downward. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments.

B. New-product development

Given the rapid changes in consumer tastes, technology, and competition, companies must develop a steady stream of new products and services. A firm can obtain new products in two ways. One is through acquisition—by buying a whole company, a patent, or a license to produce someone else's product. The other is through new-product development in the company's own research and development department. By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. In this chapter, we concentrate on new-product development. New products continue to fail at a disturbing rate. One source estimates that new consumer packaged goods (consisting mostly of line extensions) fail at a rate of 80 percent. Moreover, failure rates for new industrial products may be as high as 30 percent.3Why do so many new products fail? There are several reasons. Although an idea may be good, the market size may have been overestimated. Perhaps the actual product was not designed as well as it should have been. Or maybe it was incorrectly positioned in the market, priced too high, or advertised poorly. A high-level executive might push a favorite idea despite poor marketing research findings. Sometimes the costs of product development are higher than expected, and sometimes competitors fight back harder than expected.



Because so many new products fail, companies are anxious to learn how to improve their odds of new-product success. One way is to identify successful new products and find out what they have in common. Another is to study new-product failures to see what lessons can be learned. Various studies suggest that new-product success depends on developing a unique superior product, one with higher quality, new features, and higher value in use. Another key success factor is a well-defined product concept prior to development, in which the company carefully defines and assesses the target market, the product requirements, and the benefits before proceeding. Other success factors have also been suggested—senior management commitment, relentless innovation, and a smoothly functioning new-product development process. In all, to create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers.

So companies face a problem—they must develop new products, but the odds weigh heavily against success. The solution lies in strong new-product planning and in setting up a systematic new-product development process for finding and growing new products. Figure shows the eight major steps in this process.

a) Idea generation

New-product development starts with idea generation—the systematic search for new-product ideas. A company typically has to generate many ideas in order to find a few good ones. Major sources of new-product ideas include internal sources, customers, competitors, distributors and suppliers, and others. Using internal sources, the company can find new ideas through formal research and development. It can pick the brains of its executives, scientists, engineers,

manufacturing, and salespeople. Some companies have developed successful "entrepreneurial" programs that encourage employees to think up and develop new-product ideas. Good new-product ideas also come from watching and listening to customers. The company can analyze customer questions and complaints to find new products that better solve consumer problems. The company can conduct surveys or focus groups to learn about consumer needs and wants. Or company engineers or salespeople can meet with and work alongside customers to get suggestions and ideas. Finally, consumers often create new products and uses on their own, and companies can benefit by finding these products and putting them on the market. Customers can also be a good source of ideas for new product uses that can expand the market for and extend the life of current products. Competitors are another good source of new-product ideas. Companies watch competitors' ads and other communications to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. Finally, distributors and suppliers contribute many good new-product ideas. Resellers are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. Other idea sources include trade magazines, shows, and seminars; government agencies; new-product consultants; advertising agencies; marketing research firms; university and commercial laboratories; and inventors.

The search for new-product ideas should be systematic rather than haphazard. Otherwise, few new ideas will surface and many good ideas will sputter in and die. Top management can avoid these problems by installing an *idea management system* that directs the flow of new ideas to a central point where they can be collected, reviewed, and evaluated. In setting up such a system, the company can do any or all of the following:

- Appoint a respected senior person to be the company's idea manager.
- Create a multidisciplinary idea management committee consisting of people from R&D, engineering, purchasing, operations, finance, and sales and marketing to meet regularly and evaluate proposed new-product and service ideas.
- Set up a toll-free number for anyone who wants to send a new idea to the idea manager.
- Encourage all company stakeholders—employees, suppliers, distributors, dealers— to send their ideas to the idea manager.
- Set up formal recognition programs to reward those who contribute the best new ideas.

The idea manager approach yields two favorable outcomes. First, it helps create an innovation-oriented company culture. It shows that top management supports, encourages, and rewards innovation. Second, it will yield a larger number of ideas among which will be found some especially good ones. As the system matures, ideas will flow more freely. No longer will good ideas wither for the lack of a sounding board or a senior product advocate

b) Idea Screening

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* that number. The first idea-reducing stage is idea screening, which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise greatly in later stages, so the company wants to go ahead only with the product ideas that will turn into profitable products. As one marketing executive suggests, "Three executives sitting in a room can get 40 good ideas ricocheting off the wall in minutes. The challenge is getting a steady stream of good ideas out of the labs and creativity campfires, through marketing and manufacturing, and all the way to consumers."

Many companies require their executives to write up new-product ideas on a standard form that can be reviewed by a new-product committee. The write-up describes the product, the target market, and the competition. It makes some rough estimates of market size, product price, development time and costs, manufacturing costs, and rate of return. The committee then

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evaluates the idea against a set of general criteria such as these: Is the product truly useful to consumers and society? Is it good for our particular company? Does it mesh well with the company's objectives and strategies? Do we have the people, skills, and resources to make it succeed? Does it deliver more value to customers than do competing products? Is it easy to advertise and distribute? Many companies have well-designed systems for rating and screening new-product ideas.

c) Concept Development and Testing

An attractive idea must be developed into a product concept. It is important to distinguish between a product idea, a product concept, and a product image. A *product idea* is an idea for a possible product that the company can see itself offering to the market. A *product concept* is a detailed version of the idea stated in meaningful consumer terms. A *product image* is the way consumers perceive an actual or potential product.

Concept testing calls for testing new-product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. Today, some marketers are finding innovative ways to make product concepts more real to consumer subjects. For example, some are using virtual reality to test product concepts. Virtual reality programs use computers and sensory devices (such as gloves or goggles) to simulate reality.

d) Marketing strategy Development

The next step is marketing strategy development, designing an initial marketing strategy for introducing this car to the market.

The *marketing strategy statement* consists of three parts. The first part describes the target market; the planned product positioning; and the sales, market share, and profit goals for the first few years. The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy:

e) Business Analysis

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting, and finance costs. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.

f) Product Development

So far, for many new-product concepts, the product may have existed only as a word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into product development. Here, R&D or engineering develops the product concept into a physical product. The product development step, however, now calls for a large jump in investment. It will show whether the product idea can be turned into a workable product.

The R&D department will develop and test one or more physical versions of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months, or even years. Often, products undergo rigorous functional tests to make sure that they perform

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safely and effectively. The prototype must have the required functional features and also convey the intended psychological characteristics.

g) Test Marketing

If the product passes functional and consumer tests, the next step is test marketing, the stages at which the product and marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.

The amount of test marketing needed varies with each new product. Test marketing costs can be enormous, and it takes time that may allow competitors to gain advantages. When the costs of developing and introducing the product are low, or when management is already confident about the new product, the company may do little or no test marketing. Companies often do not test-market simple line extensions or copies of successful competitor products.

h) Commercialization

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with commercialization—introducing the new product into the market—it will face high costs. The company will have to build or rent a manufacturing facility. The company launching a new product must first decide on introduction *timing* Next, the company must decide *where* to launch the new product—in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution. They will develop a planned *market rollout* over time. In particular, small companies may enter attractive cities or regions one at a time. Larger companies, however, may quickly introduce new models into several regions or into the full national market.

Speeding Up New-Product Development

Many companies organize their new-product development process into the orderly sequence of steps starting with idea generation and ending with commercialization. Under this sequential product development approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it also can be dangerously slow. In fast-changing, highly competitive markets, such slow-but-sure product development can result in product failures, lost sales and profits, and crumbling market positions. "Speed to market" and reducing new-product development cycle time have become pressing concerns to companies in all industries.

In order to get their new products to market more quickly, many companies are adopting a faster, team-oriented approach called simultaneous (or team-based) product development. Under this approach, company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stay with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing, and legal departments, and even supplier and customer companies.

Top management gives the product development team general strategic direction but no clear-cut product idea or work plan. It challenges the team with stiff and seemingly contradictory goals—"turn out carefully planned and superior new products, but do it quickly"—and then gives the team whatever freedom and resources it needs to meet the challenge. In the sequential process, a

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bottleneck at one phase can seriously slow the entire project. In the simultaneous approach, if one functional area hits snags, it works to resolve them while the team moves on.

KEY TERMS

New-product development: The development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts.

Idea generation: The systematic search for new-product ideas.

Idea screening: screening new-product ideas in order to spot good ideas and drop poor ones as soon as possible.

Product concept: A detailed version of the new-product idea stated in meaningful consumer terms.

Concept testing: Testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

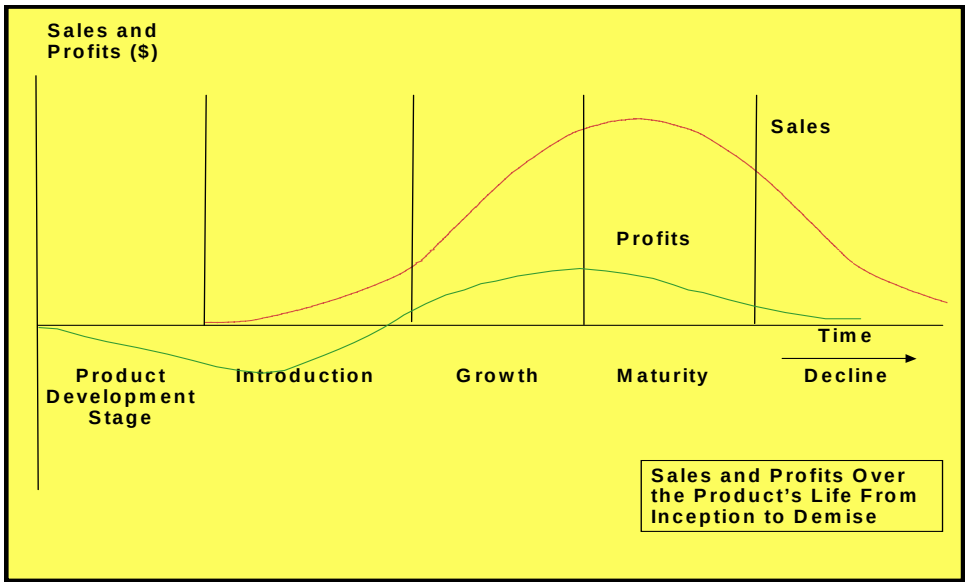
Business analysis: A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Product development: A strategy for company growth by offering modified or new products to current market segments. Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.

Commercialization: Introducing a new product into the market.

Test marketing: The stage of new-product development in which the product and marketing program are tested in more realistic market settings.

Sequential product development A new-product development approach in which one company department works to complete its stage of the process before passing the new product along to the next department and stage.



Lesson – 22

Lesson overview and learning objectives:
In last Lesson we discussed the process of new product development in detail today we will discuss the types of new products new product development process and strategies and stages of Product life cycle.

A. NEW PRODUCT DEVELOPMENT
B. PRODUCT LIFE- CYCLE STAGES AND STRATEGIES

A. Types of New Products Include

Types of the new products include mainly two categories either to introduce totally new product like entirely new product for the world or increasing the product line second way is sometimes modifications in the existing product are adopted like existing product is repositioned or strategies are formulated to improve the products.

B. Consumer Adoption Process

a) Stages in the Adoption Process

1. **Awareness**. In this stage the consumer is aware of the new product but lacks further information about it.
2. **Interest**. The consumer is motivated to seek information about the new product.
3. **Evaluation**. The consumer determines whether or not to try the new product.
4. **Trial**. The consumer tries the new product on a small scale to test its efficacy in meeting his or her needs. Trial can be imagined use of the product in some cases.
5. **Adoption**. The consumer decides to make use of the product on a regular basis.

b) Individual differences in the adoption of innovations

1. **Innovators**. Innovators help get the product exposure but are not often perceived by the majority of potential buyers as typical consumers.
2. **Early Adopters**. This group serves as opinion leaders to the rest of the market.
3. **Early Majority**. Some 34% of the market that is the "typical consumer" but likely to adopt innovations a little sooner.
4. **Late Majority**. This group is skeptical and adopts innovations only after most of the market has accepted the product.
5. **Laggards**. This group is suspicious of change and adopts only after the product is no longer considered an innovation.

C. Product Life-Cycle Strategies

After launching the new product, management wants the product to enjoy a long and happy life. Although it does not expect the product to sell forever, the company wants to earn a decent profit to cover all the effort and risk that went into launching it. Management is aware that each product will have a life cycle, although the exact shape and length is not known in advance. Figure shows a typical product life cycle (PLC), the course that a product's sales and profits take over its lifetime. The product life cycle has five distinct stages:

a) **Product development** begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mount.
b) **Introduction** is 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 of product introduction.
c) **Growth** is a period of rapid market acceptance and increasing profits.

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d) **Maturity** is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
e) **Decline** is the period when sales fall off and profits drop.

Not all products follow this product life cycle. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

a) Product development

Product development begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mount.

b) Introduction stage

The introduction stage starts when the new product is first launched. Introduction takes time, and sales growth is apt to be slow. In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Much money is needed to attract distributors and build their inventories. Promotion spending is relatively high to inform consumers of the new product and get them to try it. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product. These firms focus their selling on those buyers who are the readiest to buy.

A company, especially the market pioneer, must choose a launch strategy that is consistent with the intended product positioning. It should realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If the pioneer chooses its launch strategy to make a "killing," it will be sacrificing long-run revenue for the sake of short-run gain. As the pioneer moves through later stages of the life cycle, it will have to continuously formulate new pricing, promotion, and other marketing strategies. It has the best chance of building and retaining market leadership if it plays its cards correctly from the start.

c) Growth Stage

If the new product satisfies the market, it will enter a growth stage, in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favorable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or fall only slightly. Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition.

Profits increase during the growth stage, as promotion costs are spread over a large volume and as unit manufacturing costs fall. The firm uses several strategies to sustain rapid market growth as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product improvement, promotion, and distribution, the company can capture a dominant position. In doing so, however, it gives up maximum current profit, which it hopes to make up in the next stage.

d) Maturity Stage

At some point, a product's sales growth will slow down, and the product will enter a maturity stage. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product.

The slowdown in sales growth results in many producers with many products to sell. In turn, this overcapacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their R&D budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors.

Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products—a good offense is the best defense. They should consider modifying the market, product, and marketing mix.

In modifying the market, the company tries to increase the consumption of the current product. It looks for new users and market segments, as when Johnson & Johnson targeted the adult market with its baby powder and shampoo. The manager also looks for ways to increase usage among present customers. Campbell does this by offering recipes and convincing consumers that "soup is good food." Or the company may want to reposition the brand to appeal to a larger or faster-growing segment, as Arrow did when it introduced its new line of casual shirts and announced, "We're loosening our collars."

The company might also try modifying the product—changing characteristics such as quality, features, or style to attract new users and to inspire more usage. It might improve the product's quality and performance—its durability, reliability, speed, or taste. Or it might add new features that expand the product's usefulness, safety, or convenience. For example, Sony keeps adding new styles and features to its Walkman and Discman lines, and Volvo adds new safety features to its cars. Finally, the company can improve the product's styling and attractiveness. Thus, car manufacturers restyle their cars to attract buyers who want a new look. The makers of consumer food and household products introduce new flavors, colors, ingredients, or packages to revitalize consumer buying.

Finally, the company can try modifying the marketing mix—improving sales by changing one or more marketing mix elements. It can cut prices to attract new users and competitors' customers. It can launch a better advertising campaign or use aggressive sales promotions—trade deals, cents-off, premiums, and contests. The company can also move into larger market channels, using mass merchandisers, if these channels are growing. Finally, the company can offer new or improved services to buyers.

e) Decline Stage

The sales of most product forms and brands eventually dip. The decline may be slow, as in the case of oatmeal cereal, or rapid, as in the case of phonograph records. Sales may plunge to zero, or they may drop to a low level where they continue for many years. This is the decline stage.

Sales decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. As sales and profits decline, some firms withdraw from the market. Those remaining may prune their product offerings. They may drop smaller market segments and marginal trade channels, or they may cut the promotion budget and reduce their prices further.

Carrying a weak product can be very costly to a firm, and not just in profit terms. There are many hidden costs. A weak product may take up too much of management's time. It often requires frequent price and inventory adjustments. It requires advertising and sales force attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products. The biggest cost may well lie in the future. Keeping weak products delays the search for replacements, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

For these reasons, companies need to pay more attention to their aging products. The firm's first task is to identify those products in the decline stage by regularly reviewing sales, market shares, costs, and profit trends. Then, management must decide whether to maintain, harvest, or drop each of these declining products. Management may decide to harvest the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force) and

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hoping that sales hold up. If successful, harvesting will increase the company's profits in the short run. Or management may decide to drop the product from the line. It can sell it to another firm or simply liquidate it at salvage value. If the company plans to find a buyer, it will not want to run down the product through harvesting.
the Product Life Cycle can be extended by two ways either by modifying the target market by finding and adding new users etc or by modifying the product Adding new features, variations, model varieties will change the consumer reaction - create more demand therefore you attract more users To prevent the product going into decline you modify the product

KEY TERMS

Introduction stage The product life-cycle stage in which the new product is first distributed and made available for purchase.

Growth stage The product life-cycle stage in which a product's sales start climbing quickly.

Maturity stage The stage in the product life cycle in which sales growth slows or levels off.

Decline stage The product life-cycle stage in which a product's sales decline.

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Lesson – 23

Lesson overview and learning objectives:
Today's Lesson is devoted to revision of the first p of the marketing mix which is Product.

KEY TERMS

New-product development	The development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts.
Idea generation	The systematic search for new-product ideas.
Idea screening	Screening new-product ideas in order to spot good ideas and drop poor ones as soon as possible.
Product concept	A detailed version of the new-product idea stated in meaningful consumer terms.
Concept testing	Testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.
Business analysis	A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.
Product development	A strategy for company growth by offering modified or new products to current market segments. Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.
Commercialization	Introducing a new product into the market.
Test marketing	The stage of new-product development in which the product and marketing program are tested in more realistic market settings.
Sequential product development	A new-product development approach in which one company department works to complete its stage of the process before passing the new product along to the next department and stage.
Introduction stage	The product life-cycle stage in which the new product is first distributed and made available for purchase.
Growth stage	The product life-cycle stage in which a product's sales start climbing quickly.
Maturity stage	The stage in the product life cycle in which sales growth slows or levels off.

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Decline stage	The product life-cycle stage in which a product's sales decline.
Innovators	Innovators help get the product exposure but are not often perceived by the majority of potential buyers as typical consumers.
Early Adopters	This group serves as opinion leaders to the rest of the market.
Early Majority	Some 34% of the market that is the "typical consumer" but likely to adopt innovations a little sooner.
Late Majority	This group is skeptical and adopts innovations only after most of the market has accepted the product.
Laggards	This group is suspicious of change and adopts only after the product is no longer considered an innovation.
Core product	Is the core, problem solving benefits that consumers are really buying when they obtain a product or service. It answers the question is what is the buyer really buying?
Actual product	May have as many as five characteristics that combine to deliver core product benefits.
Augmented product	Includes any additional consumer services and benefits built around the core and actual products.

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Lesson – 24

Lesson overview and learning objectives:
Price goes by many names in our economy. In the narrowest sense, price is the amount of money charged for a product or service. Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly. At the same time, pricing and price competition is the number-one problem facing many marketing executives. Yet, many companies do not handle pricing well. The most common mistakes are pricing that is too cost oriented rather than customer-value oriented; prices that are not revised often enough to reflect market changes; pricing that does not take the rest of the marketing mix into account; and prices that are not varied enough for different products, market segments, and purchase occasions. This Lesson looks at the factors marketers must consider when setting prices so our today's topic is:

Price the 2nd P of Marketing Mix.

A. Introduction

All profit and nonprofit organizations must set prices on their products and services. **Price** goes by many names (rent, tuition, fee, fare, rate, interest, toll, premium, et cetera). Price is the amount of money charged for a product or service or the sum of the values that consumers exchange for the benefits of having or using the product or service. Historically, price has been the major factor affecting buyer choice. Recently, however, nonprice factors have become increasingly important in buyer-choice behavior. Throughout history, prices were set by negotiation between buyers and sellers. **Fixed price** policies--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. Today, we may be returning to **dynamic pricing**--charging different prices depending on the individual customers and situations. The Internet is helping to tailor products and prices. It should be remembered that price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible of elements of the marketing mix. It has been stated that pricing and price competition is the number-one problem facing many marketing executives. Many companies do not handle pricing well. Common mistakes that they make are:

1. Pricing is too cost-oriented.
2. Prices are not revised often enough to reflect market changes.
3. Prices do not take into account the other elements of the marketing mix.
4. Prices are not varied for different products, market segments, and purchase occasions.

All profit organizations and many nonprofit organizations must 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.

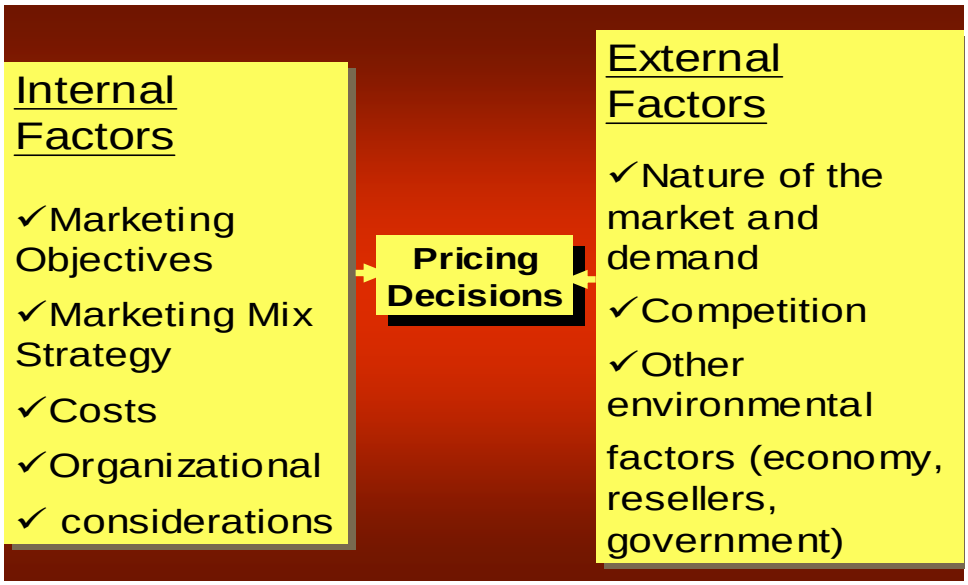
In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service. Historically, price has been the major factor affecting buyer choice. This is still true in poorer nations, among poorer groups, and with commodity products. However, non-price factors have become more important in buyer-choice behavior in recent decades.

Throughout most of history, prices were set by negotiation between buyers and sellers. Fixed price policies—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. Now, some one hundred years later, the Internet promises to reverse the fixed pricing trend and take us back to an era of

dynamic pricing—charging different prices depending on individual customers and situations. The Internet, corporate networks, and wireless setups are connecting sellers and buyers as never before. New technologies allow sellers to collect detailed data about customers' buying habits, preferences—even spending limits—so they can tailor their products and prices.

B. Factors to Consider When Setting Prices

A company's pricing decisions are affected by both internal company factors and external environmental factors



a) Internal Factors Affecting Pricing Decision

Internal factors affecting pricing include the company's marketing objectives, marketing mix strategy, costs, and organizational considerations.

I. Marketing Objectives

Before setting price, the company must decide on its strategy for the product. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. Pricing strategy is largely determined by decisions on market positioning. At the same time, the company may seek additional objectives. The clearer a firm is about its objectives, the easier it is to set price. Examples of common objectives are survival, current profit maximization, market share leadership, and product quality leadership.

Companies set **survival** as their major objective if they are troubled by too much capacity, heavy competition, or changing customers' wants. To keep a plant going, a company may set a low price, hoping to increase demand. In this case, profits are less important than survival. As long as their prices cover variable costs and some fixed costs, they can stay in business. However, survival is only a short-term objective. In the long run, the firm must learn how to add value that consumers will pay for or face extinction.

Many companies use current **profit maximization** as their pricing goal. They estimate what demand and costs will be at different prices and choose the price that will produce the maximum current profit, cash flow, or return on investment. In all cases, the company wants current financial results rather than long-run performance. Other companies want to obtain market share leadership. They believe that the company with the largest market share will enjoy the lowest costs and highest long-run profit. To become the market share leader, these firms set prices as low as possible.

A company might decide that it wants to achieve **product quality leadership**. This normally calls for charging a high price to cover higher performance quality and the high cost of R&D. A company might also use price to attain other, more specific objectives. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. Prices can be set to keep the loyalty and support of resellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a product or to draw more

customers into a retail store. One product may be priced to help the sales of other products in the company's line. Thus, pricing may play an important role in helping to accomplish the company's objectives at many levels.

Nonprofit and public organizations may adopt a number of other pricing objectives. A university aims for partial cost recovery, knowing that it must rely on private gifts and public grants to cover the remaining costs. A nonprofit hospital may aim for full cost recovery in its pricing. Marketing Mix Strategy: Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective marketing program. Decisions made for other marketing mix variables may affect pricing decisions. For example, producers using many resellers who are expected to support and promote their products may have to build larger reseller margins into their prices. The decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher costs.

Companies often position their products on price and then base other marketing mix decisions on the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition, and design. Many firms support such price-positioning strategies with a technique called target costing, a potent strategic weapon. Target costing reverses the usual process of first designing a new product, determining its cost, and then asking, "Can we sell it for that?" Instead, it starts with an ideal selling price based on customer considerations, and then targets costs that will ensure that the price is met.

Other companies de emphasize price and use other marketing mix tools to create nonprice positions. Often, the best strategy is not to charge the lowest price, but rather to differentiate the marketing offer to make it worth a higher price. Thus, the marketer must consider the total marketing mix when setting prices. If the product is positioned on nonprice factors, then decisions about quality, promotion, and distribution will strongly affect price. If price is a crucial positioning factor, then price will strongly affect decisions made about the other marketing mix elements. However, even when featuring price, marketers need to remember that customers rarely buy on price alone. Instead, they seek products that give them the best value in terms of benefits received for the price paid. Thus, in most cases, the company will consider price along with all the other marketing-mix elements when developing the marketing program.

II. Costs

Costs set the floor for the price that the company can charge for its product. The company wants to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Companies with lower costs can set lower prices that result in greater sales and profits.

- Types of Costs

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 level. For example, a company must pay each month's bills for rent, heat, interest, and executive salaries, whatever the company's output. Variable costs vary directly with the level of production. Each personal computer produced involves a cost of computer chips, wires, plastic, packaging, and other inputs. These costs tend to be the same for each unit produced. They are called variable because their total varies with the number of units produced. Total costs are the sum of the fixed and variable costs for any given level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production. The company must watch its costs carefully. If it costs the company more than competitors to produce and sell its product, the company will have to charge a higher price or make less profit, putting it at a competitive disadvantage.

- Costs at Different Levels of Production

To price wisely, management needs to know how its costs vary with different levels of production. This is because fixed costs are spread over more units, with each one bearing a smaller share of the fixed cost.

III. Organizational Considerations

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower-level management or salespeople. In industries in which pricing is a key factor (aerospace, railroads, oil companies), companies often have a pricing department to set the best prices or help others in setting them. This department reports to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, finance managers, and accountants.

b) External Factors Affecting Pricing Decisions

External factors that affect pricing decisions include the nature of the market and demand, competition, and other environmental elements.

I. The Market and Demand

Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product. In this section, we explain how the price–demand relationship varies for different types of markets and how buyer perceptions of price affect the pricing decision. We then discuss methods for measuring the price–demand relationship.

- Pricing in Different Types of Markets

The seller's pricing freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge.

Under pure competition, the market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper. No single buyer or seller has much effect on the going market price. A seller cannot charge more than the going price because buyers can obtain as much as they need at the going price. Nor would sellers charge less than the market price because they can sell all they want at this price. If price and profits rise, new sellers can easily enter the market. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

Under monopolistic competition, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Either the physical product can be varied in quality, features, or style, or the accompanying services can be varied. Buyers see differences in sellers' products and will pay different prices for them. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart. Because there are many competitors in such markets, each firm is less affected by competitors' marketing strategies than in oligopolistic markets.

Under oligopolistic competition, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform (steel, aluminum) or differentiated (cars, computers). There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves. If a steel company slashes its

price by 10 percent, buyers will quickly switch to this supplier. The other steelmakers must respond by lowering their prices or increasing their services. An oligopolist is never sure that it will gain anything permanent through a price cut. In contrast, if an oligopolist raises its price, its competitors might not follow this lead. The oligopolist then would have to retract its price increase or risk losing customers to competitors.

In a pure monopoly, the market consists of one seller. Pricing is handled differently in each case. A government monopoly can pursue a variety of pricing objectives. It might set a price below cost because the product is important to buyers who cannot afford to pay full cost. Or the price might be set either to cover costs or to produce good revenue. It can even be set quite high to slow down consumption. In a regulated monopoly, the government permits the company to set rates that will yield a "fair return," one that will let the company maintain and expand its operations as needed. Unregulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons: a desire to not attract competition, a desire to penetrate the market faster with a low price, or a fear of government regulation.

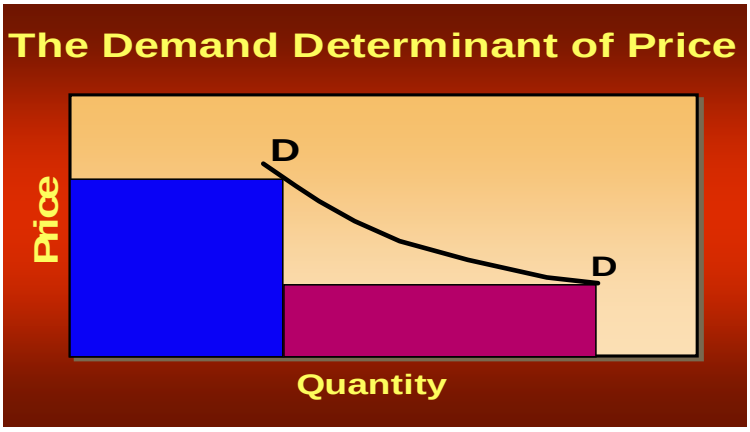
- Consumer Perceptions of Price and Value

In the end, the consumer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, must be buyer oriented. When consumers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective, buyer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that fits this value.

A company often finds it hard to measure the values customers will attach to its product. For example, calculating the cost of ingredients in a meal at a fancy restaurant is relatively easy. But assigning a value to other satisfactions such as taste, environment, relaxation, conversation, and status is very hard. These values will vary both for different consumers and different situations. Still, consumers will use these values to evaluate a product's price. If customers perceive that the price is greater than the product's value, they will not buy the product. If consumers perceive that the price is below the product's value, they will buy it, but the seller loses profit opportunities.

- Analyzing the Price–Demand Relationship

Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the demand curve in Figure. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related; that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P_1 to P_2. In short, consumers with limited budgets probably will buy less of something if its price is too high.



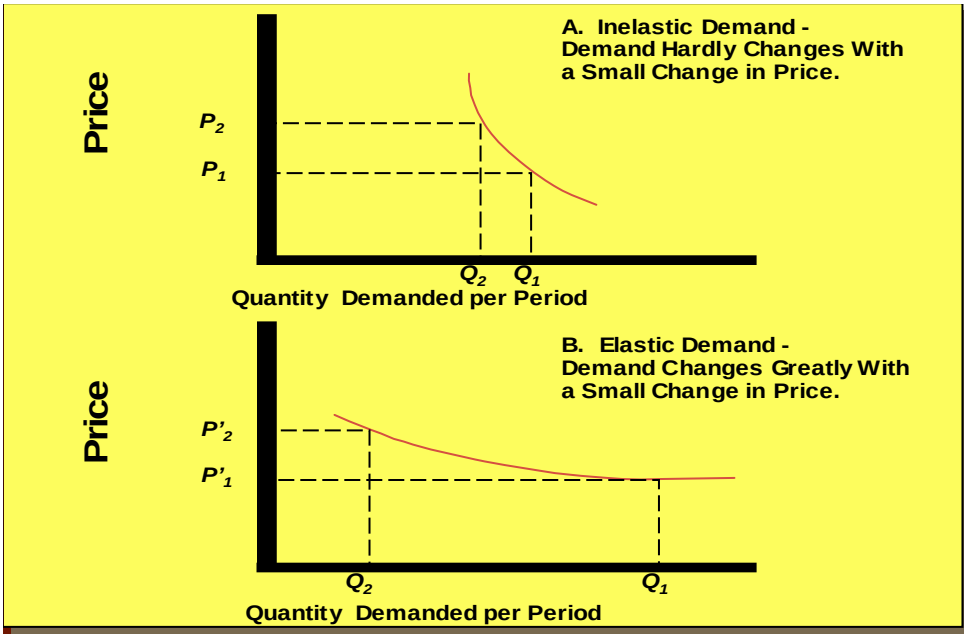
In the case of prestige goods, the demand curve sometimes slopes upward. Consumers think that higher prices mean more quality. Most companies try to measure their demand curves by estimating demand at different prices. The type of market makes a difference. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its

demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

In measuring the price–demand relationship, the market researcher must not allow other factors affecting demand to vary. For example, if any company increases its advertising at the same time that it lowers its product prices, we would not know how much of the increased demand was due to the lower prices and how much was due to the increased advertising. Economists show the impact of nonprice factors on demand through shifts in the demand curve rather than movements along it.

- Price Elasticity of Demand

Marketers also need to know price elasticity—how responsive demand will be to a change in price. Consider the two demand curves in Figure. In Figure, a price increase from P_1 to P_2 leads to a relatively small drop in demand from Q_1 to Q_2. In Figure b, however, the same price increase leads to a large drop in demand from Q'_1 to Q'_2. If demand hardly changes with a small change in price, we say the demand is inelastic. If demand changes greatly, we say the demand is elastic. The price elasticity of demand is given by the following formula:



Price Elasticity of Demand= %change in Quantity demanded / % change in Price

Suppose demand falls by 10 percent when a seller raises its price by 2 percent. Price elasticity of demand is therefore –5 (the minus sign confirms the inverse relation between price and demand) and demand is elastic. If demand falls by 2 percent with a 2 percent increase in price, then elasticity is –1. In this case, the seller's total revenue stays the same: The seller sells fewer items but at a higher price that preserves the same total revenue. If demand falls by 1 percent when price is increased by 2 percent, then elasticity is –½ and demand is inelastic. The less elastic the demand, the more it pays for the seller to raise the price.

What determines the price elasticity of demand? Buyers are less price sensitive when the product they are buying is unique or when it is high in quality, prestige, or exclusiveness. They are also less price sensitive when substitute products are hard to find or when they cannot easily compare the quality of substitutes. Finally, buyers are less price sensitive when the total expenditure for a product is low relative to their income or when the cost is shared by another party.

If demand is elastic rather than inelastic, sellers will consider lowering their price. A lower price will produce more total revenue. This practice makes sense as long as the extra costs of producing and selling more do not exceed the extra revenue. At the same time, most firms want to avoid pricing that turns their products into commodities. In recent years, forces such as deregulation and the instant price comparisons afforded by the Internet and other technologies have increased consumer price sensitivity, turning products ranging from telephones and computers to new automobiles into commodities in consumers' eyes. Marketers need to work harder than ever to

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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.

II. Competitors' Costs, Prices, and Offers

Another external factor affecting the company's pricing decisions is competitors' costs and prices and possible competitor reactions to the company's own pricing moves. When setting prices, the company also must consider other factors in its external environment. Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as boom or recession, inflation, and interest rates affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product's price and value. The company must also consider what impact its prices will have on other parties in its environment. How will resellers react to various prices? The company should set prices that give resellers a fair profit, encourage their support, and help them to sell the product effectively. The government is another important external influence on pricing decisions. Finally, social concerns may have to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.

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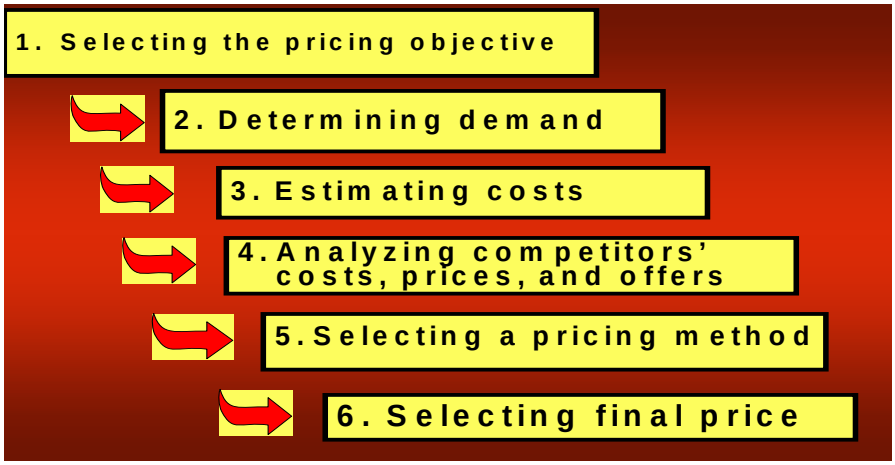
Lesson – 25

Lesson overview and learning objectives:
In last Lesson we discussed the price its definition, focused on the problem of setting prices and considered the factors marketers must consider when setting prices today we will look at general pricing approaches, we will also examine pricing strategies for new-product pricing, product mix pricing.

PRICE THE 2ND P OF MARKETING MIX.

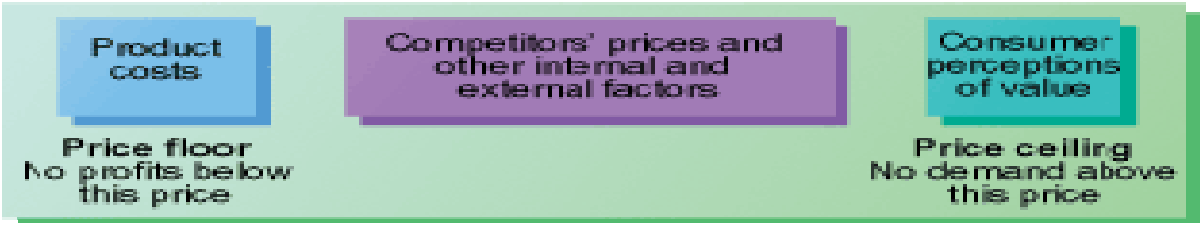
A. Setting Pricing Policy

Pricing policy setting starts with setting the pricing objective that can be: Profit Oriented (concerned with increase in profit), Sales Oriented (basically concerned with increase in sales) and Status Quo Oriented. Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product. In this section, we explain how the price–demand relationship varies for different types of markets and how buyer perceptions of price affect the pricing decision. Costs set the floor for the price that the company can charge for its product. The company wants to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Companies with lower costs can set lower prices that result in greater sales and profits. Company's pricing decisions are also affected by competitors' costs and prices and possible competitor reactions to the company's own pricing moves there fore while setting the prices theses facts should also kept in mind. Final step is setting the final price by using different methods.



B. General Pricing Approaches

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Figure summarizes the major considerations in setting price. Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Companies set prices by selecting a general



pricing approach that includes one or more of three sets of factors. We examine these approaches: the *cost-based approach* (cost-plus pricing, break-even analysis, and target profit pricing); the *buyer-based approach* (value-based pricing); and the *competition-based approach* (going-rate and sealed-bid pricing).

a) Cost-Based Pricing

➢ Cost-Plus Pricing

The simplest pricing method is cost-plus pricing—adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs. Some sellers tell their customers they will charge cost plus a specified markup; for example, aerospace companies price this way to the government.
To illustrate markup pricing, suppose any manufacturer had the following costs and expected sales:
Then the manufacturer's cost per toaster is given by:

Unit Cost = variable Cost + Fixed Cost

Price - Variable Cost

The manufacturer's markup price is given by:

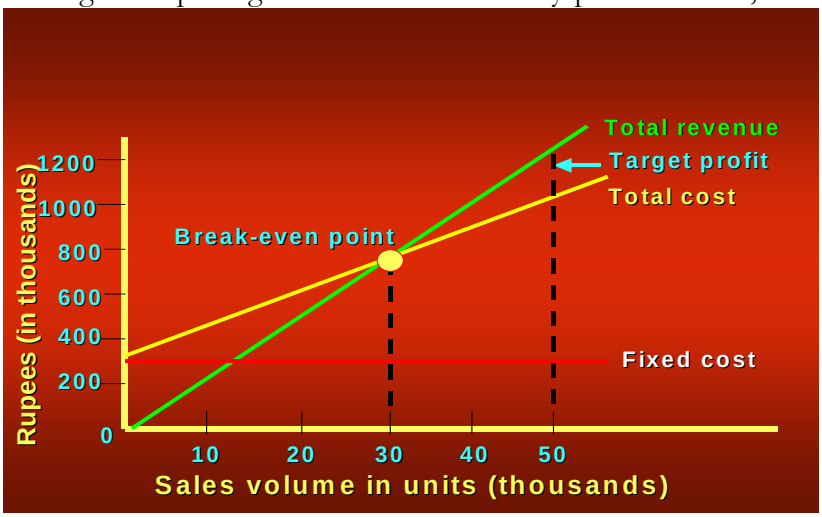
Markup Price = Unit Cost

(1-desired return on sale)

Do using standard markups to set prices make sense? Generally, no. Any pricing method that ignores demand and competitor prices is not likely to lead to the best price. Markup pricing works only if that price actually brings in the expected level of sales. Still, markup pricing remains popular for many reasons. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing—they do not have to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

➢ Break-even Analysis and Target Profit Pricing

Another cost-oriented pricing approach is break-even pricing(or a variation called target profit pricing he firm tries to determine the price at which it will break even or make the target profit it is seeking. This pricing method is also used by public utilities, which are constrained to make a fair return on their investment.



Target pricing uses the concept of a *break-even chart,* which shows the total cost and total revenue expected at different sales volume levels. Figure shows a break-even point. Fixed costs are same regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold.

Fixed Cost
Break-even Volume =

Price - Variable Cost

The manufacturer should consider different prices and estimate break-even volumes, probable demand, and profits for each.

b) Value-Based Pricing

An increasing number of companies are basing their prices on the product's perceived value. Value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables *before* the marketing program is set.

Figure compares cost-based pricing with value-based pricing. Cost-based pricing is product driven. The company designs what it considers to be a good product, totals the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.



Cost-based versus value-based pricing

Value-based pricing reverses this process. The company sets its target price based on customer perceptions of the product value. The targeted value and price then drive decisions about product design and what costs can be incurred. As a result, pricing begins with analyzing consumer needs and value perceptions, and price is set to match consumers' perceived value.

A company using value-based pricing must find out what value buyers assign to different competitive offers. However, measuring perceived value could be difficult. Sometimes, consumers are asked how much they would pay for a basic product and for each benefit added to the offer. Or a company might conduct experiments to test the perceived value of different product offers. If the seller charges more than the buyers' perceived value, the company's sales will suffer. Many companies overprice their products, and their products sell poorly. Other companies under price. Under priced products sell very well, but they produce less revenue than they would have if price were raised to the perceived-value level.

During the past decade, marketers have noted a fundamental shift in consumer attitudes toward price and quality. Many companies have changed their pricing approaches to bring them into line with changing economic conditions and consumer price perceptions. The best way to hold your customers is to constantly figure out how to give them more for less."

Thus, more and more, marketers have adopted value pricing strategies—offering just the right combination of quality and good service at a fair price. In many cases, this has involved the introduction of less expensive versions of established, brand-name products. In many business-to-business marketing situations, the pricing challenge is to find ways to maintain the company's

pricing power—its power to maintain or even raise prices without losing market share. To retain pricing power—to escape price competition and to justify higher prices and margins—a firm must retain or build the value of its marketing offer. This is especially true for suppliers of commodity products, which are characterized by little differentiation and intense price competition. In such cases, many companies adopt *value-added* strategies. Rather than cutting prices to match competitors, they attach value-added services to differentiate their offers and thus support higher margins.

c) Competition-Based Pricing

Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. One form of competition-based pricing is *going-rate pricing,* in which a firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand. The firm might charge the same, more, or less than its major competitors. 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: They change their prices when the market leader's prices change, rather than when their own demand or costs change. Some firms may charge a bit more or less, but they hold the amount of difference constant. Thus, minor gasoline retailers usually charge a few cents less than the major oil companies, without letting the difference increase or decrease.

Going-rate pricing is quite popular. When demand elasticity is hard to measure, firms feel that the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. They also feel that holding to the going price will prevent harmful price wars.

Competition-based pricing is also used when firms *bid* for jobs. Using *sealed-bid pricing,* a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firm wants to win a contract, and winning the contract requires pricing less than other firms. Yet the firm cannot set its price below a certain level. It cannot price below cost without harming its position. In contrast, the higher the company sets its price above its costs, the lower its chance of getting the contract.

Pricing decisions are subject to an incredibly complex array of environmental and competitive forces. A company sets not a single price, but rather a *pricing structure* that covers different items in its line. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and to account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

C. New-Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies: *market-skimming pricing* and *market-penetration pricing.*

a) Market-Skimming Pricing

Many companies that invent new products initially set high prices to "skim" revenues layer by layer from the market. Intel is a prime user of this strategy, called market-skimming pricing. Market skimming makes sense only under certain conditions. First, the product's quality and image must support its higher price, and enough buyers must want the product at that price. Second, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Finally, competitors should not be able to enter the market easily and undercut the high price.

b) Market-Penetration Pricing

Rather than setting a high initial price to *skim* off small but profitable market segments, some companies use market-penetration pricing. They set a low initial price in order to *penetrate* the market quickly and deeply—to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing the company to cut its price even

further. Several conditions must be met for this low-price strategy to work. First, the market must be highly price sensitive so that a low price produces more market growth. Second, production and distribution costs must fall as sales volume increases. Finally, the low price must help keep out the competition, and the penetration pricer must maintain its low-price position—otherwise, the price advantage may be only temporary.

D. Product Mix Pricing Strategies

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. We now take a closer look at the five product mix pricing situations

a) Product Line Pricing

Companies usually develop product lines rather than single products. In product line pricing, management must decide on the price steps to set between the various products in a line.

The price steps should take into account cost differences between the products in the line, customer evaluations of their different features, and competitors' prices. In many industries, sellers use well-established *price points* for the products in their line. The seller's task is to establish perceived quality differences that support the price differences.

b) Optional-Product Pricing

Many companies use optional-product pricing—offering to sell optional or accessory products along with their main product. For example, a car buyer may choose to order power windows, cruise control, and a CD changer. Pricing these options is a sticky problem. Automobile companies have to decide which items to include in the base price and which to offer as options. Until recent years, The economy model was stripped of so many comforts and conveniences that most buyers rejected it.

c) Captive-Product Pricing

Companies that make products that must be used along with a main product are using captive-product pricing. Examples of captive products are razor blades, camera film, video games, and computer software. Producers of the main products (razors, cameras, video game consoles, and computers) often price them low and set high markups on the supplies. Thus, camera manufactures price its cameras low because they make its money on the film it sells. In the case of services, this strategy is called *two-part pricing*. The price of the service is broken into a *fixed fee* plus a *variable usage rate*. Thus, a telephone company charges a monthly rate—the fixed fee—plus charges for calls beyond some minimum number—the variable usage rate. Amusement parks charge admission plus fees for food, midway attractions, and rides over a minimum. The service firm must decide how much to charge for the basic service and how much for the variable usage. The fixed amount should be low enough to induce usage of the service; profit can be made on the variable fees.

d) By-Product Pricing

In producing processed meats, petroleum products, chemicals, and other products, there are often by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the seller to reduce the main product's price to make it more competitive. By-products can even turn out to be profitable. For example, many lumber mills have begun to sell bark chips and sawdust profitably as decorative mulch for home and commercial landscaping.

Sometimes, companies don't realize how valuable their by-products are.

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e) Product Bundle Pricing

Using product bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price. Thus, theaters and sports teams sell season tickets at less than the cost of single tickets; hotels sell specially priced packages that include room, meals, and entertainment; computer makers include attractive software packages with their personal computers. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

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Lesson – 26

Lesson overview and learning objectives:
We have already discussed the different factors affecting pricing decisions and approaches that can be used to price the product/services, today we will discuss price-adjustment strategies. Price-adjustment strategies account for customer differences and start changing situations, and strategies for initiating and responding to price changes

PRICE THE 2ND P OF MARKETING MIX.

A. Price-Adjustment Strategies

Companies usually adjust their basic prices to account for various customer differences and changing situations. Fig summarizes six price-adjustment strategies: discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, and international pricing.



a. Discount and Allowance Pricing

Most companies adjust their basic price to reward customers for certain responses, such as early payment of bills, volume purchases, and off-season buying. These price adjustments—called discounts and allowances—can take many forms.

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 although payment is due within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. The discount must be granted to all buyers meeting these terms. Such discounts are customary in many industries and help to improve the sellers' cash situation and reduce bad debts and credit-collection costs.



A **quantity discount** is a price reduction to buyers who buy large volumes. A typical example might be "Rs10 per unit for less than 100 units, Rs9 per unit for 100 or more units." By law, quantity discounts must be offered equally to

all customers and must not exceed the seller's cost savings associated with selling large quantities. These savings include lower selling, inventory, and transportation expenses. Discounts provide an incentive to the customer to buy more from one given seller, rather than from many different sources.

A **functional discount** (also called a trade discount) is offered by the seller to trade channel members who perform certain functions, such as selling, storing, and record keeping. Manufacturers may offer different functional discounts to different trade channels because of the varying services they perform, but manufacturers must offer the same functional discounts within each trade channel.

A **seasonal discount** is a price reduction to buyers who buy merchandise or services out of season. For example, lawn and garden equipment manufacturers offer seasonal discounts to retailers during the fall and winter months to encourage early ordering in anticipation of the heavy spring and summer selling seasons. Hotels, motels, and airlines will offer seasonal discounts in their slower selling periods. Seasonal discounts allow the seller to keep production steady during an entire year.

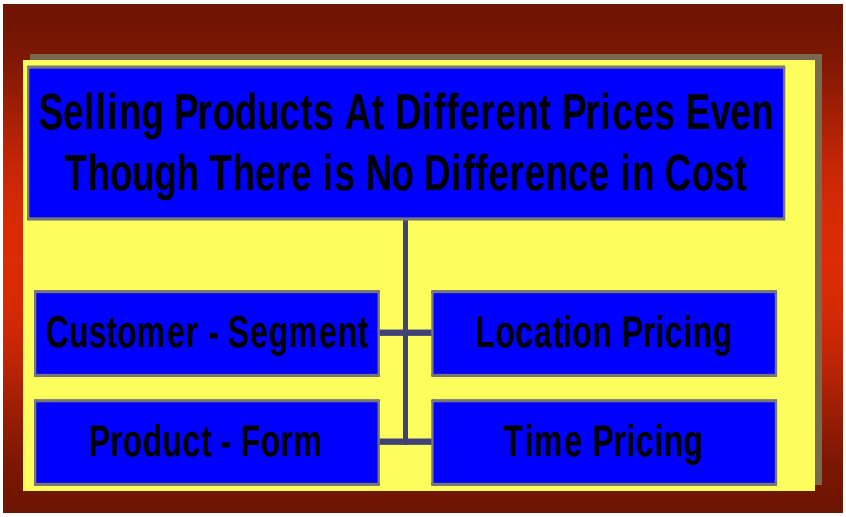
Allowances are another type of reduction from the list price. For example, trade-in allowances are price reductions given for turning in an old item when buying a new one. Trade-in allowances are most common in the automobile industry but are also given for other durable goods. Promotional allowances are payments or price reductions to reward dealers for participating in advertising and sales support programs.

b. Segmented Pricing

Companies will often adjust their basic prices to allow for differences in customers, products, and locations. In segmented pricing, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

Segmented pricing takes several forms. Under customer-segment pricing, different customers pay different prices for the same product or service. Museums, for example, will charge a lower admission for students and senior citizens. Under product-form pricing, different versions of the product are priced differently but not according to differences in their costs. Using location pricing, a company charges different prices for different locations, even though the cost of offering at each location is the same. For instance, theaters vary their seat prices because of audience preferences for certain locations. Finally, using time pricing, a firm varies its price by the season, the month, the day, and even the hour. Public utilities vary their prices to commercial users by time of day and weekend versus weekday. The telephone company offers lower off-peak charges, and resorts give seasonal discounts.

For segmented pricing to be an effective strategy, certain conditions must exist. The market must be segmentable, and the segments must show different degrees of demand. Members of the segment paying the lower price should not be able to turn around and resell the product to the segment paying the higher price. Competitors should not be able to undersell the firm in the segment being charged the higher price. Nor should the costs of segmenting and watching the market exceed the extra revenue obtained from the price difference. Of course, the segmented



pricing must also be legal. Most importantly, segmented prices should reflect real differences in customers' perceived value. Otherwise, in the long run, the practice will lead to customer resentment and ill will.

c. Psychological Pricing

Price says something about the product. For example, many consumers use price to judge quality. An Rs1000 bottle of perfume may contain only Rs300 worth of scent, but some people are willing to pay the Rs 1000 because this price indicates something special.

In using psychological pricing, sellers consider the psychology of prices and not simply the economics. For example, one study of the relationship between price and quality perceptions of cars found that consumers perceive higher-priced cars as having higher quality. By the same token, higher-quality cars are perceived to be even higher priced than they actually are. When consumers can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. When consumers cannot judge quality because they lack the information or skill, price becomes an important quality signal:

Another aspect of psychological pricing is reference pricing—prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. For example, a company could display its product next to more expensive ones in order to imply that it belongs in the same class. Department stores often sell women's clothing in separate departments differentiated by price: Clothing found in the more expensive department is assumed to be of better quality. Companies can also influence consumers' reference prices by stating high manufacturer's suggested prices, by indicating that the product was originally priced much higher, or by pointing to a competitor's higher price.

d. Promotional pricing,

Companies will temporarily price their products below list price and sometimes even below cost. Promotional pricing takes several forms. Supermarkets and department stores will price a few products as loss leaders to attract customers to the store in the hope that they will buy other items at normal markups. Sellers will also use special-event pricing in certain seasons to draw more customers. Manufacturers will sometimes offer cash rebates to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with automakers and producers of durable goods and small appliances, but they are also used with consumer-packaged goods. Some manufacturers offer low-interest financing, longer warranties, or free maintenance to reduce the consumer's "price." This practice has recently become a favorite of the auto industry. Or, the seller may simply offer discounts from normal prices to increase sales and reduce inventories.

Promotional pricing, however, can have adverse effects. Used too frequently and copied by competitors, price promotions can create "deal-prone" customers who wait until brands go on sale before buying them. Or, constantly reduced prices can erode a brand's value in the eyes of customers. Marketers sometimes use price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands. In fact, one observer notes that price promotions can be downright addicting to both the company and the customer. The point is that promotional pricing can be an effective means of generating sales in certain circumstances but can be damaging if taken as a steady diet.

e. Geographical Pricing

A company also must decide how to price its products for customers located in different parts of the country or world. Should the company take risk of losing the business of more distant customers by charging them higher prices to cover the higher shipping costs? Or should the

company charge all customers the same prices regardless of location? Because each customer picks up its own cost, supporters of FOB pricing feel that this is the fairest way to assess freight charges. The disadvantage, however, is that Peerless will be a high-cost firm to distant customers?

Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost. Other advantages of uniform-delivered pricing are that it is fairly easy to administer and it lets the firm advertise its price nationally.

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. Using base point pricing, the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. If all sellers used the same basing-point city, delivered prices would be the same for all customers and price competition would be eliminated. Industries such as sugar, cement, steel, and automobiles used basing-point pricing for years, but this method has become less popular today. Some companies set up multiple basing points to create more flexibility: They quote freight charges from the basing-point city nearest to the customer.

Finally, the seller who is anxious to do business with a certain customer or geographical area might use freight-absorption pricing. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business. The seller might reason that if it can get more business, its average costs will fall and more than compensate for its extra freight cost. Freight-absorption pricing is used for market penetration and to hold on to increasingly competitive markets.

f. International Pricing

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumer perceptions and preferences also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. Costs play an important role in setting international prices. Travelers abroad are often surprised to find that goods that are relatively inexpensive at home may carry outrageously higher price tags in other countries. In some cases, such price escalation may result from differences in selling strategies or market conditions. In most instances, however, it is simply a result of the higher costs of selling in foreign markets—the additional costs of modifying the product, higher shipping and insurance costs, import tariffs and taxes, costs associated with exchange-rate fluctuations, and higher channel and physical distribution costs.

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Lesson – 27

Lesson overview and learning objectives:
In last Lesson we discussed the different price adjustment strategies. Today we will have discussion on different price changes that can tale place and customers and companies responses towards these changes. We will have review of concepts discussed in Lessons regarding Price as well

PRICE THE 2ND P OF MARKETING MIX.

B. Price Changes

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors.

a. Initiating Price Changes

In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

i. Initiating Price Cuts

Several situations may lead a firm to consider cutting its price. One of the such circumstance is excess capacity. In this case, the firm needs more business and cannot get it through increased sales effort, product improvement, or other measures. It may drop its "follow-the-leader pricing"—charging about the same price as its leading competitor—and aggressively cut prices to boost sales. But as the airline, construction equipment, fast-food, and other industries have learned in recent years, cutting prices in an industry loaded with excess capacity may lead to price wars as competitors try to hold on to market share.

Another situation leading to price changes is falling market share in the face of strong price competition. Either the company starts with lower costs than its competitors or it cuts prices in the hope of gaining market share that will further cut costs through larger volume.

ii. Initiating Price Increases

A successful price increase can greatly increase profits. 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. A major factor in price increases is cost inflation. Rising costs squeeze profit margins and lead companies to pass cost increases on to the customers. Another factor leading to price increases is excess demand: When a company cannot supply all its customers' needs, it can raise its prices, ration products to customers, or both.

Companies can increase their prices in a number of ways to keep up with rising costs. Prices can be raised almost invisibly by dropping discounts and adding higher-priced units to the line. Or prices can be pushed up openly. In passing price increases on to customers, the company must avoid being perceived as a price gouger. Companies also need to think of who will bear the brunt of increased prices

There are some techniques for avoiding this problem. One is to maintain a sense of fairness surrounding any price increase. Price increases should be supported with a company communication program telling customers why prices are being increased and customers should be given advance notice so they can do forward buying or shop around. 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. Contracts or bids for long-term projects should contain escalator clauses based on such factors as increases in recognized national price indexes. The company sales force should help business customers find ways to economize.

Wherever possible, the company should consider ways to meet higher costs or demand without raising prices. For example, it can consider more cost-effective ways to produce or distribute its products. It can shrink the product instead of raising the price, as candy bar manufacturers often do. It can substitute less expensive ingredients or remove certain product features, packaging, or

services. Or it can "unbundle" its products and services, removing and separately pricing elements that were formerly part of the offer.

b. Buyer Reactions to Price Changes

Whether the price is raised or lowered, the action will affect buyers, competitors, distributors, and suppliers and may interest government as well. Customers do not always interpret prices in a straightforward way. They may view a price cut in several ways. For example, what would you think if any company suddenly cuts its VCR prices in half? You might think that these VCRs are about to be replaced by newer models or that they have some fault and are not selling well. You might think that company is abandoning the VCR business and may not stay in this business long enough to supply future parts. You might believe that quality has been reduced. Or you might think that the price will come down even further and that it will pay to wait and see.

Similarly, a price increase, which would normally lower sales, may have some positive meanings for buyers. What would you think if company mentioned above raised the price of its latest VCR model? On the one hand, you might think that the item is very "hot" and may be unobtainable unless you buy it soon. Or you might think that the VCR is an unusually good value.

c. Competitor Reactions to Price Changes

A firm considering a price change has to worry about the reactions of its competitors as well as its customers. Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed.

How can the firm anticipate the likely reactions of its competitors? If the firm faces one large competitor, and if the competitor tends to react in a set way to price changes, that reaction can be easily anticipated. But if the competitor treats each price change as a fresh challenge and reacts according to its self-interest, the company will have to figure out just what makes up the competitor's self-interest at the time.

The problem is complex because, like the customer, the competitor can interpret a company price cut in many ways. It might think the company is trying to grab a larger market share, that the company is doing poorly and trying to boost its sales, or that the company wants the whole industry to cut prices to increase total demand.

When there are several competitors, the company must guess each competitor's likely reaction. If all competitors behave alike, this amounts to analyzing only a typical competitor. In contrast, if the competitors do not behave alike—perhaps because of differences in size, market shares, or policies—then separate analyses are necessary. However, if some competitors will match the price change, there is good reason to expect that the rest will also match it.

d. Responding to Price Changes

Here we reverse the question and ask how a firm should respond to a price change by a competitor. The firm needs to consider several issues: Why did the competitor change the price? Was it to take more market share, to use excess capacity, to meet changing cost conditions, or to lead an industry wide price change? Is the price change temporary or permanent? What will happen to the company's market share and profits, if it does not respond? Are other companies going to respond? What are the competitor's and other firms' responses to each possible reaction likely to be?

Besides these issues, the company must make a broader analysis. It has to consider its own product's stage in the life cycle, the product's importance in the company's product mix, the intentions and resources of the competitor, and the possible consumer reactions to price changes. The company cannot always make an extended analysis of its alternatives at the time of a price change, however. The competitor may have spent much time preparing this decision, but the company may have to react within hours or days. About the only way to cut down reaction time is to plan ahead for both possible competitor's price changes and possible responses.

There are several ways a company might assess and respond to a competitor's price cut. Once the company has determined that the competitor has cut its price and that this price reduction is likely to harm company sales and profits, it might simply decide to hold its current price and profit

margin. The company might believe that it will not lose too much market share, or that it would lose too much profit if it reduced its own price. It might decide that it should wait and respond when it has more information on the effects of the competitor's price change. For now, it might be willing to hold on to good customers, while giving up the poorer ones to the competitor. The argument against this holding strategy, however, is that the competitor may get stronger and more confident as its sales increase and that the company might wait too long to act.

If the company decides that effective action can and should be taken, it might make any of four responses. First, it could **reduce its price** to match the competitor's price. It may decide that the market is price sensitive and that it would lose too much market share to the lower-priced competitor. Or it might worry that recapturing lost market share later would be too hard. Cutting the price will reduce the company's profits in the short run. Some companies might also **reduce their product quality**, services, and marketing communications to retain profit margins, but this will ultimately hurt long-run market share. The company should try to maintain its quality as it cuts prices.

Alternatively, the company might maintain its price but **raise the perceived quality** of its offer. It could improve its communications, stressing the relative quality of its product over that of the lower-price competitor. The firm may find it cheaper to maintain price and spend money to improve its perceived value than to cut price and operate at a lower margin.

Or, the company might improve quality and increase price, moving its brand into a higher-price position. The higher quality justifies the higher price, which in turn preserves the company's higher margins. Or the company can hold price on the current product and introduce a new brand at a higher-price position.

Finally, the company might launch a low-price **"fighting brand."** Often, one of the best responses is to add lower-price items to the line or to create a separate lower-price brand. This is necessary if the particular market segment being lost is price sensitive and will not respond to arguments of higher quality.

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Lesson – 28

Lesson overview and learning objectives:
Channel design begins with assessing customer channel-service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the types of intermediaries, the number of intermediaries, and the channel responsibilities of each. No system, no matter how well it has been planned, is without conflict. Managing distribution conflict is a necessity if quality service and low cost is to be delivered. Since distribution relationships tend to be long-term in nature, the choice of channel partners is very important and should be taken very seriously these are the all concepts that should be clear after today's Lesson.

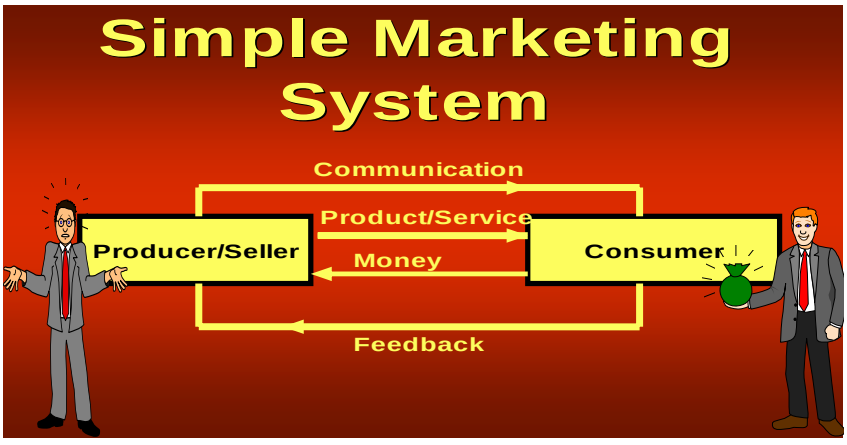
PLACE- THE 3RD P OF MARKETING MIX.

Marketing channel decisions are among the most important facing marketing managers. A company's channel decisions are linked with every other marketing decision. Companies often pay too little attention to their distribution channels. This can be very damaging. Distribution channel decisions often involve long-term commitments to other firms. There are four major issues or questions that concern distribution channels:

1). What is the nature of distribution channels?
2). How do channel firms interact and organize to do the work of the channel?
3). What problems do companies face in designing and managing their channels?
4). what role does physical distribution play in attracting and satisfying customers?

A. Marketing Channel

A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Figure summarizes the simple marketing system that consists of customer, producers that are having some thing valuable for making transactions. These transaction are made in exchange process and creation availability of products for customers. This availability is created by using networks of distribution channels.



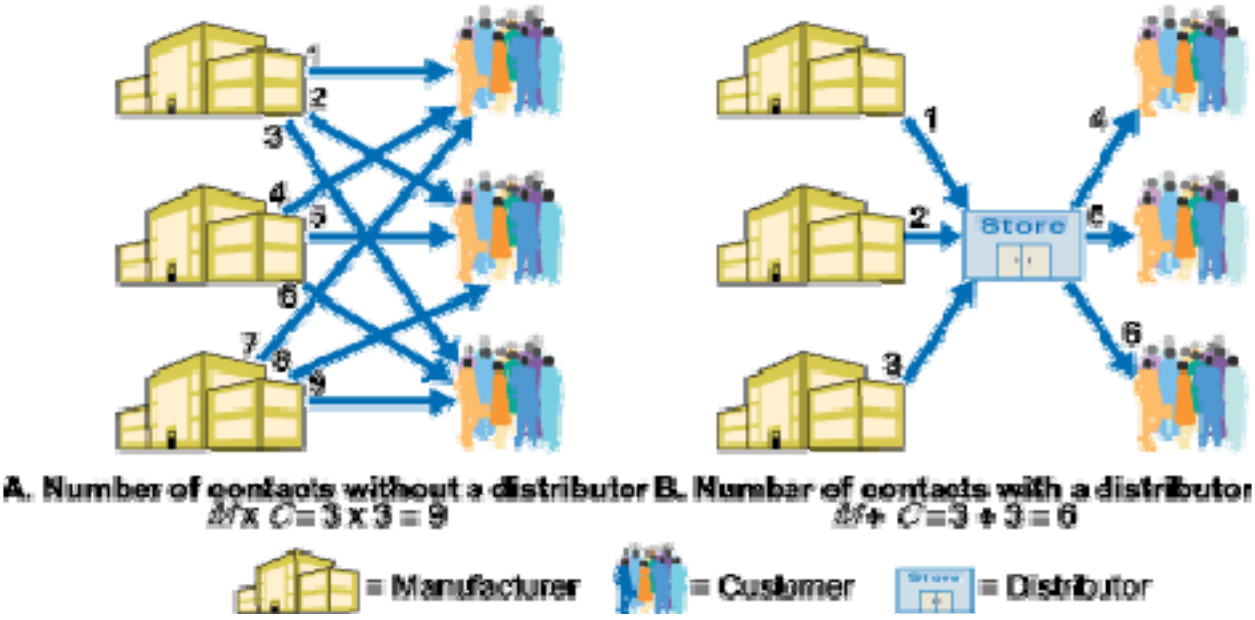
Every product and service, whether an automobile, a watch, a personal computer, or office furniture, must somehow be made available to billions of people. Products must also be made available to millions of industrial firms, businesses, government institutions, and other organizations worldwide. Firms try to realize this goal through the creation of distribution channels.
Channel structure has three basic dimensions: the length of the channel, the intensity at various levels, and the types of intermediaries involved. Channel intensity ranges from intensive to selective to exclusive. Intensive means that there are many intermediaries. Selective means that there are a smaller number of intermediaries. Exclusive refers to only one.

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B. Why Are Marketing Intermediaries Used?

Why do producers give some of the selling job to intermediaries? After all, doing so means giving up some control over how and to whom the products are sold. The use of intermediaries results from their greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Figure shows how using intermediaries can provide economies. Figure A shows three manufacturers, each using direct marketing to reach three customers. This system requires nine different contacts. Figure B shows the three manufacturers working through one distributor, who contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the amount of work that must be done by both producers and consumers.



A. Number of contacts without a distributor B. Number of contacts with a distributor

From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. In the distribution channels, intermediaries buy large quantities from many producers and break them down into the smaller quantities and broader assortments wanted by consumers. Thus, intermediaries play an important role in matching supply and demand.

The concept of distribution channels is not limited to the distribution of tangible products. Producers of services and ideas also face the problem of making their output available to target markets. In the private sector, retail stores, hotels, banks, and other service providers take great care to make their services conveniently available to target customers. In the public sector, service organizations and agencies develop "educational distribution systems" and "health care delivery systems" for reaching sometimes widely dispersed populations. Hospitals must be located to serve various patient populations, and schools must be located close to the children who need to be taught. Communities must locate their fire stations to provide rapid response to fires and polling stations must be placed where people can vote conveniently.

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C. Distribution Channel Functions

The distribution channel moves goods and services from producers to consumers. It overcomes the major time, place, and possession gaps that separate goods and services from those who would use them. Members of the marketing channel perform many key functions:

- *Information:* gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.
- *Promotion:* developing and spreading persuasive communications about an offer.
- *Contact:* finding and communicating with prospective buyers.
- *Matching:* shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.
- *Negotiation:* reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

Others help to fulfill the completed transactions:

- *Physical distribution:* transporting and storing goods.
- *Financing:* acquiring and using funds to cover the costs of the channel work.
- *Risk taking:* assuming the risks of carrying out the channel work.

The question is not *whether* these functions need to be performed—they must be—but rather *who* will perform them. To the extent that the manufacturer performs these functions, its costs go up and its prices have to be higher. At the same time, when some of these functions are shifted to intermediaries, the producer's costs and prices may be lower, but the intermediaries must charge more to cover the costs of their work. In dividing the work of the channel, the various functions should be assigned to the channel members who can perform them most efficiently and effectively to provide satisfactory assortments of goods to target consumers.

D. Number of Channel Levels

Distribution channels can be described by the number of channel levels involved. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a channel level. Because

Figure A

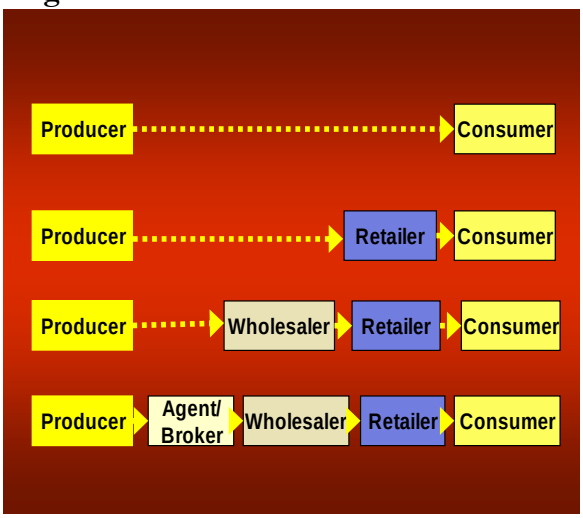
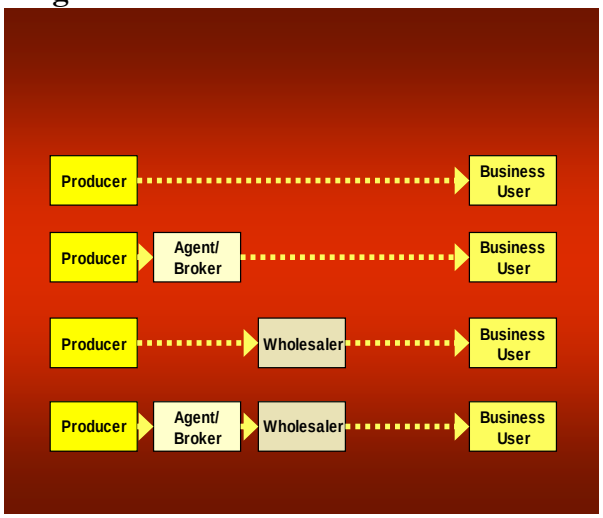


Figure B



the producer and the final consumer both perform some work, they are part of every channel. We use the number of intermediary levels to indicate the length of a channel. Figure A shows several consumer distribution channels of different lengths.

Channel 1, called a direct marketing channel, has no intermediary levels. It consists of a company selling directly to consumers. The remaining channels in Figure A are indirect marketing channels. Channel 2 contains one intermediary level. In consumer markets, this level is typically a retailer.

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For example, the makers of televisions, cameras, tires, furniture, major appliances, and many other products sell their goods directly to large retailers which then sell the goods to final consumers. Channel 3 contains two intermediary levels, a wholesaler and a retailer. This channel is often used by small manufacturers of food, drugs, hardware, and other products. Channel 4 contains three intermediary levels. In the meatpacking industry, for example, jobbers buy from wholesalers and sell to smaller retailers who generally are not served by larger wholesalers. Distribution channels with even more levels are sometimes found, but less often. From the producer's point of view, a greater number of levels means less control and greater channel complexity.

Figure B shows some common business distribution channels. The business marketer can use its own sales force to sell directly to business customers. It can also sell to industrial distributors, who in turn sell to business customers. It can sell through manufacturer's representatives or its own sales branches to business customers, or it can use these representatives and branches to sell through industrial distributors. Thus, business markets commonly include multilevel distribution channels.

All of the institutions in the channel are connected by several types of flows. These include the physical flow of products, the flow of ownership, the payment flow, the information flow, and the promotion flow. These flows can make even channels with only one or a few levels very complex.

E. Channel Behavior and Organization

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist only of informal interactions among loosely organized firms; others consist of formal interactions guided by strong organizational structures. Moreover, channel systems do not stand still—new types of intermediaries emerge and whole new channel systems evolve. Here we look at channel behavior and at how members organize to do the work of the channel.

Channel Behavior

A distribution channel consists of firms that have banded together for their common good. Each channel member is dependent on the others. Each channel member plays a role in the channel and specializes in performing one or more functions. The channel will be most effective when each member is assigned the tasks it can do best.

Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals. By cooperating, they can more effectively sense, serve, and satisfy the target market.

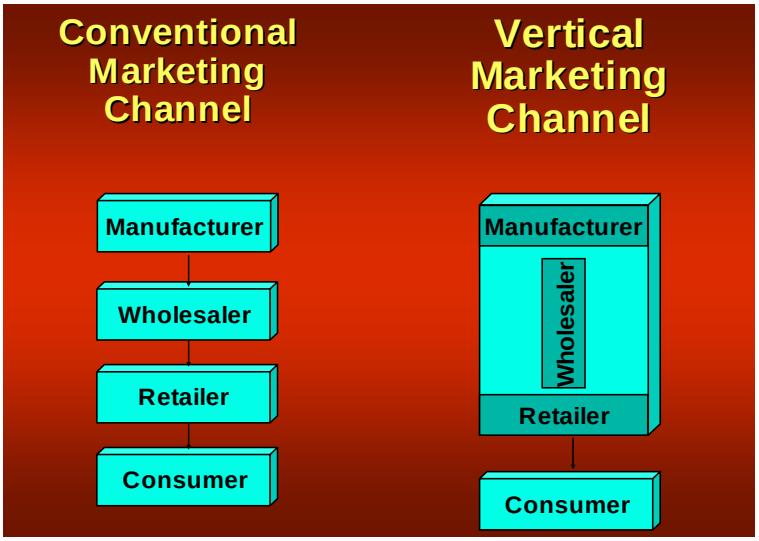
However, individual channel members rarely take such a broad view. They are usually more concerned with their own short-run goals and their dealings with those firms closest to them in the channel. Cooperating to achieve overall channel goals sometimes means giving up individual company goals. Although channel members are dependent on one another, they often act alone in their own short-run best interests. They often disagree on the roles each should play—on who should do what and for what rewards. Such disagreements over goals and roles generate channel conflict.

Horizontal conflict occurs among firms at the same level of the channel. Vertical conflict, conflicts between different levels of the same channel, is even more common. Some conflict in the channel takes the form of healthy competition. Such competition can be good for the channel—without it, the channel could become passive and non innovative. But sometimes conflict can damage the channel. For the channel as a whole to perform well, each channel member's role must be specified and channel conflict must be managed. Cooperation, role assignment, and conflict management in the channel are attained through strong channel leadership. The channel will perform better if it includes a firm, agency, or mechanism that has the power to assign roles and manage conflict.

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F. Vertical Marketing Systems

Historically, distribution channels have been loose collections of independent companies, each showing little concern for overall channel performance. These conventional distribution channels have lacked strong leadership and have been troubled by damaging conflict and poor performance. One of the biggest recent channel developments has been the vertical marketing systems that have emerged to challenge conventional marketing channels. Figure contrasts the two types of channel arrangements. A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, even at the expense of profits for the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict. In contrast, a Vertical Marketing System (VMS) consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate. The VMS can be dominated by the producer, wholesaler, or retailer. Vertical marketing systems came into being to control channel behavior and manage channel conflict.



We look now at three major types of VMSs: *corporate, contractual,* and *administered.* Each uses a different means for setting up leadership and power in the channel. We now take a closer look at each type of VMS.

a. Corporate VMS

A corporate VMS combines successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organizational channels.

b. Contractual VMS

A contractual VMS consists of independent firms at different levels of production and distribution who joins together through contracts to obtain more economies or sales impact than each could achieve alone. Coordination and conflict management are attained through contractual agreements among channel members. There are three types of contractual VMSs: wholesaler-sponsored voluntary chains, retailer cooperatives, and franchise organizations.

In *wholesaler-sponsored voluntary chains,* wholesalers organize voluntary chains of independent retailers to help them compete with large chain organizations. The wholesaler develops a program in which independent retailers standardize their selling practices and achieve buying economies that let the group compete effectively with chain organizations. In *retailer cooperatives,* retailers organize a new, jointly owned business to carry on wholesaling and possibly production. Members buy most of their goods through the retailer co-op and plan their advertising jointly. Profits are passed back to members in proportion to their purchases. In franchise organizations, a channel member called a *franchiser* links several stages in the production-distribution process. There are three forms of franchises. The first form is the *manufacturer-sponsored retailer franchise system,* as found in the automobile industry. The second type of franchise is the *manufacturer-sponsored wholesaler franchise system,* as found in the soft drink industry.. The third franchise form is the *service-firm-sponsored retailer franchise system,* in which a service firm licenses a system of retailers to bring its service to consumers. The fact that most consumers cannot tell the difference between contractual and

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corporate VMSs shows how successfully the contractual organizations compete with corporate chains.

c. Administered VMS

An administered VMS coordinates successive stages of production and distribution, not through common ownership or contractual ties but through the size and power of one of the parties. In an *administered VMS,* leadership is assumed by one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers.

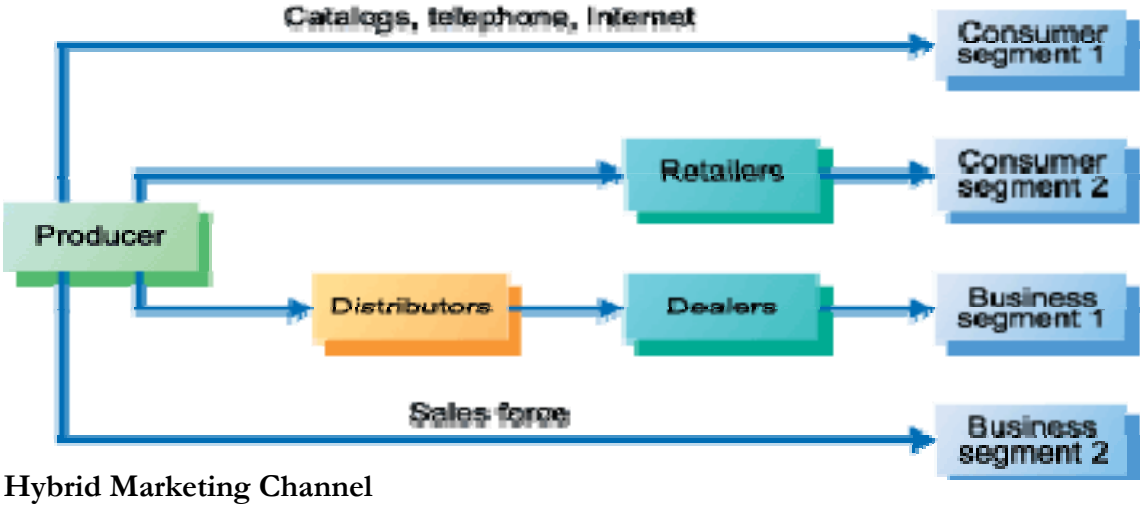
G. Horizontal Marketing Systems

Another channel development is the horizontal marketing system, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their capital, production capabilities, or marketing resources to accomplish more than any one company could alone. Companies might join forces with competitors or non-competitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. Such channel arrangements also work well globally.

H. Hybrid Marketing Systems

In the past, many companies used a single channel to sell to a single market or market segment. Today, with the proliferation of customer segments and channel possibilities, more and more companies have adopted *multichannel distribution systems*—often called hybrid marketing channels. Such multichannel marketing occurs when a single firm sets up two or more marketing channels to reach one or more customer segments. The use of hybrid channel systems has increased greatly in recent years.

Figure shows a hybrid channel. In the figure, the producer sells directly to consumer segment 1 using direct-mail catalogs and telemarketing and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers and to business segment 2 through its own sales force.



Hybrid Marketing Channel

Hybrid channels offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments. But such hybrid channel systems are harder to control, and they generate conflict as more channels compete for customers and sales

I. Channel Design Decisions

We now look at several channel decisions manufacturers face. In designing marketing channels, manufacturers struggle between what is ideal and what is practical. A new firm with limited capital usually starts by selling in a limited market area. Deciding on the *best* channels might not be a problem: The problem might simply be how to convince one or a few good intermediaries to handle the line.

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If successful, the new firm might branch out to new markets through the existing intermediaries. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In one part of the country, it might grant exclusive franchises; in another, it might sell through all available outlets. In this way, channel systems often evolve to meet market opportunities and conditions. However, for maximum effectiveness, channel analysis and decision making should be more purposeful. Designing a channel system calls for analyzing consumer service needs, setting channel objectives and constraints, identifying major channel alternatives, and evaluating them.

a. Analyzing Consumer Service Needs

As noted previously, marketing channels can be thought of as *customer value delivery systems* in which each channel member adds value for the customer. Thus, designing the distribution channel starts with finding out what targeted consumers want from the channel. Do consumers want to buy from nearby locations or are they willing to travel to more distant centralized locations? Would they rather buy in person, over the phone, through the mail, or via the Internet? Do they value breadth of assortment or do they prefer specialization? Do consumers want many add-on services (delivery, credit, repairs, installation) or will they obtain these elsewhere? The faster the delivery, the greater the assortment provided, and the more add-on services supplied, the greater the channel's service level.

But providing the fastest delivery, greatest assortment, and most services may not be possible or practical. The company and its channel members may not have the resources or skills needed to provide all the desired services. Also, providing higher levels of service results in higher costs for the channel and higher prices for consumers. The company must balance consumer service needs not only against the feasibility and costs of meeting these needs but also against customer price preferences. The success of off-price and discount retailing shows that consumers are often willing to accept lower service levels if this means lower prices.

b. Setting Channel Objectives and Constraints

Channel objectives should be stated in terms of the desired service level of target consumers. Usually, a company can identify several segments wanting different levels of channel service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements.

The company's channel objectives are also influenced by the nature of the company, its products, marketing intermediaries, competitors, and the environment. For example, the company's size and financial situation determine which marketing functions it can handle itself and which it must give to intermediaries. Companies selling perishable products may require more direct marketing to avoid delays and too much handling. In some cases, a company may want to compete in or near the same outlets that carry competitors' products. In other cases, producers may avoid the channels used by competitors. Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods.

c. Identifying Major Alternatives

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of *types* of intermediaries, the *number* of intermediaries, and the *responsibilities* of each channel member.

d. Types of Intermediaries

A firm should identify the types of channel members available to carry out its channel work. For example, suppose a manufacturer of test equipment has developed an audio device that detects poor mechanical connections in machines with moving parts. Company executives think this product would have a market in all industries in which electric, combustion, or steam engines are made or used. The company's current sales force is small, and the problem is how best to reach

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these different industries. The following channel alternatives might emerge from management discussion:

Company sales force: Expand the company's direct sales force. Assign outside salespeople to territories and have them contact all prospects in the area or develop separate company sales forces for different industries. Or, add an inside telesales operation in which telephone salespeople handles small or midsize companies.

Manufacturer's agency: Hire manufacturer's agents—independent firms whose sales forces handle related products from many companies—in different regions or industries to sell the new test equipment.

Industrial distributors: Find distributors in the different regions or industries who will buy and carry the new line. Give them exclusive distribution, good margins, product training, and promotional support.

e. Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution, and selective distribution.

Producers of convenience products and common raw materials typically seek intensive distribution—a strategy in which they stock their products in as many outlets as possible. These goods must be available where and when consumers want them. For example, toothpaste, candy, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. By contrast, some producers purposely limit the number of intermediaries handling their products. The extreme form of this practice is exclusive distribution, in which the producer gives only a limited number of dealers the exclusive right to distribute its products in their territories. Exclusive distribution is often found in the distribution of new automobiles and prestige women's clothing. Exclusive distribution also enhances the car's image and allows for higher markups.

Between intensive and exclusive distribution lies selective distribution—the use of more than one, but fewer than all, of the intermediaries who are willing to carry a company's products. Most television, furniture, and small-appliance brands are distributed in this manner. They can develop good working relationships with selected channel members and expect a better-than-average selling effort. Selective distribution gives producers good market coverage with more control and less cost than does intensive distribution.

J. Channel Management Decisions

Once the company has reviewed its channel alternatives and decided on the best channel design, it must implement and manage the chosen channel. Channel management calls for selecting and motivating individual channel members and evaluating their performance over time.

a. Selecting Channel Members

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. In some cases, the promise of exclusive or selective distribution for a desirable product will draw plenty of applicants.

At the other extreme are producers who have to work hard to line up enough qualified intermediaries..

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member's years in business, other lines carried, growth and profit record, cooperativeness, and reputation. If the intermediaries are sales agents, the company will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediary is a retail store that wants exclusive or selective distribution, the company will want to evaluate the store's customers, location, and future growth potential.

b. Motivating Channel Members

Once selected, channel members must be motivated continuously to do their best. The company must sell not only *through* the intermediaries but *to* them. Most companies see their intermediaries as first-line customers. Some use the carrot-and-stick approach: At times they offer *positive* motivators such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances, and sales contests. At other times they use *negative* motivators, such as threatening to reduce margins, to slow down delivery, or to end the relationship altogether. A producer using this approach usually has not done a good job of studying the needs, problems, strengths, and weaknesses of its distributors.

More advanced companies try to forge long-term partnerships with their distributors to create a marketing system that meets the needs of both the manufacturer *and* the distributors. In managing its channels, a company must convince distributors that they can make their money by being part of an advanced marketing system.

c. Evaluating Channel Members

The producer must regularly check the channel member's performance against standards such as sales quotas, average inventory levels, customer delivery time, and treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well. Those who are performing poorly should be assisted or, as a last resort, replaced. A company may periodically "requalify" its intermediaries and prune the weaker ones.

Finally, manufacturers need to be sensitive to their dealers. Those who treat their dealers lightly risk not only losing their support but also causing some legal problems.

Changing Channel Organization

Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is toward disintermediation—a big term with a clear message and important consequences. Disintermediation means that more and more, product and service producers are bypassing intermediaries and going directly to final buyers, or that radically new types of channel intermediaries are emerging to displace traditional ones.

Thus, in many industries, traditional intermediaries are dropping by the wayside. Disintermediation presents problems and opportunities for both producers and intermediaries. To avoid being swept aside, traditional intermediaries must find new ways to add value in the supply chain. To remain competitive, product and service producers must develop new channel opportunities, such as Internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for both the company and its channel partners:

However, although this compromise system reduces conflicts, it also creates inefficiencies.

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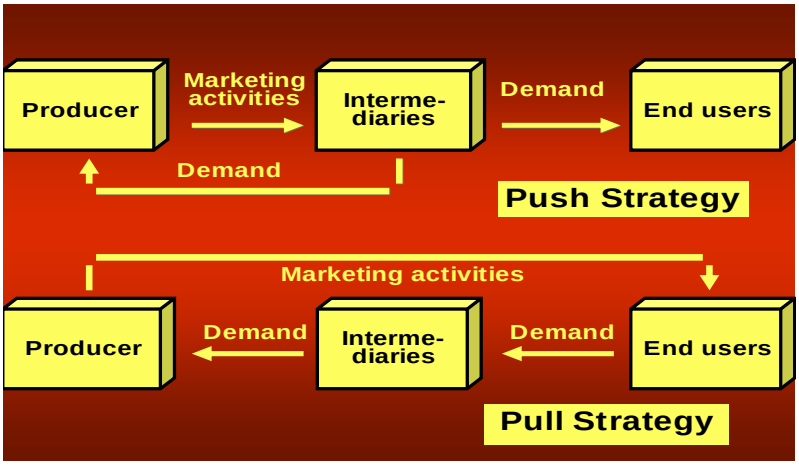
Lesson – 29

Lesson overview and learning objectives:
In today's global marketplace, selling a product is sometimes easier than getting it to customers. Therefore, physical distribution and logistics management are receiving increased attention from strategic planners. The task of physical distribution systems is to minimize the total cost of providing a desired level of customer services while bringing those services to the customer with the maximum amount of speed. Major logistics functions of order processing, warehousing, inventory management, and transportation are discussed and explored in today's Lesson.

LOGISTIC MANAGEMENT

A. Push Versus Pull Strategy:

A promotion strategy that calls for using the sales force and trade promotion to push the product through the channel is called push strategy. The producer promotes the product to wholesalers, the wholesalers promote to retailers and the retailers promote to consumers. While the pull strategy is the promotional strategy that calls for spending a lot on advertising and consumer promotion to build up consumer demand; if successful, consumer will ask their retailers for the product, the retailer will ask the wholesalers and wholesalers will ask the producers. So these are two strategies through which availability of products can be created in the market for final consumers.



B. Physical Distribution and Logistics Management

Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place. Logistics effectiveness has a major impact on both customer satisfaction and company costs. Here we consider the *nature and importance of marketing logistics, goals of the logistics system, major logistics functions,* and the need for *integrated logistics management.*

a. Nature and Importance of Physical Distribution and Marketing Logistics

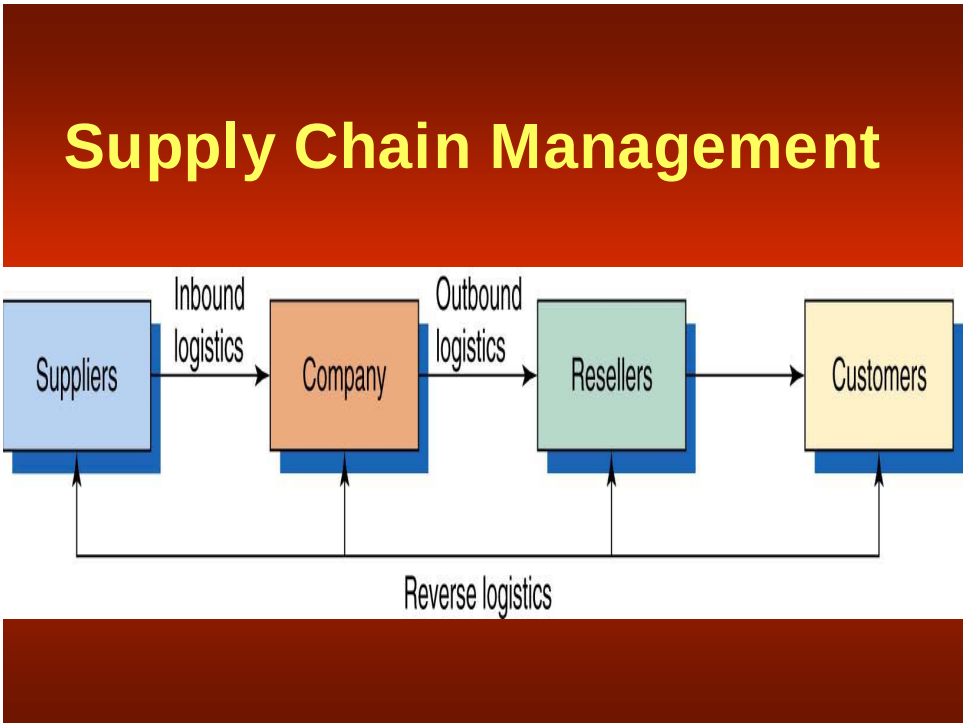
To some managers, physical distribution means only trucks and warehouses. But modern logistics is much more than this. Physical distribution—or marketing logistics—involves planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time. Traditional physical distribution typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's marketers prefer *market logistics* thinking, which starts with the marketplace and works backward to the factory. Logistics addresses not only the problem of outbound distribution (moving products from the factory to customers) but also the problem of inbound distribution (moving products and materials from suppliers to the factory).

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It involves the management of entire *supply chains,* value-added flows from suppliers to final users, as shown in Figure . Thus, the logistics manager's task is to coordinate activities of suppliers, purchasing agents, marketers, channel members, and customers. These activities include forecasting, information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

Companies today are placing greater emphasis on logistics for several reasons. First, customer service and satisfaction have become the cornerstones of marketing strategy, and distribution is an important customer service element. More and more, companies are finding that they can attract and keep customers by giving better service or lower prices through better physical distribution.

Second, logistics is a major cost element for most companies. According to one study, in a recent year American companies "spent $670 billion—a gaping 10.5 percent of gross domestic product—to wrap, bundle, load, unload, sort, reload, and transport goods." About 15 percent of an average product's price is accounted for by shipping and transport alone. Poor physical distribution decisions result in high costs. Improvements in physical distribution efficiency can yield tremendous cost savings for both the company and its customers.



Third, the explosion in product variety has created a need for improved logistics management. Finally, improvements in information technology have created opportunities for major gains in distribution efficiency. The increased use of computers, point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange (EDI), and electronic funds transfer (EFT) has allowed companies to create advanced systems for order processing, inventory control and handling, and transportation routing and scheduling.

b. Goals of the Logistics System

Some companies state their logistics objective as providing maximum customer service at the least cost. Unfortunately, no logistics system can *both* maximize customer service *and* minimize distribution costs. Maximum customer service implies rapid delivery, large inventories, flexible assortments, liberal returns policies, and other services—all of which raise distribution costs. In contrast, minimum distribution costs imply slower delivery, smaller inventories, and larger shipping lots—which represent a lower level of overall customer service.

The goal of the marketing logistics system should be to provide a targeted level of customer service at the least cost. A company must first research the importance of various distribution services to its customers and then set desired service levels for each segment. The company normally will want to offer at least the same level of service as its competitors do. But the objective is to maximize *profits,* not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs. Some companies offer less service than their competitors

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and charge a lower price. Other companies offer more service and charge higher prices to cover higher costs.

c. Major Logistics Functions

Given a set of logistics objectives, the company is ready to design a logistics system that will minimize the cost of attaining these objectives. The major logistics functions include *order processing, warehousing, inventory management,* and *transportation.*

i. Order Processing

Orders can be submitted in many ways—by mail or telephone, through salespeople, or via computer and EDI. In some cases, the suppliers might actually generate orders for their customers: Once received, orders must be processed quickly and accurately. Both the company and its customers benefit when order processing is carried out efficiently. Most companies now use computerized order-processing systems that speed up the order–shipping–billing cycle. For example, General Electric operates a computer-based system that, on receipt of a customer's order, checks the customer's credit standing as well as whether and where the items are in stock. The computer then issues an order to ship, bills the customer, updates the inventory records, sends a production order for new stock, and relays the message back to the salesperson that the customer's order is on its way—all in less than 15 seconds.

ii. Warehousing

Every company must store its goods while they wait to be sold. A storage function is needed because production and consumption cycles rarely match. A company must decide on *how many* and *what types* of warehouses it needs and *where* they will be located. The company might use either *storage warehouses* or *distribution centers.* Storage warehouses store goods for moderate to long periods. Distribution centers are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Warehousing facilities and equipment technology have improved greatly in recent years. Older, multistoried warehouses with outdated materials-handling methods are facing competition from newer, single-storied *automated warehouses* with advanced materials-handling systems under the control of a central computer. In these warehouses, only a few employees are necessary. Computers read orders and direct lift trucks, electric hoists, or robots to gather goods, move them to loading docks, and issue invoices. These warehouses have reduced worker injuries, labor costs, theft, and breakage and have improved inventory control.

iii. Inventory

Inventory levels also affect customer satisfaction. The major problem is to maintain the delicate balance between carrying too much inventory and carrying too little. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Carrying too little may result in stock outs, costly emergency shipments or production, and customer dissatisfaction. In making inventory decisions, management must balance the costs of carrying larger inventories against resulting sales and profits.

During the past decade, many companies have greatly reduced their inventories and related costs through *just-in-time* logistics systems. Through such systems, producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations. New stock arrives exactly when needed, rather than being stored in inventory until being used. Just-in-time systems require accurate forecasting along with fast, frequent, and flexible delivery so that new supplies will be available when needed. However, these systems result in substantial savings in inventory-carrying and handling costs.

iv. Transportation

Marketers need to take an interest in their company's *transportation* decisions. The choice of transportation carriers affects the pricing of products, delivery performance, and condition of the goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its

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warehouses, dealers, and customers, the company can choose among five transportation modes: rail, truck, water, pipeline, and air.

Railroads are the nation's largest carrier, accounting for 26 percent of total cargo ton-miles moved. They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, farm and forest products—over long distances. In recent years, railroads have increased their customer services by designing new equipment to handle special categories of goods, providing flatcars for carrying truck trailers by rail (piggyback), and providing in-transit services such as the diversion of shipped goods to other destinations en route and the processing of goods en route. Thus, after decades of losing out to truckers, railroads appear ready for a comeback.

Trucks have increased their share of transportation steadily and now account for 24 percent of total cargo ton-miles (over 52 percent of actual tonnage). They account for the largest portion of transportation *within* cities as opposed to *between* cities. Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise. Trucking firms have added many services in recent years.

Pipelines are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets. Most pipelines are used by their owners to ship their own products.

Although *air* carriers transport less than 1 percent of the nation's goods, they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is ideal when speed is needed or distant markets have to be reached. Among the most frequently air-freighted products are perishables (fresh fish, cut flowers) and high-value, low-bulk items (technical instruments, jewelry). Companies find that air freight also reduces inventory levels, packaging costs, and the number of warehouses needed.

Shippers increasingly are using intermodal transportation—combining two or more modes of transportation. *Piggyback* describes the use of rail and trucks; *fishyback,* water and trucks; *trainship,* water and rail; and *airtruck,* air and trucks. Combining modes provides advantages that no single mode can deliver. Each combination offers advantages to the shipper. For example, not only is piggyback cheaper than trucking alone but it also provides flexibility and convenience.

In choosing a transportation mode for a product, shippers must balance many considerations: speed, dependability, availability, cost, and others. Thus, if a shipper needs speed, air and truck are the prime choices. If the goal is low cost, then water or pipeline might be best. Shipping costs are often a significant portion of the marketing costs of a product. It is often difficult for businesses to pass on these higher costs to customers when there are active competitors. One option is to reduce dependence on the unreliable transportation. However, that may not be possible for some businesses. As the case you just read suggests, a company's physical distribution and transportation flexibility is an important part of its marketing decisions, a factor that could make or break its ability to serve its customers.

d. Integrated Logistics Management

Today, more and more companies are adopting the concept of integrated logistics management. This concept recognizes that providing better customer service and trimming distribution costs requires *teamwork,* both inside the company and among all the marketing channel organizations. Inside, the company's various functional departments must work closely together to maximize the company's own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution system.

Cross-Functional Teamwork Inside the Company

In most companies, responsibility for various logistics activities is assigned to many different functional units—marketing, sales, finance, manufacturing, purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. However, transportation, inventory, warehousing, and order-processing activities interact, often in an inverse way. For example, lower inventory levels reduce inventory-carrying

costs. But they may also reduce customer service and increase costs from stock outs, back orders, special production runs, and costly fast-freight shipments. Because distribution activities involve strong trade-offs, decisions by different functions must be coordinated to achieve superior overall logistics performance.

The goal of integrated logistics management is to harmonize all of the company's distribution decisions. Close working relationships among functions can be achieved in several ways. Some companies have created permanent logistics committees made up of managers responsible for different physical distribution activities. Companies can also create management positions that link the logistics activities of functional areas. Many companies have a vice president of logistics with cross-functional authority. The important thing is that the company coordinate its logistics and marketing activities to create high market satisfaction at a reasonable cost.

e. Building Channel Partnerships

The members of a distribution channel are linked closely in delivering customer satisfaction and value. One company's distribution system is another company's supply system. The success of each channel member depends on the performance of the entire supply chain. Companies must do more than improve their own logistics. They must also work with other channel members to improve whole-channel distribution. Today, smart companies are coordinating their logistics strategies and building strong partnerships with suppliers and customers to improve customer service and reduce channel costs.

These channel partnerships can take many forms. Many companies have created *cross-functional, cross-company teams.*

Other companies partner through *shared projects.* For example, many larger retailers are working closely with suppliers on in-store programs. Channel partnerships may also take the form of *information sharing* and *continuous inventory replenishment* systems. Companies manage their supply chains through information. Suppliers link up with customers to share information and coordinate their logistics decisions. Here are just two examples:

Today, as a result of such partnerships, many companies have switched from *anticipatory-based distribution systems* to *response-based distribution systems.* In anticipatory distribution, the company produces the amount of goods called for by a sales forecast. It builds and holds stock at various supply points, such as the plant, distribution centers, and retail outlets. A response-based distribution system, in contrast, is *customer triggered.* The producer continuously builds and replaces stock as orders arrive. It produces what is currently selling.

f. Third-Party Logistics

Companies may use third-party logistics providers for several reasons. First, because getting the product to market is their main focus, these providers can often do it more efficiently and at lower cost than clients whose strengths lie elsewhere. According to one study, outsourcing warehousing alone typically results in 10 percent to 15 percent cost savings. Another expert estimates that companies can save 15 percent to 25 percent in their total logistics costs by outsourcing. Second, outsourcing logistics frees a company to focus more intensely on its core business. Finally, integrated logistics companies understand increasingly complex logistics environments. This can be especially helpful to companies attempting to expand their global market coverage.

KEY TERMS (Lesson # 28-29)

distribution channel

A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.

Channel level

A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Direct marketing channel
A marketing channel that has no intermediary levels.

Indirect marketing channel
Channel containing one or more intermediary levels.

Channel conflict
Disagreement among marketing channel members on goals and roles—who should do what and for what rewards.

Conventional distribution channel
A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole.

Vertical Marketing System (VMS)
A distribution channel structure in which producers, wholesales, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate

Corporate VMS
A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.

Contractual VMS
A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone.

Franchise organization
A contractual vertical marketing system in which a channel member, called a franchiser, links several stages in the production-distribution process.

Administered VMS
A vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties but through the size and power of one of the parties.

Horizontal marketing system
A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Hybrid marketing channel
Multi channel distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

Intensive distribution
Stocking the product in as many outlets as possible.

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Exclusive distribution
Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Selective distribution
The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products.

Physical distribution (or marketing logistics)
The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Distribution center
A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Integrated logistics management
The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system.

Third-party logistics provider
An independent logistics provider that performs any or all of the functions required to get their clients' product to market.

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Lesson – 30

Lesson overview and learning objectives:
Today's Lesson will cover the roles of retailers and wholesalers in the distribution channel, the major types of retailers, Identify the major types of wholesalers and the marketing decisions facing retailers and wholesalers.

RETAILING AND WHOLESALING.

A. Retailing

What is retailing? Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by retailers: businesses whose sales come *primarily* from retailing.

Although most retailing is done in retail stores, in recent years *nonstarter retailing* has been growing much faster than has store retailing. Nonstore retailing includes selling to final consumers through direct mail, catalogs, telephone, home TV shopping shows, home and office parties, door-to-door contact, vending machines, online services and the Internet, and other direct retailing approaches.

a. Types of Retailers:

Retail stores come in all shapes and sizes, and new retail types keep emerging. The most important types of retail stores are described in Table 13.1 and discussed in the following sections. They can be classified in terms of several characteristics, including the *amount of service* they offer, the breadth and depth of their *product lines,* the *relative prices* they charge, and how they are organized.

Amount of Service

Different products require different amounts of service, and customer service preferences vary. Retailers may offer one of three levels of service—self-service, limited service, and full service.

Self-service retailers serve customers who are willing to perform their own "locate-compare-select" process to save money. Self-service is the basis of all discount operations and is typically used by sellers of convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Best Buy or Service Merchandise).

Limited-service retailers provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices. In *full-service retailers,* such as specialty stores and first-class department stores, salespeople assist customers in every phase of the shopping process. Full-service stores usually carry more specialty goods for which customers like to be "waited on." They provide more services resulting in much higher operating costs, which are passed along to customers as higher prices.

Customer Service: Why is it Becoming Scarce

Increasingly, customers complain about the poor state of retail customer service. What we expect from retail stores is to get the products we want when we want them, where we want them, and to have them delivered in a pleasingly professional manner at a reasonable price. This ideal may be slipping further from our reach.

Unfortunately, as the economy improved, retailers found customers balking at paying higher prices for improved service.

Experts have pointed to a host of other reasons for the drop in retail service levels. Some argue that such problems begin at the top. They argue that top executives responsible for fostering a culture of customer service often do not understand their business or their customers, nor do they have proper ordering procedures or effective employee training programs.

Product Line

Retailers also can be classified by the length and breadth of their product assortments. Some retailers, such as specialty stores, carry narrow product lines with deep assortments within those

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lines. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

In contrast, **department stores** carry a wide variety of product lines. In recent years, department stores have been squeezed between more focused and flexible specialty stores on the one hand, and more efficient, lower-priced discounters on the other. In response, many have added "bargain basements" and promotional events to meet the discount threat. Others have set up store brand programs, "boutiques" and "designer shops" within department stores), and other store formats that compete with specialty stores. Still others are trying mail-order, telephone, and Web site selling. Service remains the key differentiating factor.

Supermarkets are the most frequently shopped type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from convenience stores, discount food stores, and superstores. Supermarkets also have been hit hard by the rapid growth of out-of-home eating. Thus, most supermarkets are making improvements to attract more customers. In the battle for "share of stomachs," most large supermarkets have moved upscale, providing from-scratch bakeries, gourmet deli counters, and fresh seafood departments. Others are cutting costs, establishing more efficient operations, and lowering prices in order to compete more effectively with food discounters.

Convenience stores are small stores that carry a limited line of high-turnover convenience goods. In the 1990s, the convenience store industry suffered from overcapacity as its primary market of young, blue-collar men shrunk. As a result, many chains have redesigned their stores with female customers in mind. They are dropping the image of a "truck stop" where men go to buy beer, cigarettes, and magazines, and instead offer fresh, prepared foods and cleaner, safer environments. Many convenience chains also are experimenting with micromarketing—tailoring each store's merchandise to the specific needs of its surrounding neighborhood. **Superstores** are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services. Stores, the so-called **category killers.** They feature stores the size of airplane hangers that carry a very deep assortment of a particular line with a knowledgeable staff. Category killers are prevalent in a wide range of categories, including books, baby gear, toys, electronics, home improvement products, linens and towels, party goods, sporting goods, even pet supplies. Another superstore variation, *hypermarkets,* are huge superstores, perhaps as large as *six* football fields. Finally, for some retailers, the product line is actually a service. Service retailers include hotels and motels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, restaurants, repair services, hair care shops, and dry cleaners.

Relative Prices

Retailers can also be classified according to the prices they charge. Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. The retailers that feature low prices are discount stores, "off-price" retailers, and catalog showrooms:

Discount Stores:

A **discount store** sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouse like facilities in low-rent, heavily traveled districts. In recent years, facing intense competition from other discounters and department stores, many discount retailers have "traded up." They have improved decor, added new lines and services, and opened suburban branches, which have led to higher costs and prices.

Off-Price Retailers

When the major discount stores traded up, a new wave of **off-price retailers** moved in to fill the low-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. In contrast, off-price retailers buy at less-than-regular wholesale

prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

The three main types of off-price retailers are *independents, factory outlets,* and *warehouse clubs.* **Independent off-price retailers** are either owned and run by entrepreneurs or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains. **Factory outlets**—sometimes group together in *factory outlet malls* and *value-retail centers,* where dozens of outlet stores offer prices as low as 50 percent below retail on a wide range of items. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets with off-price retail stores and department store clearance outlets. Factory outlet malls have become one of the hottest growth areas in retailing.

The malls now are moving upscale, narrowing the gap between factory outlets and more traditional forms of retailers. As the gap narrows, the discounts offered by outlets are getting smaller. Manufacturers counter that they send last year's merchandise and seconds to the factory outlet malls, not the new merchandise that they supply to the department stores. The malls are also located far from urban areas, making travel to them more difficult. Still, the department stores are concerned about the growing number of shoppers willing to make weekend trips to stock up on branded merchandise at substantial savings.

Warehouse clubs (or *wholesale clubs,* or *membership warehouses*), operate in huge, drafty, warehouse like facilities and offer few frills. Customers themselves must wrestle furniture, heavy appliances, and other large items to the checkout line. Such clubs make no home deliveries and accept no credit cards, but they do offer rock-bottom prices.

b. Retailer Marketing Decisions

Retailers are searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique products, more or better services than their competitors offered, or credit cards. Today, national-brand manufacturers, in their drive for volume, have placed their branded goods everywhere. Thus, stores offer more similar assortments—national brands are found not only in department stores but also in mass-merchandise and off-price discount stores. As a result, stores are looking more and more alike.

Service differentiation among retailers has also eroded. Many department stores have trimmed their services, whereas discounters have increased theirs. Customers have become smarter and more price sensitive. They see no reason to pay more for identical brands, especially when service differences are shrinking. For all these reasons, many retailers today are rethinking their marketing strategies.



As shown in Figure, retailers face major marketing decisions about their *target markets* and *positioning, product assortment and services, price, promotion,* and *place.*

i. Target Market and Positioning Decision

Retailers first must define their target markets and then decide how they will position themselves in these markets. Should the store focus on upscale, miscalled, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store decor, or any of the other decisions that must support their positions.

Too many retailers fail to define their target markets and positions clearly. They try to have "something for everyone" and end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly.

ii. Product Assortment and Services Decision

Retailers must decide on three major product variables: *product assortment, services mix,* and *store atmosphere*.

The retailer's *product assortment* should match target shoppers' expectations. In its quest to differentiate itself from competitors, a retailer can use any of several product-differentiation strategies. For one, it can offer merchandise that no other competitor carries—its own private brands or national brands on which it holds exclusives. Retailers also must decide on a *services mix* to offer customers. The old mom-and-pop grocery stores offered home delivery, credit, and conversation—services that today's supermarkets ignore. The services mix is one of the key tools of nonprime competition for setting one store apart from another.

The *store's atmosphere* is another element in its product arsenal. Every store has a physical layout that makes moving around in it either hard or easy. Each store has a "feel"; one store is cluttered, another charming, a third plush, a fourth somber. The store must have a planned atmosphere that suits the target market and moves customers to buy.

Increasingly, retailers are turning their stores into theaters that transport customers into unusual, exciting shopping environments. All of this confirms that retail stores are much more than simply assortments of goods. They are environments to be experienced by the people who shop in them. Store atmospheres offer a powerful tool by which retailers can differentiate their stores from those of competitors.

iii. Price Decision

A retailer's price policy is a crucial positioning factor and must be decided in relation to its target market, its product and service assortment, and its competition. All retailers would like to charge high markups and achieve high volume, but the two seldom go together. Most retailers seek *either* high markups on lower volume (most specialty stores) *or* low markups on higher volume (mass merchandisers and discount stores).

iv. Promotion Decision

Retailers use the normal promotion tools—advertising, personal selling, sales promotion, public relations, and direct marketing—to reach consumers. They advertise in newspapers, magazines, radio, and television. Advertising may be supported by newspaper inserts and direct-mail pieces. Personal selling requires careful training of salespeople in how to greet customers, meet their needs, and handle their complaints. Sales promotions may include in-store demonstrations, displays, contests, and visiting celebrities. Public relations activities, such as press conferences and speeches, store openings, special events, newsletters, magazines, and public service activities, are always available to retailers. Many retailers have also set up Web sites, offering customers information and other features and sometimes selling merchandise directly.

v. Place Decision

Retailers often cite three critical factors in retailing success: *location, location,* and *location*! A retailer's location is key to its ability to attract customers. The costs of building or leasing facilities have a major impact on the retailer's profits. Thus, site-location decisions are among the most important

the retailer makes. Small retailers may have to settle for whatever locations they can find or afford. Large retailers usually employ specialists who select locations using advanced methods.

vi. Site Selection for Retail Location

Site selection is an important decision for retailers planning to open new stores. Not only do they have to decide whether they want to locate in a mall or as a standalone store, they also have to assess the site's potential in terms of likely sales and profitability.

Most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. A shopping center is a group of retail businesses planned, developed, owned, and managed as a unit. It normally contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices, and sometimes a bank. Most shopping centers are *neighborhood shopping centers* or *strip malls* that generally contain between 5 and 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store, and several service stores—dry cleaner, self-service laundry, drugstore, video-rental outlet, barber or beauty shop, hardware store, or other stores.

c. The Future of Retailing

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Consumer demographics, lifestyles, and shopping patterns are changing rapidly, as are retailing technologies. To be successful, then, retailers will have to choose target segments carefully and position themselves strongly. They will have to take the following retailing developments into account as they plan and execute their competitive strategies.

New Retail Forms and Shortening Retail Life Cycles

New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as warehouse stores, reached maturity in about 10 years. To remain successful, they must keep adapting.

Many retailing innovations are partially explained by the **wheel of retailing concept** According to this concept; many new types of retailing forms begin as low-margin, low-price, low-status operations. They challenge established retailers that have become "fat" by letting their costs and margins increase. The new retailers' success leads them to upgrade their facilities and offer more services. In turn, their costs increase, forcing them to increase their prices. Eventually, the new retailers become like the conventional retailers they replaced. The cycle begins again when still newer types of retailers evolve with lower costs and prices. The wheel of retailing concept seems to explain the initial success and later troubles of department stores, supermarkets, and discount stores, and the recent success of off-price retailers.

- **Growth of Nonstore Retailing**

Although most retailing still takes place the old-fashioned way across countertops in stores, consumers now have an array of alternatives, including mail order, television, phone, and online shopping. "

- **Increasing Intertype Competition**

Today's retailers increasingly face competition from many different forms of retailers. For example, a consumer can buy CDs at specialty music stores, discount music stores, electronics superstores, general merchandise discount stores, video-rental outlets, and through dozens of Web sites. They can buy books at stores ranging from independent local bookstores to discount stores The competition between chain superstores and smaller, independently owned stores has become particularly heated. Because of their bulk buying power and high sales volume, chains can buy at lower costs and thrive on smaller margins. The arrival of a superstore can quickly force nearby independents out of business.

- **The Rise of Mega retailers**

The rise of huge mass merchandisers and specialty superstores, the formation of vertical marketing systems and buying alliances, and a rash of retail mergers and acquisitions have created a core of

superpower mega retailers. Through their superior information systems and buying power, these giant retailers are able to offer better merchandise selections, good service, and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors. The mega retailers also are shifting the balance of power between retailers and producers. A relative handful of retailers now control access to enormous numbers of consumers, giving them the upper hand in their dealings with manufacturers.

- **Growing Importance of Retail Technology**

Retail technologies are becoming critically important as competitive tools. Progressive retailers are using computers to produce better forecasts, control inventory costs, order electronically from suppliers, send e-mail between stores, and even sell to customers within stores. They are adopting checkout scanning systems, online transaction processing, electronic funds transfer, electronic data interchange, in-store television, and improved merchandise-handling systems.

One innovative scanning system now in use is the shopper scanner, a radar like system that counts store traffic. Perhaps the most startling advances in retailing technology concern the ways in which today's retailers are connecting with customers:

B. Wholesaling

Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use. We call wholesalers those firms engaged *primarily* in wholesaling activity.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. But why are wholesalers used at all? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers? Quite simply, wholesalers are often better at performing one or more of the following channel functions:

- *Selling and promoting:* Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- *Buying and assortment building:* Wholesalers can select items and build assortments needed by their customers, thereby saving the consumers much work.
- *Bulk-breaking:* Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- *Warehousing:* Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
- *Transportation:* Wholesalers can provide quicker delivery to buyers because they are closer than the producers.
- *Financing:* Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- *Risk bearing:* Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- *Market information:* Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- *Management services and advice:* Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

a. **Types of Wholesalers**

Wholesalers fall into three major groups : *merchant wholesalers, brokers* and *agents,* and *manufacturers' sales branches and offices*. Merchant wholesalers are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The several different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

i. Merchant wholesalers

Independently owned businesses that take title to the merchandise they handle. In different trades they are called *jobbers, distributors,* or *mill supply houses*. Include full-service wholesalers and limited-service wholesalers:

- **Full-service wholesalers**

Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. There are two types:

Wholesale merchants: Sell primarily to retailers and provide a full range of services. *General-merchandise wholesalers* carry several merchandise lines, whereas *general-line wholesalers* carry one or two lines in greater depth. *Specialty wholesalers* specialize in carrying only part of a line. (Examples: health food wholesalers, seafood wholesalers.)

Industrial distributors: Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.

- **Limited-service wholesalers:**

Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:

Cash-and-carry wholesalers: Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver. Example: A small fish store retailer may drive to a cash-and-carry fish wholesaler, buy fish for cash, and bring the merchandise back to the store.

Truck wholesalers (or truck jobbers): Perform primarily a selling and delivery function. Carry a limited line of semi perishable merchandise (such as milk, bread, snack foods), which they sell for cash as they make their rounds to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.

Drop shippers: Do not carry inventory or handle the product. On receiving an order, they select a manufacturer, who ships the merchandise directly to the customer. The drop shipper assumes title and risk from the time the order is accepted to its delivery to the customer. They operate in bulk industries, such as coal, lumber, and heavy equipment.

Rack jobbers: Serve grocery and drug retailers, mostly in nonfood items. They send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. They price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records. Rack jobbers retain title to the goods and bill the retailers only for the goods sold to consumers.

Producers' cooperatives :Owned by farmer members and assemble farm produce to sell in local markets. The co-op's profits are distributed to members at the end of the year. They often attempt to improve product quality and promote a co-op brand name, such as Sun Maid raisins, Sunkist oranges, or Diamond walnuts.

Mail-order wholesalers: Send catalogs to retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Maintain no outside sales force. Main customers are businesses in small outlying areas. Orders are filled and sent by mail, truck, or other transportation.

ii. Brokers and agents

Do not take title to goods. Main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally, specialize by product line or customer types.

- **Brokers:**

Chief function is bringing buyers and sellers together and assisting in negotiation. They are paid by the party who hired them, and do not carry inventory, get involved in financing, or assume risk. Examples: food brokers, real estate brokers, insurance brokers, and security brokers.

- **Agents:**

Represent either buyers or sellers on a more permanent basis than brokers do. There are several types:

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Manufacturers' agents: Represent two or more manufacturers of complementary lines. A formal written agreement with each manufacturer covers pricing, territories, order handling, delivery service and warranties, and commission rates. Often used in such lines as apparel, furniture, and electrical goods. Most manufacturers' agents are small businesses, with only a few skilled salespeople as employees. They are hired by small manufacturers who cannot afford their own field sales forces, and by large manufacturers who use agents to open new territories or to cover territories that cannot support full-time salespeople.

Selling agents: Have contractual authority to sell a manufacturer's entire output. The manufacturer either is not interested in the selling function or feels unqualified. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.

Purchasing agents :Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing, and shipping the merchandise to the buyers. They provide helpful market information to clients and help them obtain the best goods and prices available.

Commission merchants: Take physical possession of products and negotiate sales. Normally, they are not employed on a long-term basis. Used most often in agricultural marketing by farmers who do not want to sell their own output and do not belong to producers' cooperatives. The commission merchant takes a truckload of commodities to a central market, sells it for the best price, deducts a commission and expenses, and remits the balance to the producer.

iii. Manufacturers' and retailers' branches and offices

Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.

Sales branches and offices: Set up by manufacturers to improve inventory control, selling, and promotion. Sales branches carry inventory and are found in industries such as lumber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in dry-goods and notions industries.

Purchasing offices: Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers

Brokers and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A broker brings buyers and sellers together and assists in negotiation. Agents represent buyers or sellers on a more permanent basis. *Manufacturers' agents* (also called manufacturers' representatives) are the most common type of agent wholesaler. The third major type of wholesaling is that done in manufacturers' sales branches and offices by sellers or buyers themselves rather than through independent wholesalers.

b. Wholesaler Marketing Decisions

Wholesalers have experienced mounting competitive pressures in recent years. They have faced new sources of competition, more demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers. As a result, they have had to improve their strategic decisions on target markets and positioning, and on the marketing mix—product assortments and services, price, promotion, and place (see Figure).



i. Target Market and Positioning Decision

Like retailers, wholesalers must define their target markets and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (only large retailers), type of customer (convenience food stores only), need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, set up management-training and advising systems, or even sponsor a voluntary chain. They can discourage less profitable customers by requiring larger orders or adding service charges to smaller ones.

ii. Marketing Mix Decisions

Like retailers, wholesalers must decide on product assortment and services, prices, promotion, and place. The wholesaler's "product" is the assortment of *products and services* that it offers. Wholesalers are under great pressure to carry a full line and to stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more profitable ones. Wholesalers are also rethinking which services count most in building strong customer relationships and which should be dropped or charged for. The key is to find the mix of services most valued by their target customers.

Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage—say, 20 percent. Expenses may run 17 percent of the gross margin, leaving a profit margin of 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are trying new pricing approaches. They may cut their margin on some lines in order to win important new customers. They may ask suppliers for special price break when they can turn them into an increase in the supplier's sales.

Although *promotion* can be critical to wholesaler success, most wholesalers are not promotion minded. Their use of trade advertising, sales promotion, personal selling, and public relations is largely scattered and unplanned. Many are behind the times in personal selling—they still see selling as a single salesperson talking to a single customer instead of as a team effort to sell, build, and service major accounts. Wholesalers also need to adopt some of the nonpersonal promotion techniques used by retailers. They need to develop an overall promotion strategy and to make greater use of supplier promotion materials and programs.

Finally, *place* is important—wholesalers must choose their locations and facilities carefully. Wholesalers typically locate in low-rent, low-tax areas and tend to invest little money in their buildings, equipment, and systems. As a result, their materials-handling and order-processing systems are often outdated. In recent years, however, large and progressive wholesalers are reacting to rising costs by investing in automated warehouses and online ordering systems. Orders are fed from the retailer's system directly into the wholesaler's computer, and the items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled. Most large wholesalers use computers to carry out accounting, billing, inventory control, and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost-reducing methods of doing business.

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Lesson – 31

KEY TERMS

Distribution channel	A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.
Channel level	A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.
Direct marketing channel	A marketing channel that has no intermediary levels.
Indirect marketing channel	Containing one or more intermediary levels.
Channel conflict	Disagreement among marketing channel members on goals and roles—who should do what and for what rewards.
Conventional distribution channel	A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole.
Vertical marketing system (VMS)	A distribution channel structure in which producers, wholesales, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate
Corporate VMS	A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.
Contractual VMS	A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone.
Franchise organization	A contractual vertical marketing system in which a channel member, called a franchiser, links several stages in the production-distribution process.
Administered VMS	A vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties but through the size and power of one of the parties.
Horizontal marketing system	A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.
hybrid marketing channel	Multi-channel distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.
Intensive distribution	Stocking the product in as many outlets as possible.
exclusive distribution	Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

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Selective distribution	The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products.
Physical distribution/marketing logistics	The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.
Distribution center	A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.
Integrated logistics management	The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system.
Third-party logistics provider	An independent logistics provider that performs any or all of the functions required to get their clients' product to market.
Retailing	Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, no business use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by retailers: businesses whose sales come *primarily* from retailing.
Wholesaling	Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use. We call wholesalers those firms engaged *primarily* in wholesaling activity.

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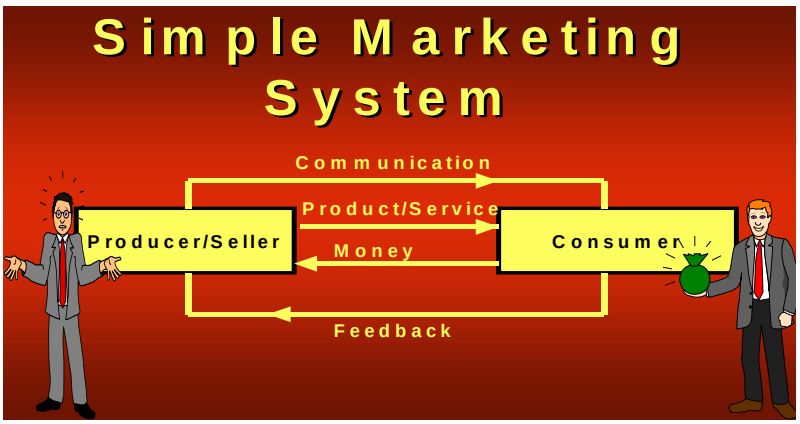
Lesson – 32

Lesson overview and learning objectives:
This Lesson is about integrating the firm's marketing communication in order to generate synergies between the various elements of communications package. It gives an overview of integrated marketing communication, communication process, different methods to set promotional budget and various promotional tools.

PROMOTION THE 4TH P OF MARKETING MIX

A. **The Marketing Communications**

Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with current and prospective customers, and what they communicate should not be left to chance. For most companies, the question is not whether to communicate, but how much to spend and in what ways. All of their communications efforts must be blended into a consistent and coordinated communications program**.** As shown in the fig, completion of marketing process requires something of value with both producer and customer that should be communicated with each other for performing the exchange process.



B. The Marketing Communications Mix.

A company's total marketing communications mix—also called its promotion mix consists of the specific blend of advertising, personal selling, sales promotion, public relations, and direct-marketing tools that the company uses to pursue its advertising and marketing objectives. Definitions of the five major promotion tools follow:

Advertising: Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

Personal selling: Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Sales promotion: Short-term incentives to encourage the purchase or sale of a product or service.

Public relations: Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Direct marketing: Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships—the use of telephone, mail, fax, e-mail, the Internet, and other tools to communicate directly with specific consumers.

Each category involves specific tools. For example, advertising includes print, broadcast, outdoor, and other forms. Personal selling includes sales presentations, trade shows, and incentive programs. Sales promotion includes point-of-purchase displays, premiums, discounts, coupons,

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specialty advertising, and demonstrations. Direct marketing includes catalogs, telemarketing, fax, kiosks, the Internet, and more. Thanks to technological breakthroughs, people can now communicate through traditional media (newspapers, radio, telephone, television), as well as through newer media forms (fax machines, cellular phones, pagers, and computers). The new technologies have encouraged more companies to move from mass communication to more targeted communication and one-to-one dialogue.

C. Integrated Marketing Communications

During the past several decades, companies around the world have perfected the art of mass marketing—selling highly standardized products to masses of customers. In the process, they have developed effective mass-media advertising techniques to support their mass-marketing strategies. These companies routinely invest immense amount of money in the mass media, reaching tens of millions of customers with a single ad. However, as we move into the twenty-first century, marketing managers face some new marketing communications realities.

D. The Changing Communications Environment

Two major factors are changing the face of today's marketing communications. First, as mass markets have fragmented, marketers are shifting away from mass marketing. More and more, they are developing focused marketing programs designed to build closer relationships with customers in more narrowly defined micro markets. Second, vast improvements in information technology are speeding the movement toward segmented marketing. Today's information technology helps marketers to keep closer track of customer needs—more information about consumers at the individual and household levels is available than ever before. New technologies also provide new communications avenues for reaching smaller customer segments with more tailored messages.

The shift from mass marketing to segmented marketing has had a dramatic impact on marketing communications. Just as mass marketing gave rise to a new generation of mass-media communications, the shift toward one-to-one marketing is spawning a new generation of more specialized and highly targeted communications efforts.

Given this new communications environment, marketers must rethink the roles of various media and promotion mix tools. Mass-media advertising has long dominated the promotion mixes of consumer product companies. However, although television, magazines, and other mass media remain very important, their dominance is now declining. Market fragmentation has resulted in media fragmentation—in an explosion of more focused media that better match today's targeting strategies. More generally, advertising appears to be giving way to other elements of the promotion mix. In the glory days of mass marketing, consumer product companies spent the lion's share of their promotion budgets on mass-media advertising. Today, media advertising captures only about 26 percent of total promotion spending. The rest goes to various sales promotion activities, which can be focused more effectively on individual consumer and trade segments. They are using a richer variety of focused communication tools in an effort to reach their diverse target markets. In all, companies are doing less broadcasting and more narrowcasting.

E. The Need for Integrated Marketing Communications

The shift from mass marketing to targeted marketing, and the corresponding use of a richer mixture of communication channels and promotion tools, poses a problem for marketers. Consumers are being exposed to a greater variety of marketing communications from and about the company from a broader array of sources. However, customers don't distinguish between message sources the way marketers do. In the consumer's mind, advertising messages from different media such as television, magazines, or online sources blur into one. Messages delivered via different promotional approaches—such as advertising, personal selling, sales promotion, public relations, or direct marketing—all become part of a single message about the company. Conflicting messages from these different sources can result in confused company images and brand positions.

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All too often, companies fail to integrate their various communications channels. The result is a hodgepodge of communications to consumers. Mass advertisements say one thing, a price promotion sends a different signal, a product label creates still another message, company sales literature says something altogether different, and the company's Web site seems out of sync with everything else.

The problem is that these communications often come from different company sources. Advertising messages are planned and implemented by the advertising department or advertising agency. Sales management develops personal selling communications. Other functional specialists are responsible for public relations, sales promotion, direct marketing, online sites, and other forms of marketing communications. Recently, such functional separation has been a major problem for many companies and their Internet communications activities, which are often split off into separate organizational units. In the past, no one person was responsible for thinking through the communication roles of the various promotion tools and coordinating the promotion mix. Today, however, more companies are adopting the concept of integrated marketing communications (IMC).

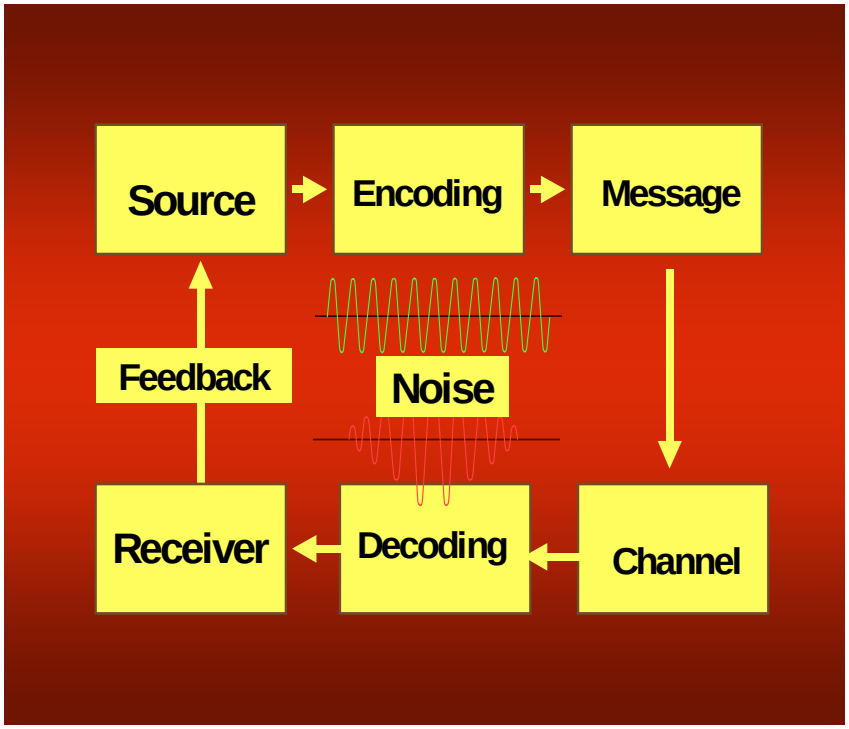
The IMC solution calls for recognizing all contact points where the customer may encounter the company, its products, and its brands. Each brand contact will deliver a message, whether good, bad, or indifferent. The company must strive to deliver a consistent and positive message at all contact points.

Integrated marketing communications produces better communications consistency and greater sales impact. It places the responsibility in someone's hands—where none existed before—to unify the company's image as it is shaped by thousands of company activities. It leads to a total marketing communication strategy aimed at showing how the company and its products can help customers solve their problems.

F. A View of the Communication Process

Integrated marketing communications involves identifying the target audience and shaping a well-coordinated promotional program to elicit the desired audience response. Too often, marketing communications focus on overcoming immediate awareness, image, or preference problems in the target market. But this approach to communication has limitations: It is too short term and too costly, and most messages of this type fall on deaf ears. Today, marketers are moving toward viewing communications as managing the customer relationship over time, during pre-selling, selling, consuming, and post consumption stages. Because customers differ, communications programs need to be developed for specific segments, niches, and even individuals. Given the new interactive communications technologies, companies must ask not only "How can we reach our customers?" but also "How can we find ways to let our customers reach us?"

Thus, the communications process should start with an audit of all the potential contacts target customers may have with the company and its brands. For example, someone purchasing a new computer may talk to others, see television ads, read articles and ads in newspapers and magazines, visit various Web sites, and try out computers in one or more stores. The marketer needs to assess the influence that each of these communications experiences will have at different stages of the buying process.



To communicate effectively, marketers need to understand how communication works. Communication involves the nine elements shown in Figure. Two of these elements are the major parties in a communication—the sender and the receiver. Another two are the major communication tools—the message and the media. Four more are major communication functions—encoding, decoding, response, and feedback. The last element is noise in the system.

- Sender: The party sending the message to another party.
- Encoding: The process of putting thought into symbolic form.
- Message: The set of symbols that the sender transmits
- Media: The communication channels through which the message moves from sender to receiver
- Decoding: The process by which the receiver assigns meaning to the symbols encoded by the sender.
- Receiver: The party receiving the message sent by another party
- Response: The reactions of the receiver after being exposed to the message—any of hundreds of possible responses
- Feedback: The part of the receiver's response communicated back to the sender
- Noise: The unplanned static or distortion during the communication process, which results in the receiver's getting a different message than the one the sender sent.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. Thus, the best messages consist of words and other symbols that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always share their consumer's field of experience. For example, an advertising copywriter from one social stratum might create ads for consumers from another stratum—say, blue-collar workers or wealthy business owners. However, to communicate effectively, the marketing communicator must understand the consumer's field of experience.

This model points out several key factors in good communication. Senders need to know what audiences they wish to reach and what responses they want. They must be good at encoding messages that take into account how the target audience decodes them. They must send messages through media that reach target audiences, and they must develop feedback channels so that they can assess the audience's response to the message.

G. Steps in Developing Effective Communication

We now examine the steps in developing an effective integrated communications and promotion program. The marketing communicator must do the following: Identify the target audience; determine the communication objectives; design a message; choose the media through which to send the message; select the message source; and collect feedback.

e. Identifying the Target Audience

A marketing communicator starts with a clear target audience in mind. The audience may be potential buyers or current users, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics, or the general public. The target audience will heavily affect the communicator's decisions on what will be said, how it will be said, when it will be said, where it will be said, and who will say it.

f. Determining the Communication Objectives

Once the target audience has been defined, the marketing communicator must decide what response is sought. Of course, in many cases, the final response is purchase. But purchase is the result of a long process of consumer decision making. The marketing communicator needs to know where the target audience now stands and to what stage it needs to be moved. The target audience may be in any of six buyer-readiness stages, the stages consumers normally pass through on their way to making a purchase. These stages include awareness, knowledge, liking, preference, conviction, and purchase (see Figure).

The marketing communicator's target market may be totally unaware of the product, know only its name, or know one or a few things about it. The communicator must first build awareness and knowledge. Of course, marketing communications alone cannot create positive feelings and purchases for productar itself must provide superior value for the customer. In fact, outstanding marketing communications can actually speed the demise of a poor product. The more quickly potential buyers learn about the poor product, the more quickly they become aware of its faults. Thus, good marketing communication calls for "good deeds followed by good words."

g. Designing a Message

Having defined the desired audience response, the communicator turns to developing an effective message. Ideally, the message should get Attention, hold Interest, arouse Desire, and obtain Action (a framework known as the AIDA model). In practice, few messages take the consumer all the way from awareness to purchase, but the AIDA framework suggests the desirable qualities of a good message. In putting the message together, the marketing communicator must decide what to say (message content) and how to say it (message structure and format).

h. Message Content

The communicator has to figure out an appeal or theme that will produce the desired response. There are three types of appeals: rational, emotional, and moral. Rational appeals relate to the audience's self-interest. They show that the product will produce the desired benefits. Examples are messages showing a product's quality, economy, value, or performance. Emotional appeals attempt to stir up either negative or positive emotions that can motivate purchase. Communicators may use positive emotional appeals such as love, pride, joy, and humor.

i. Message Structure

The communicator must also decide how to handle three message structure issues. The first is whether to draw a conclusion or leave it to the audience. Early research showed that drawing a conclusion was usually more effective. More recent research, however, suggests that in many cases the advertiser is better off asking questions and letting buyers come to their own conclusions. The second message structure issue is whether to present a one-sided argument (mentioning only the product's strengths) or a two-sided argument (touting the product's strengths while also admitting its shortcomings). Usually, a one-sided argument is more effective in sales presentations—except when audiences are highly educated or likely to hear opposing claims, or when the communicator has a negative association to overcome.

j. Message Format

The marketing communicator also needs a strong format for the message. In a print ad, the communicator has to decide on the headline, copy, illustration, and color. To attract attention, advertisers can use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and color, shape, and movement. If the message is to be carried over

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the radio, the communicator has to choose words, sounds, and voices. The "sound" of an announcer promoting banking services should be different from one promoting quality furniture.

If the message is to be carried on television or in person, then all these elements plus body language have to be planned. Presenters plan their facial expressions, gestures, dress, posture, and hairstyle. If the message is carried on the product or its package, the communicator has to watch texture, scent, color, size, and shape.

k. Choosing Media

The communicator now must select channels of communication. There are two broad types of communication channels—personal and nonpersonal.

- **Personal Communication Channels**

In personal communication channels, two or more people communicate directly with each other. They might communicate face to face, over the telephone, through the mail, or even through an Internet "chat." Personal communication channels are effective because they allow for personal addressing and feedback.

Some personal communication channels are controlled directly by the company. For example, company salespeople contact buyers in the target market. But other personal communications about the product may reach buyers through channels not directly controlled by the company. These might include independent experts—consumer advocates, consumer buying guides, and others—making statements to target buyers. Or they might be neighbors, friends, family members, and associates talking to target buyers. This last channel, known as word-of-mouth influence, has considerable effect in many product areas.

Personal influence carries great weight for products that are expensive, risky, or highly visible. For example, buyers of automobiles and major appliances often go beyond mass-media sources to seek the opinions of knowledgeable people.

Companies can take steps to put personal communication channels to work for them. For example, they can create opinion leaders—people whose opinions are sought by others—by supplying certain people with the product on attractive terms. For instance, they can work through community members such as local radio personalities, class presidents, and heads of local organizations. They can use influential people in their advertisements or develop advertising that has high "conversation value."

- **Nonpersonal Communication Channels**

Nonpersonal communication channels are media that carry messages without personal contact or feedback. They include major media, atmospheres, and events. Major media include print media (newspapers, magazines, direct mail), broadcast media (radio, television), display media (billboards, signs, posters), and online media (online services, Web sites). Atmospheres are designed environments that create or reinforce the buyer's leanings toward buying a product. Thus, lawyers' offices and banks are designed to communicate confidence and other qualities that might be valued by their clients. Events are staged occurrences that communicate messages to target audiences. For example, public relations departments arrange press conferences, grand openings, shows and exhibits, public tours, and other events.

Nonpersonal communication affects buyers directly. In addition, using mass media often affects buyers indirectly by causing more personal communication. Communications first flow from television, magazines, and other mass media to opinion leaders and then from these opinion leaders to others. Thus, opinion leaders step between the mass media and their audiences and carry messages to people who are less exposed to media. This suggests that mass communicators should aim their messages directly at opinion leaders, letting them carry the message to others.

l. Selecting the Message Source

In either personal or nonpersonal communication, the message's impact on the target audience is also affected by how the audience views the communicator. Messages delivered by highly credible sources are more persuasive. Thus, marketers hire celebrity endorsers—well-known athletes,

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actors, and even cartoon characters—to deliver their messages. Many food companies promote to doctors, dentists, and other health care providers to motivate these professionals to recommend their products to patients.

m. Collecting Feedback

After sending the message, the communicator must research its effect on the target audience. This involves asking the target audience members whether they remember the message, how many times they saw it, what points they recall, how they felt about the message, and their past and present attitudes toward the product and company. The communicator would also like to measure behavior resulting from the message—how many people bought a product, talked to others about it, or visited the store.

Feedback on marketing communications may suggest changes in the promotion program or in the product offer itself.

H. Setting the Total Promotion Budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. How does a company decide on its promotion budget? We look at four common methods used to set the total budget for advertising: the *affordable method,* the *percentage-of-sales method,* the *competitive-parity method,* and the *objective-and-task method.*

a. Affordable Method

Some companies use **the affordable method**: They set the promotion budget at the level they think the company can afford. Small businesses often use this method, reasoning that the company cannot spend more on advertising than it has. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to advertising.

Unfortunately, this method of setting budgets completely ignores the effects of promotion on sales. It tends to place advertising last among spending priorities, even in situations in which advertising is critical to the firm's success. It leads to an uncertain annual promotion budget, which makes long-range market planning difficult. Although the affordable method can result in overspending on advertising, it more often results in under spending.

b. Percentage-of-Sales Method

Other companies use the **percentage-of-sales method**, setting their promotion budget at a certain percentage of current or forecasted sales. Or they budget a percentage of the unit sales price. The percentage-of-sales method has advantages. It is simple to use and helps management think about the relationships between promotion spending, selling price, and profit per unit.

Despite these claimed advantages, however, the percentage-of-sales method has little to justify it. It wrongly views sales as the *cause* of promotion rather than as the *result.* "A study in this area found good correlation between investments in advertising and the strength of the brands concerned—but it turned out to be effect and cause, not cause and effect. . . . The strongest brands had the highest sales and could afford the biggest investments in advertising!" Thus, the percentage-of-sales budget is based on availability of funds rather than on opportunities. It may prevent the increased spending sometimes needed to turn around falling sales. Because the budget varies with year-to-year sales, long-range planning is difficult. Finally, the method does not provide any basis for choosing a *specific* percentage, except what has been done in the past or what competitors are doing.

c. Competitive-Parity Method

Still other companies use the **competitive-parity method**, setting their promotion budgets to match competitors' outlays. They monitor competitors' advertising or get industry promotion spending estimates from publications or trade associations, and then set their budgets based on the industry average.

Two arguments support this method. First, competitors' budgets represent the collective wisdom of the industry. Second, spending what competitors spend helps prevent promotion wars. Unfortunately, neither argument is valid. There are no grounds for believing that the competition

has a better idea of what a company should be spending on promotion than does the company itself. Companies differ greatly, and each has its own special promotion needs. Finally, there is no evidence that budgets based on competitive parity prevent promotion wars.

d. Objective-and-Task Method

The most logical budget-setting method is the **objective-and-task method**, whereby the company sets its promotion budget based on what it wants to accomplish with promotion. This budgeting method entails (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The objective-and-task method forces management to spell out its assumptions about the relationship between amount spent and promotion results. But it is also the most difficult method to use. Often, it is hard to figure out which specific tasks will achieve specific objectives. What specific advertising messages and media schedules should be used to attain this objective? How much would these messages and media schedules cost?

I. Setting the Overall Promotion Mix

The company now must divide the total promotion budget among the major promotion tools—advertising, personal selling, sales promotion, public relations, and direct marketing. The concept of integrated marketing communications suggests that it must blend the promotion tools carefully into a coordinated *promotion mix*. But how does the company determine what mix of promotion tools it will use? Companies within the same industry differ greatly in the design of their promotion mixes. We now look at factors that influence the marketer's choice of promotion tools.

a. The Nature of Each Promotion Tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in selecting their tools.

Advertising

Advertising can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times. For example, television advertising can reach huge audiences. Beyond its reach, large-scale advertising says something positive about the seller's size, popularity, and success. Because of advertising's public nature, consumers tend to view advertised products as more legitimate. Advertising is also very expressive—it allows the company to dramatize its products through the artful use of visuals, print, sound, and color. Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as directly persuasive as company salespeople. For the most part, advertising can carry on only a one-way communication with the audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

Personal Selling

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. It involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. Personal selling also allows all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to personal friendship. The effective salesperson keeps the customer's interests at heart in order to build a long-term relationship. Finally, with personal selling the buyer usually feels a greater need to listen and respond, even if the response is a polite "no thank you."

These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising—advertising can be turned on and off, but sales force size is harder to change.

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Sales Promotion

Sales promotion includes a wide assortment of tools—coupons, contests, cents-off deals, premiums, and others—all of which have many unique qualities. They attract consumer attention, offer strong incentives to purchase, and can be used to dramatize product offers and to boost sagging sales. Sales promotions invite and reward quick response—whereas advertising says, "Buy our product," sales promotion says, "Buy it now." Sales promotion effects are often short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preference.

Public Relations

Public relations are very believable—news stories, features, and events seem more real and believable to readers than ads do. Public relations can also reach many prospects who avoid salespeople and advertisements—the message gets to the buyers as "news" rather than as a sales-directed communication. As with advertising, public relations can dramatize a company or product. Marketers tend to under use public relations or to use it as an afterthought. Yet a well-thought-out public relations campaign used with other promotion mix elements can be very effective and economical.

Direct Marketing

Although there are many forms of direct marketing— telemarketing, direct mail, electronic marketing, online marketing, and others—they all share four distinctive characteristics. Direct marketing is *nonpublic:* The message is normally addressed to a specific person. Direct marketing also is *immediate* and *customized:* Messages can be prepared very quickly, and they can be tailored to appeal to specific consumers. Finally, direct marketing is *interactive:* It allows a dialogue between the marketing and the consumer, and messages can be altered depending on the consumer's response. Thus, direct marketing is well suited to highly targeted marketing efforts and to building one-to-one customer relationships.

b. Promotion Mix Strategies

Marketers can choose from two basic promotion mix strategies—*push* promotion or *pull* promotion. Figure 14.4 contrasts the two strategies. The relative emphasis on the specific promotion tools differs for push and pulls strategies. A **push strategy** involves "pushing" the product through distribution channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotion) toward channel members to induce them to carry the product and to promote it to final consumers. Using a **pull strategy**, the producer directs its marketing activities (primarily advertising and consumer promotion) toward final consumers to induce them to buy the product. If the pull strategy is effective, consumers will then demand the product from channel members, who will in turn demand it from producers. Thus, under a pull strategy, consumer demand "pulls" the product through the channels.



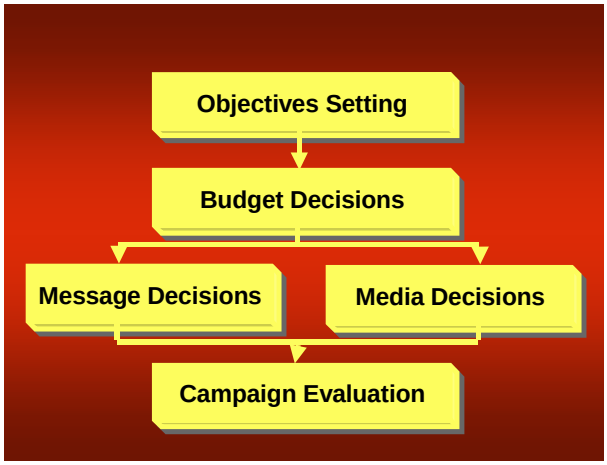
Some small industrial goods companies use only push strategies; some direct-marketing companies use only pull. However, most large companies use some combination of both. Companies consider many factors when developing their promotion mix strategies, including *type of product–market* and the *product life-cycle stage*. For example, the importance of different promotion tools varies between consumer and business markets. Consumer goods companies usually "pull" more, putting more of their funds into advertising, followed by sales promotion, personal selling, and then public relations. In contrast, business-to-business marketers tend to "push" more, putting more of their funds into personal selling, followed by sales promotion, advertising, and public relations. In general, personal selling is used more heavily with expensive and risky goods and in markets with fewer and larger sellers.

The effects of different promotion tools also vary with stages of the product life cycle. In the introduction stage, advertising and public relations are good for producing high awareness, and sales promotion is useful in promoting early trial. Personal selling must be used to get the trade to carry the product. In the growth stage, advertising and public relations continue to be powerful influences, whereas sales promotion can be reduced because fewer incentives are needed. In the mature stage, sales promotion again becomes important relative to advertising. Buyers know the brands, and advertising is needed only to remind them of the product. In the decline stage, advertising is kept at a reminder level, public relations is dropped, and salespeople give the product only a little attention. Sales promotion, however, might continue strong.

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Lesson – 33

Lesson overview and learning objectives:
Advertising—the use of paid media by a seller to inform, persuade, and remind about its products or organization—is a strong promotion tool. Advertising decision-making is a five-step process consisting of decisions about the objectives, the budget, the message, the media, and, finally, the evaluation of results. Advertisers should set clear objectives as to whether the advertising is supposed to inform, persuade, or remind buyers. The advertising budget can be based on what is affordable, on a percentage of sales, on competitors' spending, or on the objectives and tasks. The message decision calls for designing messages, evaluating them, and executing them effectively. The media decision calls for defining reach, frequency, and impact goals; choosing major media types; selecting media vehicles; and scheduling the media. Message and media decisions must be closely coordinated for maximum campaign effectiveness. Finally, evaluation calls for evaluating the communication and sales effect of advertising before, during, and after the advertising is placed.



ADVERTISING

A. ADVERTISING

Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor is termed as advertising.

B. The Five M's of Advertising

The five M's are basically the different important decisions that are to be taken while designing the advertising campaign. The five M's of advertising are (1) Mission (that is the basic objective or goal that any company wants to attain by its advertising campaign), (2) Money (how much money should be spent by the company to achieve the objective of advertising and the basic factors that should be considered while deciding about the budget of the advertising) (3) Message (what specific information company wants to communicate through its advertising, what should be the contents of the message etc) (4) Media (communication of the message to people requires some media that can be print electronic its selection requires certain decisions like selection of type of media, scheduling of media etc) the last M is (5) Measurement (it is something related to evaluation



of the advertising campaign that can be done either by considering its impact on sales or profits of the company).

C. Advertising decisions

Marketing management must take five important decisions when developing an advertising program:

a. Setting advertising objectives.
b. Setting advertising budgets.
c. Developing advertising strategy.
   - a). Message decisions.
   - b). Media decisions.
d. Evaluating advertising campaigns.

a. Setting Advertising Objectives

Setting advertising objectives is the first step in developing an advertising program. These objectives should be based on past decisions about the target market, positioning, and marketing mix, which define the job that advertising must do in the total marketing program. An advertising objective is a specific communication task to be accomplished with a specific target audience during a specific period of time. Advertising objectives can be classified by primary purpose as:

1). **Informative advertising**, which is used to inform consumers about a new product or feature or to build primary demand.

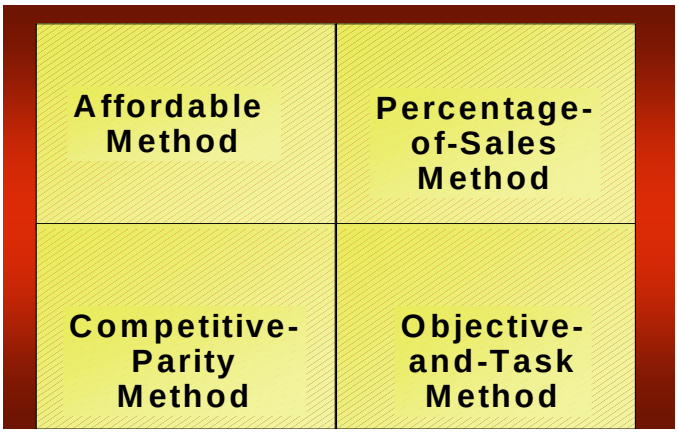
2). **Persuasive advertising** which is used to build selective demand for a brand by persuading consumers that it offers the best quality for their money.

3). **Comparison advertising** which is advertising that compares one brand directly or indirectly to one or more other brands.

4). **Reminder advertising**, which is used to keep consumers thinking about a product. This form of advertising is more important for mature products.

b. Setting the Advertising Budget

After determining its advertising objectives, the marketer must set the advertising budget for each product and market. Four commonly used methods for setting promotion budgets were discussed in last Lesson. No matter what method is used, setting the advertising budget is no easy task. How does a company know if it is spending the right amount? Some critics charge that large consumer packaged-goods firms tend to spend too much on advertising and business-to-business marketers generally under spend on advertising. They claim that, on the one hand, the large consumer companies use lots of image advertising without really knowing its effects. They overspend as a form of "insurance" against not spending enough. On the other hand, business advertisers tend to rely too heavily on their sales forces to bring in orders. They underestimate the power of company and product image in pre-selling to industrial customers. Thus, they do not spend enough on advertising to build customer awareness and knowledge.



Some specific factors that should be considered when setting the advertising budget are:

1). Stage in the product life cycle. New products typically need large advertising budgets.

2). Market share. High-market share brands usually need more advertising.

3). Competition and clutter. More advertising is usually required in a market with many more competitors and their advertising clutter.

4). Product differentiation. When a brand closely resembles other brands in its product class, more advertising (and therefore budget) is needed.

The primary questions to be answered during the budget process are how much to spend and what impact is expected or acceptable. This process is difficult because measurement techniques of effectiveness rarely give precise answers.

c. Developing Advertising Strategy

Advertising strategy consists of two major elements:

a) Creating advertising messages

b) **Selecting advertising media**.

In the past, companies often viewed media planning as secondary to the message-creation process. The creative department first created good advertisements, and then the media department selected the best media for carrying these advertisements to desired target audiences. This often caused friction between creatives and media planners.

Today, however, media fragmentation, soaring media costs, and more focused target marketing strategies have promoted the importance of the media-planning function. In some cases, an advertising campaign might start with a great message idea, followed by the choice of appropriate media. In other cases, however, a campaign might begin with a good media opportunity, followed by advertisements designed to take advantage of that opportunity. Increasingly, companies are realizing the benefits of planning these two important elements jointly.

Thus, more and more advertisers are orchestrating a closer harmony between their messages and the media that deliver them. Media planning is no longer an after-the-fact complement to a new ad campaign. Media planners are now working more closely than ever with creative to allow media selection to help shape the creative process, often before a single ad is written. In some cases, media people are even initiating ideas for new campaigns.

a) Creating the Advertising Message

No matter how big the budget, advertising can succeed only if commercials gain attention and communicate well. Good advertising messages are especially important in today's costly and cluttered advertising environment. If all this advertising clutter bothers some consumers, it also causes big problems for advertisers. Until recently, television viewers were pretty much a captive audience for advertisers. Viewers had only a few channels from which to choose. But with the growth in cable and satellite TV, VCRs, and remote-control units, today's viewers have many more options. They can avoid ads by watching commercial-free cable channels. They can "zap" commercials by pushing the fast-forward button during taped programs. With remote control, they can instantly turn off the sound during a commercial or "zip" around the channels to see what else is on. In fact, a recent study found that half of all television viewers now switch channels when the commercial break starts.

Thus, just to gain and hold attention, today's advertising messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers. Some advertisers even create intentionally controversial ads to break through the clutter and gain attention for their products.

i. Message Strategy

The first step in creating effective advertising messages is to decide what general message will be communicated to consumers—to plan a message strategy. The purpose of advertising is to get consumers to think about or react to the product or company in a certain way. People will react

only if they believe that they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer benefits that can be used as advertising appeals. Ideally, advertising message strategy will follow directly from the company's broader positioning strategy.
Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling creative concept—or "big idea"—that will bring the message strategy to life in a distinctive and memorable way. At this stage, simple message ideas become great ad campaigns. Usually, a copywriter and art director will team up to generate many creative concepts, hoping that one of these concepts will turn out to be the big idea. The creative concept may emerge as visualization, a phrase, or a combination of the two.
The creative concept will guide the choice of specific appeals to be used in an advertising campaign. Advertising appeals should have three characteristics: First, they should be meaningful, pointing out benefits that make the product more desirable or interesting to consumers. Second, appeals must be believable—consumers must believe that the product or service will deliver the promised benefits. However, the most meaningful and believable benefits may not be the best ones to feature. Appeals should also be distinctive—they should tell how the product is better than the competing brands.

ii. Message Execution

The advertiser now has to turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative people must find the best style, tone, words, and format for executing the message. Any message can be presented in different execution styles, such as the following:

- Slice of life: This style shows one or more "typical" people using the product in a normal setting.
- Lifestyle: This style shows how a product fits in with a particular lifestyle.
- Fantasy: This style creates a fantasy around the product or its use.
- Mood or image: This style builds a mood or image around the product, such as beauty, love, or serenity. No claim is made about the product except through suggestion.
- Musical: This style shows one or more people or cartoon characters singing about the product.
- Technical expertise: This style shows the company's expertise in making the product.
- Scientific evidence: This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands.
- Testimonial evidence or endorsement: This style features a highly believable or likable source endorsing the product.

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Lesson – 34

Lesson overview and learning objectives:
Today we will continue and discuss the remaining steps in major advertising decisions and other topic of today's Lesson is

ADVERTISING (CONT.)
SALES PROMOTION

b) **Selecting advertising media**.

The major steps in media selection are:

i. Deciding on reach, frequency, and impact;
ii. Choosing among major media types;
iii. Selecting specific media vehicles;
iv. Deciding on media timing.

I. Deciding on Reach, Frequency, and Impact

To select media, the advertiser must decide what reach and frequency are needed to achieve advertising objectives. *Reach* is a measure of the *percentage* of people in the target market who are exposed to the ad campaign during a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of the campaign. *Frequency* is a measure of how many *times* the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three. The advertiser also must decide on the desired *media impact*—the *qualitative value* of a message exposure through a given medium. For example, for products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight *and* sound. The same message in one magazine may be more believable than in another. In general, the more reach, frequency, and impact the advertiser seeks, the higher the advertising budget will have to be.

II. Choosing Among Major Media Types

The media planner has to know the reach, frequency, and impact of each of the major media types. The major media types are newspapers, television, direct mail, radio, magazines, outdoor, and the Internet. Each medium has advantages and limitations.

Media planners consider many factors when making their media choices. The *media habits of target consumers* will affect media choice—advertisers look for media that reach target consumers effectively. So will the *nature of the product*—for example, fashions are best advertised in color magazines, and automobile performance is best demonstrated on television. Different *types of messages* may require different media. A message announcing a major sale tomorrow will require radio or newspapers; a message with a lot of technical data might require magazines, direct mailings, or an online ad and Web site. *Cost* is another major factor in media choice. For example, network television is very expensive, whereas newspaper or radio advertising costs much less but also reaches fewer consumers. The media planner looks both at the total cost of using a medium and at the cost per thousand exposures—the cost of reaching 1,000 people using the medium.

Media impact and cost must be reexamined regularly. For a long time, television and magazines have dominated in the media mixes of national advertisers, with other media often neglected. Recently, however, the costs and clutter of these media have gone up, audiences have declined, and marketers are adopting strategies beamed at narrower segments. As a result, advertisers are increasingly turning to alternative media—ranging from cable TV and outdoor advertising to parking meters and shopping carts—that cost less and target more effectively.

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III. Selecting Specific Media Vehicles

The media planner now must choose the best *media vehicles*—specific media within each general media type. Media planners must compute the cost per thousand persons reached by a vehicle. The media planner ranks each magazine by cost per thousand and favors those magazines with the lower cost per thousand for reaching target consumers.

The media planner must also consider the costs of producing ads for different media. Whereas newspaper ads may cost very little to produce, flashy television ads may cost millions. In selecting media vehicles, the media planner must balance media cost measures against several media impact factors. First, the planner should balance costs against the media vehicle's *audience quality*.

IV. Deciding on Media Timing

The advertiser must also decide how to schedule the advertising over the course of a year. Suppose sales of a product peak in December and drop in March. The firm can vary its advertising to follow the seasonal pattern, to oppose the seasonal pattern, or to be the same all year. Most firms do some seasonal advertising. Some do *only* seasonal advertising. Finally, the advertiser has to choose the pattern of the ads. *Continuity* means scheduling ads evenly within a given period. *Pulsing* means scheduling ads unevenly over a given time period.. The idea is to advertise heavily for a short period to build awareness that carries over to the next advertising period. Those who favor pulsing feel that it can be used to achieve the same impact as a steady schedule but at a much lower cost. However, some media planners believe that although pulsing achieves minimal awareness, it sacrifices depth of advertising communications.

Recent advances in technology have had a substantial impact on the media planning and buying functions.

a. Evaluating Advertising

The fourth step in the advertising campaign is evaluation of the campaign. The advertising program should evaluate both the communication effects and the sales effects of advertising regularly. Measuring the *communication effects* of an ad—*copy testing*—tells whether the ad is communicating well. Copy testing can be done before or after an ad is printed or broadcast. Before the ad is placed, the advertiser can show it to consumers, ask how they like it, and measure recall or attitude changes resulting from it. After the ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, knowledge, and preference.

But what *sales* are caused by an ad that increases brand awareness by 20 percent and brand preference by 10 percent? The *sales effects* of advertising are often harder to measure than the communication effects. Sales are affected by many factors besides advertising—such as product features, price, and availability.

b. Ways to Handle Advertising

Different companies organize in different ways to handle advertising. In small companies, advertising might be handled by someone in the sales department. Large companies set up advertising departments whose job it is to set the advertising budget, work with the ad agency, and handle other advertising not done by the agency. Most large companies use outside advertising agencies because they offer several advantages.

How does an advertising agency work? Advertising agencies were started in the mid-to-late 1800s by salespeople and brokers who worked for the media and received a commission for selling advertising space to companies. As time passed, the salespeople began to help customers prepare their ads. Eventually, they formed agencies and grew closer to the advertisers than to the media. Today's agencies employ specialists who can often perform advertising tasks better than the company's own staff. Agencies also bring an outside point of view to solving the company's problems, along with lots of experience from working with different clients and situations. Thus, today, even companies with strong advertising departments of their own use advertising agencies.

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Most large advertising agencies have the staff and resources to handle all phases of an advertising campaign for their clients, from creating a marketing plan to developing ad campaigns and preparing, placing, and evaluating ads. Agencies usually have four departments: *creative,* which develops and produces ads; *media,* which selects media and places ads; *research,* which studies audience characteristics and wants; and *business,* which handles the agency's business activities. Each account is supervised by an account executive, and people in each department are usually assigned to work on one or more accounts.

However, both advertisers and agencies have become more and more unhappy with the commission system. Larger advertisers complain that they pay more for the same services received by smaller ones simply because they place more advertising. Advertisers also believe that the commission system drives agencies away from low-cost media and short advertising campaigns. Another factor is vast changes in how ad agencies reach consumers that go way beyond network TV or magazine advertising. Another trend is affecting the advertising agency business: Many agencies have sought growth by diversifying into related marketing services. These new diversified agencies offer a complete list of integrated marketing and promotion services under one roof, including advertising, sales promotion, marketing research, public relations, and direct and online marketing. Some have even added marketing consulting, television production, and sales training units in an effort to become full "marketing partners" to their clients.

However, agencies are finding that most advertisers don't want much more from them than traditional media advertising services plus direct marketing, sales promotion, and sometimes public relations. Thus, many agencies have recently limited their diversification efforts in order to focus more on traditional services. Some have even started their own "creative boutiques," smaller and more independent agencies that can develop creative campaigns for clients free of large-agency bureaucracy.

A. Sales Promotion

Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. Whereas advertising and personal selling offer reasons to buy a product or service, sales promotion offers reasons to buy *now*.

Several factors have contributed to the rapid growth of sales promotion, particularly in consumer markets. First, inside the company, product managers face greater pressures to increase their current sales, and promotion is viewed as an effective short-run sales tool. Second, externally, the company faces more competition and competing brands are less differentiated. Increasingly, competitors are using sales promotion to help differentiate their offers. Third, advertising efficiency has declined because of rising costs, media clutter, and legal restraints. Finally, consumers have become more deal oriented and ever-larger retailers are demanding more deals from manufacturers.

The growing use of sales promotion has resulted in *promotion clutter,* similar to advertising clutter. Consumers are increasingly tuning out promotions, weakening their ability to trigger immediate purchase. Manufacturers are now searching for ways to rise above the clutter, such as offering larger coupon values or creating more dramatic point-of-purchase displays.

a. Sales Promotion Objectives

Sales promotion objectives vary widely. Sellers may use consumer promotions to increase short-term sales or to help build long-term market share. Objectives for trade promotions include getting retailers to carry new items and more inventories, getting them to advertise the product and give it more shelf space, and getting them to buy ahead. For the sales force, objectives include getting more sales force support for current or new products or getting salespeople to sign up new accounts. Sales promotions are usually used together with advertising or personal selling. Consumer promotions must usually be advertised and can add excitement and pulling power to ads. Trade and sales force promotions support the firm's personal selling process.

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In general, sales promotions should be *consumer relationship building*. Rather than creating only short-term sales or temporary brand switching, they should help to reinforce the product's position and build long-term relationships with consumers. Increasingly, marketers are avoiding "quick fix," price-only promotions in favor of promotions designed to build brand equity.

b. Major Sales Promotion Tools

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade, and business promotion tools follow.

Consumer Promotion Tools

The main consumer promotion tools include samples, coupons, cash refunds, price packs, premiums, advertising specialties, patronage rewards, point-of-purchase displays and demonstrations, and contests, sweepstakes, and games.

- **Samples** are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be delivered door-to-door, sent by mail, handed out in a store, attached to another product, or featured in an ad. Sometimes, samples are combined into sample packs, which can then be used to promote other products and services.



- **Coupons** are certificates that give buyers a saving when they purchase specified products. Most consumers love coupons: Coupons can stimulate sales of a mature brand or promote early trial of a new brand. However, as a result of coupon clutter, redemption rates have been declining in recent years. Thus, most major consumer goods companies are issuing fewer coupons and targeting them more carefully.
- **Cash refund offers (or rebates)** are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The consumer sends a "proof of purchase" to the manufacturer, who then refunds part of the purchase price by mail.
- **Price packs (also called cents-off deals)** offer consumers savings off the regular price of a product. The reduced prices are marked by the producer directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one), or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.
- **Premiums** are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards, compact disks, and

computer CD-ROMs. A premium may come inside the package (in-pack), outside the package (on-pack), or through the mail.

- **Advertising specialties** are useful articles imprinted with an advertiser's name given as gifts to consumers. Typical items include pens, calendars, key rings, matches, shopping bags, T-shirts, caps, nail files, and coffee mugs. Such items can be very effective. In a recent study, 63 percent of all consumers surveyed were either carrying or wearing an ad specialty item. More than three-quarters of those who had an item could recall the advertiser's name or message before showing the item to the interviewer.
- **Patronage rewards** are cash or other awards offered for the regular use of a certain company's products or services. For example, airlines offer frequent flier plans, awarding points for miles traveled that can be turned in for free airline trips.
- **Point-of-purchase (POP) promotions** include displays and demonstrations that take place at the point of purchase or sale. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have responded by offering better POP materials, tying them in with television or print messages, and offering to set them up.
- **Contests, sweepstakes, and games** give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort. A *contest* calls for consumers to submit an entry—a jingle, guess, suggestion—to be judged by a panel that will select the best entries. A *sweepstakes* calls for consumers to submit their names for a drawing. A *game* presents consumers with something—bingo numbers, missing letters—every time they buy, which may or may not help them win a prize. A sales contest urges dealers or the sales force to increase their efforts, with prizes going to the top performers

i. Trade Promotion Tools

Trade promotion can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees, or free goods to retailers and wholesalers to get products on the shelf and, once there, to stay on it.

Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions—**contests, premiums, displays**—can also be used as trade promotions. Or the manufacturer may offer a straight **discount** off the list price on each case purchased during a stated period of time (also called a *price-off, off-invoice,* or *off-list*). The offer encourages dealers to buy in quantity or to carry a new item. Dealers can use the discount for immediate profit, for advertising, or for price reductions to their customers.

Manufacturers also may offer an **allowance** (usually so much off per case) in return for the retailer's agreement to feature the manufacturer's products in some way. An ***advertising allowance*** compensates retailers for advertising the product. A ***display allowance*** compensates them for using special displays.

Manufacturers may offer *free goods,* which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavor or size. They may offer ***push money***—cash or gifts to dealers or their sales forces to "push" the manufacturer's goods. Manufacturers may give retailers free *specialty advertising items* that carry the company's name, such as pens, pencils, calendars, paperweights, matchbooks, memo pads, and yardsticks.

ii. Business Promotion Tools

Companies spend billions of dollars each year on promotion to industrial customers. These business promotions are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Business promotion includes many of the same tools used for consumer

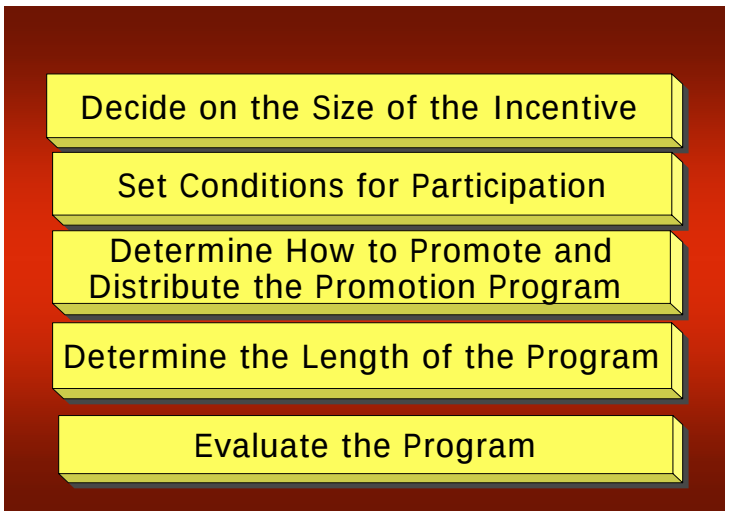
or trade promotions. Here, we focus on two additional major business promotion tools—conventions and trade shows, and sales contests.

Many companies and trade associations organize *conventions and trade shows* to promote their products. Firms selling to the industry show their products at the trade show. Trade shows also help companies reach many prospects not reached through their sales forces. About 90 percent of a trade show's visitors see a company's salespeople for the first time at the show. A *sales contest* is a contest for salespeople or dealers to motivate them to increase their sales performance over a given period. Sales contests motivate and recognize good company performers, who may receive trips, cash prizes, or other gifts. Some companies award points for performance, which the receiver can turn in for any of a variety of prizes. Sales contests work best when they are tied to measurable and achievable sales objectives (such as finding new accounts, reviving old accounts, or increasing account profitability).

c. Developing the Sales Promotion Program

The marketer must make several other decisions in order to define the full sales promotion program. First, the marketer must decide on the ***size of the incentive***. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set ***conditions for participation***. Incentives might be offered to everyone or only to select groups.

The marketer must decide how to ***promote and distribute the promotion*** **program** itself. A 50-cents-off coupon could be given out in a package, at the store, by mail, or in an advertisement. Each distribution method involves a different level of reach and cost. Increasingly, marketers are blending several media into a total campaign concept. The ***length of the promotion*** is also important. If the sales promotion period is too short, many prospects (who may not be buying during that time) will miss it. If the promotion runs too long, the deal will lose some of its "act now" force.



Evaluation is also very important. Yet many companies fail to evaluate their sales promotion programs, and others evaluate them only superficially. Manufacturers can use one of many evaluation methods. The most common method is to compare sales before, during, and after a promotion. Suppose a company has a 6 percent market share before the promotion, which jumps to 10 percent during the promotion, falls to 5 percent right after, and rises to 7 percent later on. The promotion seems to have attracted new triers and more buying from current customers. After the promotion, sales fell as consumers used up their inventories. The long-run rise to 7 percent means that the company gained some new users. If the brand's share had returned to the old level, then the promotion would have changed only the *timing* of demand rather than the *total* demand.

Consumer research would also show the kinds of people who responded to the promotion and what they did after it ended. *Surveys* can provide information on how many consumers recall the promotion, what they thought of it, how many took advantage of it, and how it affected their buying. Sales promotions also can be evaluated through *experiments* that vary factors such as incentive value, length, and distribution method.

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Clearly, sales promotion plays an important role in the total promotion mix. To use it well, the marketer must define the sales promotion objectives, select the best tools, design the sales promotion program, implement the program, and evaluate the results. Moreover, sales promotion must be coordinated carefully with other promotion mix elements within the integrated marketing communications program.

d. Sales Promotion Uses and Limitations of Sales Promotion

Sales promotion tools are effective for the organizations in different aspects like they can be used to Introduce new products, making existing customers to buy more, Attract new customers, Combat competition, Maintain sales in off season, Increase retail inventories, Tie in advertising and personal selling, Enhance personal selling efforts. Beside these advantages, sales promotions have certain limitations as well like Cannot Reverse Declining Sales Trend, Cannot Overcome, inferior Product, May Encourage Competitive Retaliation, May Hurt Profit

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Lesson – 35

Lesson overview and learning objectives:
Discuss the role of a company's salespeople in creating value for customers and building customer relationships. Today, most companies use salespeople to bring their company's offering to the consuming or business publics. The salesperson's role is a key one in the organization. The high cost of maintaining a sales force means that management is especially interested in how to efficiently organize this vital element.

PERSONAL SELLING

A. Personal selling

The direct presentation of a product to a prospective customer by a representative of the selling organization is termed as personal selling. Personal selling is the personal communication of information to persuade somebody to buy something. Personal Selling occurs when a company representative comes in direct contact with a customer in order to inform a client about a good or service to get a sale. Personal selling is especially important for business-to-business marketers since products and services are complex and expensive. In many companies, personal selling is the largest single operating expense.

a. The Nature of Personal Selling

Selling is one of the oldest professions in the world. Today, most salespeople are well-educated, well-trained professionals who work to build and maintain long-term relationships with customers. They build these relationships by listening to their customers; assessing customer's needs, and organizing the company's efforts to solve customer problems. The term salesperson covers a wide variety of positions and responsibilities. The person can be:

1). An inside order taker.
2). An order getter (a great amount of creative selling skills are demanded in this position).

Personal selling is likely to be emphasized in a promotional mix when the market is concentrated or the product has a high unit value, is technical in nature, and requires a demonstration. It is also useful if the product can be tailored to an individual customer's need, or the product is in the introductory stage of the product life cycle.

b. The Role of the Sales Force

Personal selling is the interpersonal arm of the promotion mix. Sales people represent the company to the customer and act as an intermediary linking the customer to the company.

c. Salespeople.

Salespeople act for a company and perform one of more of the following: prospecting of new business; communicating with potential and existing customers; servicing customers and information gathering. Sales positions range from: delivering product; taking orders; building goodwill or educating customers; positions where technical knowledge is required; and creative selling.

d. Sales management.

Sales management involves the analysis, planning, implementation and control of sales force activities. Advertising consists of one-way, non-personal communication with target customer groups while the personal selling involves two-way, personal communication between salespeople and individual consumers. Personal selling can be more effective than advertising in more

complex selling situations. The role of personal selling varies from company to company. Some firms have no salespeople at all. The sales force serves as a critical link between a company and its customers. The salesperson can represent both buyer and seller i.e.

1). They represent the company to the customer.
2). They represent customers to the company.

Salespeople are becoming more market-focused and customer-oriented.

1).The old view was that salespeople should be concerned with sales and the company should be concerned with profit.
2). The new view is that salespeople should be concerned with more than just producing sales—they must know how to produce customer satisfaction and company profit.

Personal selling is performed by person-to-person dialogue between prospective buyer and the seller through direct human contact for matching products to needs. It involves developing relationships between buyer and the seller to discover the needs of the customers/buyers and the benefits of the products that can satisfy the needs of customer can be communicated to customer.

e. The characteristics of personal selling

Personal selling is having flexibility of system it provides one to one contact between the buyers and sellers. It Identify specific sales prospects the first step in the selling process is prospecting identifying qualified potential customers. Approaching the right potential customers is crucial to selling success. Direct contact with the potential buyers provides opportunity to demonstrate the product and to customers and to answer the queries and questions of the customers. Answer questions during the presentation step of the selling process, the salesperson tells the product "story" to the buyer, showing how the product will make or save money. The salesperson describes the product features but concentrates on presenting customer benefits. Using a need-satisfaction approach, the salesperson starts with a search for the customer's needs by getting the customer to do most of the talking. During demonstration there can be certain objections raised by the customers, which can be overcome at very same time. Customers almost always have objections during the presentation or when asked to place an order. The problem can be either logical or psychological, and objections are often unspoken. In handling objections, the salesperson should use a positive approach, seek out hidden objections, asks the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

f. Builds Relationships

The principles of personal selling as just described are transaction oriented—their aim is to help salespeople close a specific sale with a customer. But in many cases, the company is not seeking simply a sale: It has targeted a major customer that it would like to win and keep. The company would like to show that it has the capabilities to serve the customer over the long haul in a mutually profitable relationship.

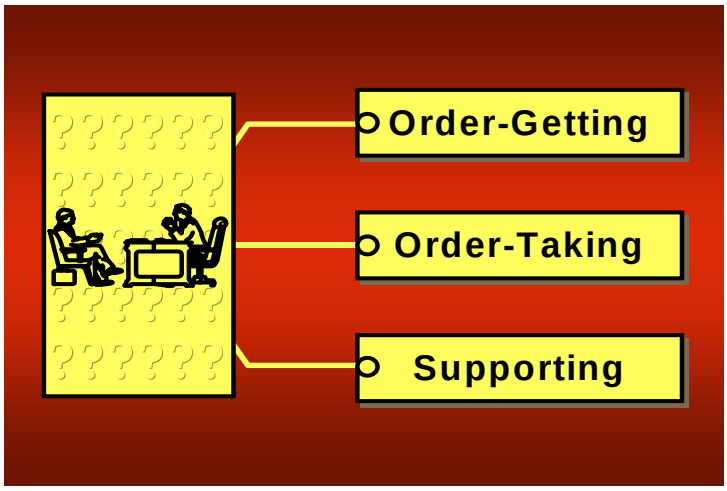
Most companies today are moving away from transaction marketing, with its emphasis on making a sale. Instead, they are practicing relationship marketing, which emphasizes maintaining profitable long-term relationships with customers by creating superior customer value and satisfaction. They are realizing that when operating in maturing markets and facing stiffer competition, it costs a lot more to wrest new customers from competitors than to keep current customers.

Today's customers are large and often global. They prefer suppliers who can sell and deliver a coordinated set of products and services to many locations. They favor suppliers who can quickly solve problems that arise in their different parts of the nation or world, and who can work closely with customer teams to improve products and processes. For these customers, the sale is only the beginning of the relationship.

Unfortunately, some companies are not set up for these developments. They often sell their products through separate sales forces, each working independently to close sales. Their technical people may not be willing to lend time to educate a customer. Their engineering, design, and manufacturing people may have the attitude that "it's our job to make good products and the salesperson's to sell them to customers." However, other companies are recognizing that winning and keeping accounts requires more than making good products and directing the sales force to close lots of sales. It requires a carefully coordinated whole-company effort to create value-laden, satisfying relationships with important customers.

Relationship marketing is based on the premise that important accounts need focused and ongoing attention. Studies have shown that the best salespeople are those who are highly motivated and good closers, but more than this, they are customer problem solvers and relationship builders. Good salespeople working with key customers do more than call when they think a customer might be ready to place an order. They also study the account and understand its problems. They call or visit frequently, work with the customer to help solve the customer's problems and improve its business, and take an interest in customers as people.

g. Basic Sales Tasks



Order Getting**:** It is creative selling ad is more time consuming. It is used for selling products to new prospects (pioneers) and to sell to continuing customers (account managers). Some times telemarketing is used particularly to small accounts for seeking customers, analyzing their problems, Discover solutions and finally selling solutions to customers. Order Taking**:** This task is related with very little creative selling, used for Write up of orders, for checking invoices for accuracy, to assure timely order processing and may use suggestive selling for different problems that is supporting the customers in acquiring solution for problem.

h. The advantages of personal selling

The advantages of personal selling over the other promotion tools…

- It can be adapted for individual customers.
- It can be focused on prospective customers.
- It results in the actual sale, while most other forms of promotion are used in moving the customer closer to the sale.

i. The disadvantages of personal selling

- The major disadvantages of the personal selling are:
- Expensive per contact
- Many sales calls may be needed to generate a single sale
- Labor intensive
- It is costly to develop and operate a sales force.
- It may be difficult to attract high-caliber people.

j. Types of the personal selling

There are two types of personal selling:

The customers come to the salespeople.
Mostly involves retail-store selling. Most salespeople fall into this category.
The salespeople go to the customers.
Usually represent producers or wholesaling middlemen and sell to business users. Some outside selling is relying more on telemarketing.

k. Characteristics of Professional Selling

Sales reps engage in a total selling job. Reps work closely with customers. Sales reps organize much of their own time and effort. They often experience role ambiguity and role conflict.

l. Contributions of Personal Selling to Marketing:

Today, most professional salespeople are well-educated, well-trained men and women who work to build long-term, value-producing relationships with their customers. They succeed not by taking customers in but by helping them out—by assessing customer needs and solving customer problems. Success in a selling environment requires careful teamwork among well-trained, dedicated sales professionals who are bent on profitably taking care of their customers



m. Changing patterns in personal selling

Traditionally, personal selling has been a face-to-face, one-on-one situation. But now new trends and patterns are emerging which are:

—Selling Centers — Team Selling

—Systems Selling

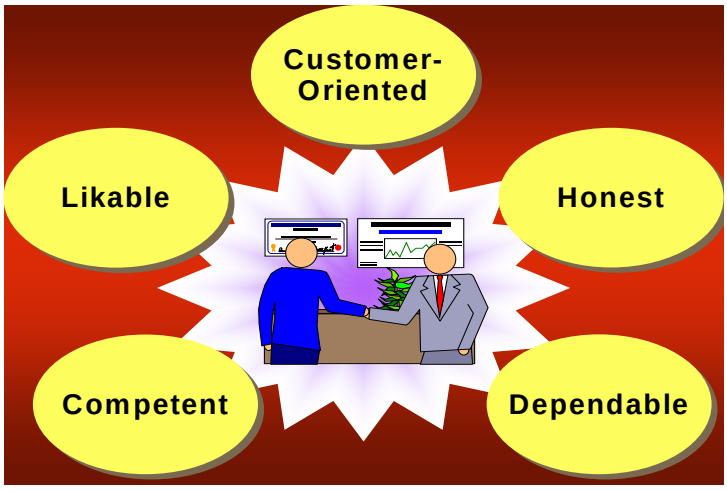
—Global Sales Teams

—Relationship Selling

—Telemarketing

n. Salesperson Attributes:

Salesperson is an individual(like: Serving, and Information gathering Salespeople, sales representatives, account executives, sales consultants, sales engineers, agents, district managers, marketing representatives, account development reps, etc) acting for a company by performing one or more of the following activities.



Salesperson is an individual acting for a company by performing one or more of the following activities:
Prospecting, The first step in the selling process is prospecting—identifying qualified potential customers. Approaching the right potential customers is crucial to selling success. Than during the presentation step of the selling process, the salesperson tells the product "story" to the buyer, showing how the product will make or save money. The salesperson describes the product features but concentrates on presenting customer benefits.

Using a *need-satisfaction approach,* the salesperson starts with a search for the customer's needs by getting the customer to do most of the talking. To be more effective in this process sales person should possess certain attributes, they should be honest should be competent to demonstrate the products and handle objections should be customer oriented so tat customers can be satisfied, should possess the skills so that potential customers are ready to listen about the offered products.

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Lesson – 36

Lesson overview and learning objectives:
Today, most companies use salespeople to bring their company's offering to the consuming or business publics. The salesperson's role is a key one in the organization. The high cost of maintaining a sales force means that management is especially interested in how to efficiently organize this vital element.
Six basic steps or decisions are important to the sales management process. These are:

(a) Designing sales force strategy and structure.
(b) Recruiting and selecting salespeople.
(c) Training salespeople.
(d) Compensating salespeople.
(e) Supervising salespeople.
(f) Evaluating salespeople.

This Lesson thoroughly explains some of these steps and remaining steps will be discussed in coming Lesson.

SALES FORCE MANAGEMENT

A. The Role of the Sales Force

Advertising consists of one-way, non personal communication with target consumer groups.
Personal selling involves two-way, personal communication between salespeople and individual consumers. Personal selling can be more effective than advertising in more complex selling situations. The role of personal selling varies from company to company. Some firms have no salespeople at all. The sales force serves as a critical link between a company and its customers. The salesperson can represent both buyer and seller. They represent company to the customer and customers to the company. Salespeople are becoming more market-focused and customer-oriented. The old view was that salespeople should be concerned with sales and the company should be concerned with profit. The new view is that salespeople should be concerned with more than just producing sales—they must know how to achieve customer satisfaction and company profit.

B. The Personal Selling Process

The selling process consists of several steps that the salesperson must master. These steps focus on the goal of getting new customers and obtaining orders from them. Most salespeople spend much of their time in maintaining existing accounts and building long-term customer relationship. These steps are:

1). Prospecting and qualifying. In this step the salesperson identifies qualified potential customers.

2). Qualifying lead is the process of identifying good ones and screening out poor ones. Prospects can be qualified by:

a) Financial ability.
b) Volume of business.
c) Special needs.
d) Location.
e) Possibilities for growth.

3). Reproach is the step in which the salesperson learns as much as possible about a prospective customer before making a sales call.

a). Set call objectives.
b). Consider timing.
c) Have a sales strategy.

4) During the approach step, the salesperson should know how to meet the buyer, make him satisfied and get the relationship off to a good start.

5) The presentation and demonstration is the step in which the salesperson tells the product "story" to the buyer, showing how the product will make or save money for the buyer. A need-satisfaction approach where the salesperson investigates the buyer's needs and then matches the product to those needs is advised.



6) Handling objections is the step in the selling process in which the salesperson seeks out, clarifies, and overcomes customer objections regarding buying.

7) Closing occurs when the salesperson asks the customer for an order. The techniques for closing include:

a). Ask for the order.
b). Review points of agreement.
c). Offer to help in writing up the order.
d). Ask whether the buyer wants this model or that one.
e). Note that the buyer will lose out if the order is not placed now.

8). The follow-up occurs after the sale and ensures customer satisfaction.

C. Managing the Sales Force

Sales force management is the analysis, planning, implementation, and control of sales force activities.

It includes:

1. Designing sales force strategy and structure,
2. Recruiting, selecting
3. Training
4. Compensating
5. Supervising
6. Evaluating the firm's salespeople

a. Designing Sales Force Strategy and Structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? Territorial sales force structure is a sales force organization that assigns each salesperson to an exclusive geographic area and sells the company's full line products and services to all customers in that territory. Advantages include:

- It defines the salesperson's job.
- The person gets credit for what they accomplish
- person works in a territory
- Increases the salesperson's desire to build local business.
- Traveling expenses are low (because of reduced territorial size).

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This form is often supported at various levels by managerial structure. Product sales force structure is a sales force organization under which salespeople specialize in selling only a portion of the company's products or lines. Problems can occur if a single customer buys many different products from the company. Extra costs of this method must be compared with the more specialized product knowledge and extra attention to individual products. Customer sales force structure is a sales force organization under which sales people specialize in selling only to certain customers or industries. This form can help to become more customer focused. This form carefully consider primary customers. Complex sales-force structure forms are usually deviations of the basic three mentioned above where combinations occur. Each company should select a sales force structure that best serves the needs of its customers and fits its overall marketing strategy. Salespeople constitute one of the most productive and most expensive assets of the company. Most companies use some form of workload approach to determine sales force size. The workload approach is an approach of setting sales force size, whereby the company groups count into different sizes and classes (or status) and then determines how many salespeople are needed to call. The company may have an outside sales force (field sales-force) that travels to call on customers or they can have an inside sales force which conducts business from their offices via telephone or visits t the prospective buyers. To reduce time demands on their outside sales forces, many companies have increased the size of their inside sales forces and have added:

1). Technical support people.
2). S ales assistants.
3). Telemarketers (using the telephone to sell directly to consumers).

The days when a single salesperson handled large and important customers are vanishing. Today, team selling, using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts, is being used. A structure has to be established that considers rewards and compensation if this method is to be effective.

In team selling situations, Pitfalls include:

a). Selling teams can confuse or overwhelm customers.
b). Salespeople may have trouble in learning to work with and trust others on a team.
c). There may be difficulties in evaluating individual contributions to the team selling effort.

b. Recruiting and Selecting Salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. Careful salesperson selection can greatly increase overall sales force performance. There is no magic list of traits, however, that makes for a good salesperson.

These are the factors which should consider:

1). Enthusiasm.
2). Persistence.
3). Initiative.
4). Self-confidence.
5). Job commitment.

To recruit salespeople the organization can begin by getting recommendations from: current salespeople, using employment agencies, placing ads in classified newspaper, contacting college students.

The selection process usually evaluates:

1). Sales aptitude.
2). Analytical and organizational skills.
3). Personality traits.
4). And other characteristics.

c. Training Salespeople

Many companies ignore the importance of training. Today, however, sales- people may spend anywhere from a few weeks to many months in training. The average training period is four months. Training programs usually have the following goals:

1). Help salespeople to know and identify with the company.
2).To knows how products are produced and how they work.
3) Knows about the competitor's strategies and customer's characteristics.
4). Learn how to make effective presentations.
5). Understand field procedures and responsibilities.

d. Compensating Salespeople

To attract salespeople, a company must have an appealing compensation plan. Compensation is made up of the several elements:

1). A fixed amount, usually a salary, gives the salesperson a more stable income.
2). A variable amount, which might be commissions or bonuses, rewards a sales- person for greater effort.
3). Expense allowances (which repay salespeople for job-related expenses) let salespeople undertake needed and desirable selling efforts.
4). Fringe benefits provide job security and satisfaction.

Management must decide which of these elements (and which combination or amount) makes the most sense for each sales job. The compensation plan can both motivate and direct a salesperson's work.

Basic methods include:

1) Straight salary
2) Straight commission
3) Salary plus bonus
4) Salary plus commission.

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Lesson – 37

SALES FORCE MANAGEMENT
DIRECT MARKETING

e) Supervising Salespeople

Through supervision, the company directs and motivates the sales force to do a better job. The extent of the involvement of the sales management in helping salespeople to manage their territories depending on a variety of factors:

1). Develop customer targets and call norms by dividing accounts into categories.

2). Develop prospect targets.

3). Using sales time efficiently. Aids can come from:

a). An **annual call plan**.

b). A **time and duty analysis**.

c). Technological equipment aids (such as cell phones, computers, and **sales force automation systems**).

d).The fastest growing technology tool used by the sales force is the Internet.

Motivating the salespeople is one of the most important tasks of sales management.

Factors that should be considered in preparing a motivation plan and strategy include:

1) The organizational climate. This describes the feeling that salespeople have about their opportunities, value, and rewards for a good performance within the company.

2). Sales quotas are standards set for salespeople, stating the amount they should sell and how sales should be divided among the company's products. Compensation is many times tied to quotas.

3) The company can use several positive incentives to increase the sales force effort.

a). **Sales meetings** provide social occasions, breaks from routine, chances to meet and talk with company managers, and opportunities to air feelings and to identify with a larger group.

b). **Sales contests** can also be used to spur the sales-force to make a selling effort above what would normally be expected. Incentives could be:

- Honors.
- Merchandise and cash awards.
- Trips.
- Profit-sharing plans.

f) Evaluating Salespeople

Evaluating the salespeople is an important process in the sales force management function. This process requires good feedback. Management gets information about salespeople in several ways. A company knowledgebase should include sales performance by individual salespeople. Feedback is an important aspect of formal evaluation, followed by mutually agreed remedies to problems. Benchmarking between salespeople is good where there is the ability to compare apples with apples in terms of such factors as territory size or



numbers of active customers.

1). an important source of information is the sales report (including call reports and expense reports). Additions to this report can come from:

a). Personal observation.

b). Customer surveys.

c). Talks with other salespeople.

2). Salespeople are generally evaluated on their ability to "plan their work and work their plan."

D. Direct Marketing

Direct marketing consists of direct communications with carefully targeted individual consumers to obtain an immediate response. Interactivity is essential to this process. The marketing manager must remember that direct marketing is not new. Catalog companies, direct mailers, and telemarketers have been using the approach for years. However, improved database technologies and new media (computers, modems, fax machines, e-mail, the Internet, and online services) have changed the direction and nature of direct marketing. Most direct marketers see direct marketing as playing an even broader role than simply selling products and services. **Mass marketing** is targeting broadly with standardized messages and marketing offers distributed through intermediaries. Today, there is a trend toward more narrowly targeted or one-to-one marketing (called **direct marketing**). This approach is being accepted as both a primary and supplemental approach.

a. What is Direct Marketing?

Mass marketers have typically sought to reach millions of buyers with a single product and a standard message delivered through the mass media. Under this mass-marketing model, most marketing involved one-way Communications aimed at consumers, not two-way interactions with them.

Direct marketing consists of direct communication with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting

Customer relationships. Direct marketers communicate directly with consumers, often on a one-to-one, interactive basis. Today, improved databases permit more sophisticated direct marketing and tailoring of marketing efforts. Beyond brand and image building, direct marketers seek a direct, immediate, and measurable consumer response.

b. The New Direct Marketing Model

Early direct marketers--catalog companies, direct mailers, and telemarketers--gathered customer names and sold goods mainly through the mail and by telephone. Today, advancement in database technologies and new marketing media—especially the Internet and other electronic channels--direct marketing has undergone a dramatic transformation. Direct marketing may be perceived as being a distribution function (direct distribution) and a communication function (direct contact with the consumer). Some firms use direct marketing as a supplemental medium. However, for many companies today, direct marketing is more than just a supplemental channel or medium. The Internet and electronic commerce now constitute a new and complete model for doing business. Some say the Internet is the foundation for a new industrial order. Some firms (and the number is growing) use the new direct model as their only approach. Experts envision the day when all buying and selling will involve direct connections between companies and their customers. The new model will change customer's expectations about convenience, speed, comparability, price, and service.

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c. Benefits and Growth of Direct Marketing

Direct marketing brings many benefits to both buyers and sellers. As a result, direct marketing is growing very rapidly.

i. Benefits to Buyers

Direct marketing benefits buyers in many ways:

1). It is **convenient**.
2). Buying is **easy** and **private**.
3). Greater **product access and selection**.
4). Provides a wealth of comparative **information**.
5). Online buying is **interactive and immediate**.

ii. Benefits to Sellers

Sellers benefit by:

1). Direct marketing is a powerful tool for customer relationship building.
2). Direct marketing can also be timed to reach prospects at just the right moment.
3). Because of its one-to-one, interactive nature, the Internet is an especially potent marketing tool. Continuous relationships can be developed.
4). Reduce costs and increase speed and efficiency.
5). Online marketing offers greater flexibility.
6). The Internet is a truly global medium.

d. The Growth of Direct Marketing

Sales through traditional direct marketing channels have been growing rapidly.
Sales through direct marketing channels are growing at about 8 percent annually (as compared to only 6 percent overall sales growths). Online marketing is growing explosively. Sales on the Internet have been growing at about 60 percent per year for the last five years. Trends that seem to moving our society toward even more direct marketing include:

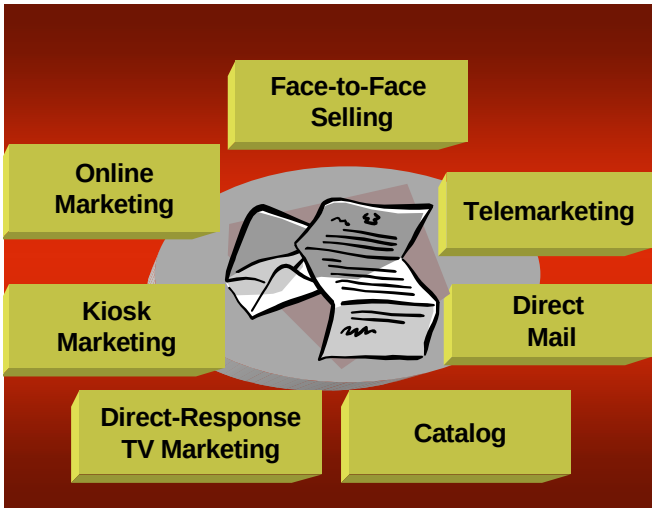
a). Degasification--focus is toward mini markets.
b). Lack of time and congestion. Higher costs of driving.
c).Growth of delivery services and the support infrastructure.
d). Growth of computer power and databases.
e) Growth has also occurred in the business-to-business sector.

e. Forms of Direct Marketing

Major forms of direct marketing are summarized below:

i. Face-to-Face Selling

The original and oldest form of direct marketing is the sales. Today, many companies' still use salespersons or representatives to reach their prospects, develop them into customers, build lasting relationships, and grow the business.



ii. Telemarketing

In telemarketing telephone is used to sell directly to consumers. Two general types of telemarketing include:

1). Outbound telephone marketing to sell directly to consumers.

2). Inbound toll-free 800 numbers to receive orders from television and radio ads, direct mail, or catalogs.

900 numbers are used to sell consumers' information, entertainment, or the opportunity to voice an opinion on a pay-per-call basis. Many customers appreciate the offers they receive by telephone, however, because of the recent explosion in unsolicited telephone marketing, lawmakers are responding with efforts to control unsolicited telemarketing during certain hours of the day. Most telemarketers support some form of legislation.

iii. Direct-Mail Marketing

Direct mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular address. Direct mail is well suited to direct, one-to-one communication.

Advantages include:

1). High target-market selection
2). Personalized.
3). Flexible.
4). Allows easy measurement of results.

Even though the cost per thousand can be high, the people who reached through direct marketing are better prospects than those who reached with other media. New forms of direct mail include:

1). Fax mail.
2). E-mail.
3). Voice mail.

iv. Catalog Marketing

Catalog marketing involves selling through catalogs mailed to a selected list of customers or made available in stores. A **catalog** is a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism. Some stores offer a complete line of goods through their catalogs. Most direct retailers have put their catalogs on the World Wide Web. Web catalogs are passive and must be marketed themselves.

v. Direct-Response Television Marketing

Direct-response television marketing takes one of two major forms.

1). **Direct-response advertising** occurs when marketers air television spots or **infomercials**.

2). **Home shopping channels** are entire programs or channels dedicated to selling goods and services.

In the near future, two-way interactive television and linkages with Internet technology will make television shopping much different from what it is today and it will become one of the major forms of direct marketing.

vi. Kiosk Marketing

Some companies place information and ordering machines (called kiosks) in stores, airports, and other locations (in contrast to machines which dispense products--vending machines). Business marketers can also use kiosks (such as at trade shows). Kiosks are also going online as companies merge real-world and virtual worlds of commerce. The Gap interactive kiosk is a great example of this technology.

vii. Online Marketing and Electronic Commerce

Online marketing is conducted through interactive online computer systems, which link consumers with sellers electronically.

There are two types of online channels:

1). Commercial online services offer information and marketing services to subscribers who pay a monthly fee. The best known is America Online.

2). The commercial online services are now being overtaken by the Internet as the primary online marketing channel. The Internet is a vast and burgeoning global web of computer networks. The World Wide Web is a popular meeting place for consumer and business commerce.

- **Rapid Growth of Online Marketing**

Although still in their infancy, Internet usage and online marketing are growing explosively. Electronic commerce is the general term for a buying and selling process that is supported by electronic means. This would include **electronic marketplaces** (these are "market spaces" in which sellers offer their products and services electronically, and buyers search for information, identify what they want, and place orders using a credit card or other means of electronic payment).

- **The Online Consumer**

The Internet user is not a pasty-faced computer nerd. As a whole, Internet users are an elite group. They tend to be younger, more affluent, better educated, and more male than the general population. However, female usage almost equals males. Net users come from all age groups, about half are 40 years or older, they differ psycho graphically from the general population, and they differ in their approaches to buying and in their responses to marketing. Teens are still a targeted group. The seniors group is also expected to grow in the next several years.

- **Creating Online Marketing**

Marketers can conduct online marketing in four ways:

1).By **creating an electronic online presence**.

Using this method, a company can:

a). Buy space on a commercial online service.

b).Company can open its own Web site.

2). Web sites vary in purpose and content.

a).The most basic type is a corporate Web site. These sites are designed to handle interactive communication initiated by the consumer. They seek to build customer good will and to supplement other sales channels rather than to sell the company's products directly.

b).The marketing Web site is designed to engage consumers in an interaction that will move them closer to a purchase or other marketing outcome.

With this form of site, the marketer initiates communication and interaction.

3).Creating a Web site is one thing; getting people to **visit** the site is another. The key is to create enough value and excitement to get consumers to come to the site, stick around, and come back again. High involvement products (such as new cars, computers, or financial services) have greater success than do lower involvement products.

The second method is to **place advertisements online**. Companies can place online advertisement in several ways:

1) The company can put online ads that pop up while subscribers are surfing online services or Web sites.

2). Content sponsorship allows a company to sponsor a specific report on one of the services.

The third method is to **participate in Forums, Newsgroups, and Web Communities**.

1). **Forums** are discussion groups located on commercial online services.

2). **Newsgroups** are the Internet version of forums.

3). A **Bulletin board system (BBS)** is specialized online services that center on a specific topic or group.

4). **Web communities** are sites that provide a place where members can congregate online and exchange views on issues of common interest. Visitors to these Net neighborhoods develop a strong sense of community. Web communities can be either social or work-related.

The final method is to **use E-mail and Web casting**.

The normal method used is to encourage prospects and customers to send questions, suggestions, and even complaints to the company via e-mail. Quick response to such messages is a key.

The Promise and Challenges of Online Marketing

Online marketing offers great promise for the future but is still years away from reaching its potential. Online marketing is still just one important approach to the marketplace. The Web is still not a moneymaking proposition for many firms.

Challenges that online marketers face include:

1). Limited consumer exposure and buying.
2). Skewed user demographics and psychographics.
3). Chaos and clutter.
4). Security.
5). Ethical concerns.

f. Customer Databases and Direct Marketing

There are differences between **mass marketing** and so-called **one-to-one marketing**. **A customer database** is an organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographics, and behavioral data. The database can be used to locate potential customers, tailor products and services to the special needs of targeted customers or/and maintain long-term customer relationships.

Database marketing is the process of building, maintaining, and using customer database and other database for the purposes of contacting and transacting with customers. A customer database is much more than just a list of names (i.e., customer mailing list). Business-to-business marketers and service retailers most frequently use database marketing.

Companies use their databases in four ways:

1). Identifying prospects.
2). Deciding which customers should receive a particular offer.
3). Deepening customer loyalty.
4). Reactivating customer purchases.

Like many other marketing tools, database marketing requires a special investment.

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Lesson – 38

Lesson overview and learning objectives:

Explain how companies use public relations to communicate with their publics. Public relations, the final mass communication tool described in this chapter, is an attempt to build good relations with the company's various publics by obtaining favorable publicity, building up a good "corporate image," and handling or heading off unfavorable rumors, stories, or events. The organization has a variety of tools at their disposal for accomplishing this feat. One of the overriding tasks of public relations is to control the exposure and relationship with the mass media. By focusing on consumer attitudes, awareness, and knowledge of the organization, the company is better prepared to succeed. Public relations have even been extended to the Internet and companies are beginning to explore ways to increase their effects on the newly emerging world of e-commerce.

A. DIRECT MARKETING
B. PUBLIC RELATIONS

A. Direct Marketing

a. Other Marketing Applications through Databases

Some of the important uses or advantages of using database market are as following:

- Match profiles to cross-sell other products to customers
- Modify marketing messages based on customer profiles
- Reach out to customers to reinforce the purchase decision
- Find new customers
- Gain insight into who is purchasing products
- Improve customer service

Beside uses database marketing also has some disadvantages like

- Marketing databases can be costly and time consuming,
- Databases need to be carefully planned
- Consumer privacy issues.

b. Integrated Direct Marketing

Too often, a company's individual direct marketing efforts are not well integrated with one another or with other elements in its marketing and promotional mixes. A more powerful approach is integrated direct marketing, which involves using multiple-vehicle, multiple-stage campaigns.

c. Public Policy and Ethical Issues in Direct Marketing

Direct marketers and their customers usually enjoy mutually rewarding relation-ships, however, occasionally, a darker side emerges. **Irritation, unfairness, deception, and fraud** are common complaints. Many consumers perceive that an innocent desire to become "close" to the customer really is an **invasion of privacy** (this is the toughest issues facing the industry).

1). Consumers can benefit from database marketing, but at what cost to privacy?

2). in a company's desire to build a database, they often get carried away.

3). in a recent survey, 79 percent of consumers expressed concern about their privacy. In reality, direct marketing is just too expensive to waste on consumers who don't want it.

B. Public Relations

Public relations are very believable—news stories, features, and events seem more real and believable to readers than ads do. Public relations can also reach many prospects who avoid salespeople and advertisements—the message gets to the buyers as "news" rather than as a sales-directed communication. As with advertising, public relations can dramatize a company or product. Marketers tend to underused public relations or to use it as an afterthought. Yet a well-thought-out public relations campaign used with other promotion mix elements can be very effective and economical.

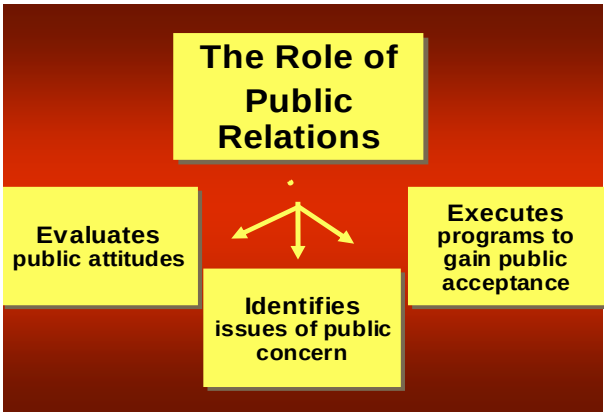
a. Public Relations

Public relations involves building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events. Major functions are:

1). Press relations or press gentry.
2). Product publicity.
3). Public affairs.
4). Lobbying.
5). Investor relations.
6). Development.

Public relations are used to promote products, places, ideas, activities, organizations, even nations.

b. The Role and Impact of Public Relations



Public relations can have a strong impact on public awareness at a much lower cost than advertising. Despite its potential strengths, public relations are often described as a marketing stepchild because of its limited and scattered use. This may be changing, however. Many companies today are looking for public relations to take a more active role in marketing and promotion planning. Marketing public relations departments are being formed. Public relation tools are being used by the companies in evaluating public attitudes, identifying the issues of public concern and to execute the different programs that can gain public acceptance. It means that the public relations is that marketing function which evaluates public attitudes, identifies areas within the organization that the public may be interested in, and executes a program of action to earn public understanding and acceptance.

c. Major Public Relations Tools

Major tools include:

1). News.
2). Speeches.
3). Special events (mobile marketing).
4).Written materials (such as annual reports, brochures, articles, and company newsletters).
5). Audiovisual materials (such as films, slide-and-sound programs, video and audio cassettes).



6) Corporate identity materials (such as logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks).

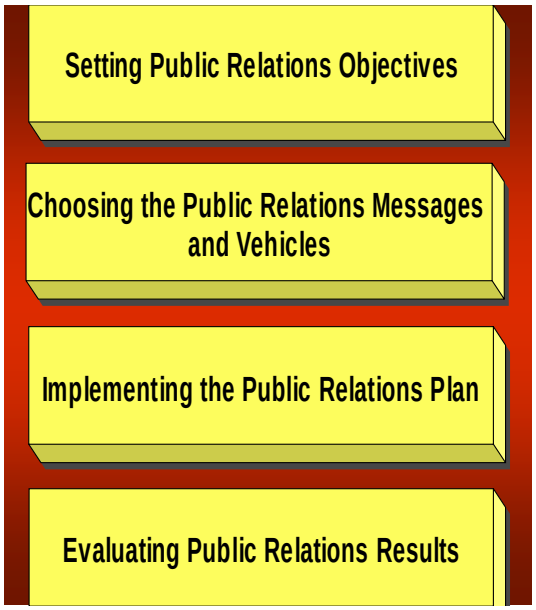
Companies also improve public relations by contributing time and money to public service activities. A company's Web site can be a good public relations vehicle. Consumer and members of other publics can visit the site for information and entertainment. Major public relations decisions include:

1). Setting public relations objectives.

2). Choosing public relations messages and vehicles.

3). Implementing the public relations plan.

4). Evaluating the results.



d. Major Public Relations Decisions

As shown in the fig major public relation decisions are:

Setting Public relations objective that means deciding what are the results that the companies want to achieve by using public relation tools, than second step is choosing the message that companies can communicate to public to fulfill the role of public relation, next step of this system is implementation of the program and finally evaluation of the program in order to judge the success level of public relations tools used.

e. Publicity

Public information is information about a company's goods or services appearing in the mass media as a news item. Stimulation of demand for a good, service, place, idea, person, or organization by unpaid placement of commercially significant news or favorable media presentations. Publicity is more credible to consumers than any other promotional mix element Although publicity is generally thought of as not paid for, firms incur publicity-related expenses that include the cost of employing marketing personnel assigned to create and submit publicity releases, printing and mailing costs, and related expenses.

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Lesson – 39

KEY TERMS

Advertising: Any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Personal selling: Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Sales promotion: Short-term incentives to encourage the purchase or sale of a product or service.

Public relations: Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Direct marketing: Direct connection with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships—the use of telephone, mail, fax, e-mail, the Internet, and other tools to communicate directly with specific consumers.

Personal Communication Channels: In personal communication channels, two or more people communicate directly with each other.

Non-personal Communication Channels: Non personal communication channels are media that carry messages without personal contact or feedback.

Public Relations: Public relations involves building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Advertising: can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times

Publicity Public information is information about a company's goods or services appearing in the mass media as a news item. Stimulation of demand for a good, service, place, idea, person, or organization by unpaid placement of commercially significant news or favorable media presentations.

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Sales Promotion: Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. Whereas advertising and personal selling offer reasons to buy a product or service, sales promotion offers reasons to buy now.

Catalog Marketing: Cata*log marketing* involves selling through catalogs mailed to a select list of customers or made available in stores

Kiosk Marketing: Some companies place information and ordering machines (called kiosks) in stores, airports, and other location

Database marketing is the process of building, maintaining, and using customer databases and other databases for the purposes of contacting and transacting with customers.

Lesson – 40

Lesson overview and learning objectives:
Basic learning objective of today's Lesson is to discuss the need to understand competitors as well as customers through competitor analysis. Explain the fundamentals of competitive marketing strategies based on creating value for customers. Two key trends in marketing for the twenty-first century are:
(a) The trend towards the use of relationship marketing to improve customer satisfaction.
(b) The trend towards in-depth competitor analysis as a means of identifying the company's major competitors (using both an industry and market-based analysis) and closely examining and formulating strategies to deal with competitors' objectives, strategies, strengths and weaknesses, and reaction patterns.

CREATING COMPETITIVE ADVANTAGE

To be successful, a company must consider its competitors as well as its actual and potential customers. In the process of performing a competitor analysis, the company carefully analyzes and gathers information on competitors' strategies and programs. A competitive intelligence system helps the company to acquire and manage competitive information. The company must then choose a competitive marketing strategy of its own. The strategy chosen depends on the company's industry position and its objectives, opportunities, and resources. Several basic competitive strategies are outlined in this chapter. Some of these are time-tested and some are relatively new.
Four primary competitive positions are reviewed in the Lesson.
The first is that of the **market leader** which faces three challenges: expanding the total market, protecting market share, and expanding market share. The market leader is interested in finding ways to expand the total market because it will benefit from any increased sales. The leader must also have an eye towards protecting its share. Several strategies for accomplishing this protection task are presented. Aggressive leaders also try to expand their own market share.
The second position is that of the **market challenger**. This is a firm that aggressively tries to expand its market share by attacking the leader, other runner-up firms, or smaller firms in the industry.
The third position is that of the **market follower** which is designated as a runner-up firm that chooses not to rock the boat (usually out of fear that it stands to lose more than it might gain).
Lastly, the **market niche** is a position option open to smaller firms that serve some part of the market that is not likely to attract the attention of the larger firms. These firms often survive by being specialists in some function that is attractive to the marketplace.
The competitive analysis of these four competitive position options presented in this chapter is a truly unique presentation and offers insight for every potential manager. This information can be used by every mid-level strategic planner who seeks insight into competitive strategy dynamics.

A. Competitive Advantage:

Today's companies face their toughest competition ever. To win in today's marketplace, companies must become adept not just in managing products, but in managing customer relationships in the face of determined competition. Building profitable customer relationships and gaining competitive advantage requires delivering more value and satisfaction to target customers than competitors do. Two steps must be taken in order to deal effectively with competitors and their strategies:

1). the first step is competitor analysis where the company goes through the process of identifying, assessing, and selecting key competitors.

2). the second step is competitive marketing strategies where the company strongly positions itself against competitors and finds a way to give itself the greatest possible competitive advantage.

a. Competitor Analysis

To plan effective marketing strategies, the company needs to find out all it can about its competitors. In this way the company can find the areas of potential competitive advantage and disadvantage.

i. Identifying Competitors

Competitors include those who make similar products and services and sell them to the same customers at similar prices. Competitors can be:

1). those that make the same product or class of products.
2). those that supply the same services.
3). those that compete for the same consumer dollars.

Companies must avoid "competitive myopia" (seeing only one set of competitors). Companies can identify their competitors from the industry point of view or the market point of view. One approach is to profile the company's direct and indirect competitors by mapping the steps buyers take in obtaining and using the product (i.e., a competitor map).

ii. Assessing Competitors

It is important to determine the objectives of the competition. It is important to determine the importance a competitor places on:

1). Current profitability.
2). Market share growth.
3). Cash flow.
4). Technological leadership.
5). Service leadership.
6). other goals.

The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. Strategic groups should be identified. A strategic group is a group of firms in an industry following the same or similar strategy in a given target market.

A). There is often rivalry among groups.
b). All dimensions must be examined to identify the correct strategic group.

Assessment of strengths and weaknesses should be accomplished. Benchmarking is the process of comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance. A company also wants to know what a competitor will do in a certain situation. Each competitor normally reacts differently.

iii. Selecting Competitors to Attack and Avoid

It is very important that a company have an idea of how to select competitors to attack and avoid. Strong or weak competitors may be attacked. Weak competitors are easier targets but less profitable. Succeeding against stronger competitors often provides greater returns. A useful tool for assessing competitor strengths and weaknesses is customer value analysis. The aim of customer value analysis is to determine the benefits that target customer's value and how customers rate the relative value of various competitors' offers.

Steps in conducting customer value analysis include:

- Identify the major attributes that customer's value and the importance customers place on these attributes.
- Assess the company's and competitors' performance on the valued attributes.

Close or distant competitors may be targeted. A company really needs and benefits from competitors.

Benefits of competition include:

- Competitors may help to increase total demand.
- They may share the costs of market and product development and help to legitimize new technologies.
- They may serve less-attractive segments or lead to more product differentiation.
- They lower the antitrust risk and improve bargaining power versus labor or regulators.

A company may not view all competitors as beneficial. "Good" or "bad" competitors also provide opportunities and different threats. Good competitors play by the rules of the industry while bad competitors break the rules.

b. Designing a Competitive Intelligence System

The company must design a broad competitive strategy by which to gain competitive advantage. No one strategy, however, is best for all companies. The competitive intelligence system does the following:

- Identifies the vital types of competitive information and the best sources of this information.
- The system continuously collects information from the field and from published data.
- The system checks the information for validity and reliability, interprets it, and organizes it in an appropriate way.
- It sends key information to relevant decision makers and responds to inquiries from managers about competitors.

c. Competitive Strategies

i. Approaches to Marketing Strategy

No one strategy is best for all companies. Companies differ on how they approach the strategy planning process. Approaches to marketing strategy often pass through three stages:

1). Entrepreneurial marketing—companies started by individuals.

2). Formulated marketing—as small companies achieve success, they inevitably move toward more formulated marketing (formulated marketing strategies).

3). Entrepreneurial marketing—companies that became lost and re-established themselves with the entrepreneurial spirit and actions that made them successful in the first place.

ii. Basic Competitive Strategies

Basic competitive positioning winning strategies include (as suggested by Michael Porter):

1). **Overall cost-leadership**—cost-leadership is gained by being the lowest-cost producer in the industry. This affords the company flexibility in responding to competitive moves by always being able to offer the lowest price to the consumer. This strategy usually wins the company a large market share.

2). **Differentiation**—this strategy creates competitive advantage by offering products with unique customer benefits or features not available from competitive offerings. Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the leader in the industry. This image helps it to compete against lower cost rivals.

3). **Focus**—this narrow-focus strategy achieves competitive advantage by concentrating on narrow segments of a larger market. Emphasis is often on quality or benefits in tightly defined market sub segments.

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Firms that do not pursue a clear strategy (a losing strategy) are called middle-of-the-readers. According to Porter, these firms do the worst in competitive struggles. Another set of strategies based on what they call value disciplines are:

1). Operational excellence—the company provides superior value by leading its industry in price and convenience.

2). Customer intimacy—the company provides superior value by precisely Segmenting its markets and tailoring its products and services to match Exactly the needs of targeted customers.

3). Product leadership—the company provides superior value by offering a Continuous stream of leading-edge products or services that make their own and competing products obsolete.

iii. Competitive Positions

Firms competing in a given target market, at any point in time, differ in their objectives and resources. These firms might take four different forms:

1). **Market leader**—the firm with the largest market share.

2). **Market challenger**—the runner-up firm, fighting to overtake the leader.

3). **Market follower**—the firm that also has runner-up status but seeks to maintain share and not rock the boat.

4). Market niche—the firm that serves small segments that the other firms overlook or ignore.

iv. Market Leader Strategies

Market leader strategies—most industries contain an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new product introductions, distribution coverage, and promotion spending. Competitors focus on the leader as a company to challenge, imitate, or avoid. To remain number one, leading firms may take any of three actions.

A). Expanding **the total demand**—the leader gains the most when the market expands.

1. New users can be attracted from those who are still unaware of the product.
2. New uses can be discovered and marketed to increase purchase.
3. More usage strategies aim at convincing buyers to use the product more often and in greater amounts for each existing usage occasion.

B). Protecting market share.

1. Prevent or fix weaknesses that provide opportunities for competitors.
2. The best defense is a good offense, and the best response is continuous innovation.
3. Increase competitive effectiveness and value to customers.

C). Expanding **market share**—sometimes the leaders can expand their relative market share. If this expansion comes in the served market then even small increases in share can lead to large increases in profitability.

v. Market Challenger Strategies

These firms are usually the second, third, or lower in an industry. These runner-up firms can adopt one of two competitive strategies:

- They can challenge the leader and other competitors in an aggressive bid for more market share (market challengers).

- They can play along with competitors and not rock the boat (market followers.

A market challenger must first define the strategic objective and competitor. The market challenger must decide from among the following strategies:

A). Attack the leader.
b). Avoid the leader.
c). Attack other firms.
d). Acquire smaller firms.

Choosing an attack strategy. The options available are:

A). Frontal attack. Strong challengers sometimes match the market leader's product, advertising, price, and distribution efforts. It strengths rather than weaknesses.

b). Indirect attack. Attack competitive weaknesses or on gaps in the competitor's market coverage.

c). Diversify into unrelated products or leapfrog into new technologies to replace existing products.

vi. Market Follower Strategies

Market follower strategies—not all runner-up companies want to challenge the market leader. The follower can learn from the leader's successes and failures and copy or improve on the leader's product and programs, usually with less investment. This might be called following closely. The follower must also be aware of attacks from challengers. The follower must keep costs low and its product quality and services high, look for new markets as they open. This might be called following at a distance.

vii. Market Niche Strategies

Market niche strategies—mass marketers achieve high volume, the niche achieves high margins. These firms have limited resources. These firms usually know their markets very well. The key idea in nichemanship is specialization. They look for markets that are safe and profitable. The niche can specialize along any of several market, customer, product, or marketing mix lines (Risks are often overcome by multiple nicking).

a). End-user specialist.
b). Customer-size specialist.
c). Specific-customer specialist.
d). Geographic market specialist.
e). Quality-price niche.
f). Service niche.

d. Balancing Customer and Competitor Orientations

Organizations must continually adapt their strategies to fit the fast-paced and ever-changing environment. A competitor-centered company is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them.

1). **Advantages include:**
A). A fighter orientation.
b). Alertness.
2). **Disadvantages include:**
A). the company becomes too reactive.
b). Strategy is built on what others do. Bases goals on what others do.
c). Lessens innovation. It only matches or extends what others does.

Customer-centered company focuses more on customer developments in designing strategies.

1). in a better position to identify new opportunities and set long-run strategies that make sense.
2). It can concentrate on serving the needs of important customer groups.

Market-centered companies are ones that watch both their customers and their competition. Companies have moved through four orientations over the years:

1). **Product-oriented**—pay little attention to either customers or competitors.

2). **Customer-oriented**—started to pay attention to customers.

3). **Competitor-oriented**—when they started to pay attention to customers, they became competitor-oriented.

4). **Market-oriented**—this advanced form balances attention between customers and competition. This method finds new ways to deliver satisfaction to customers and, therefore, overcomes competition. Find innovative ways to deliver more value than competitors do.

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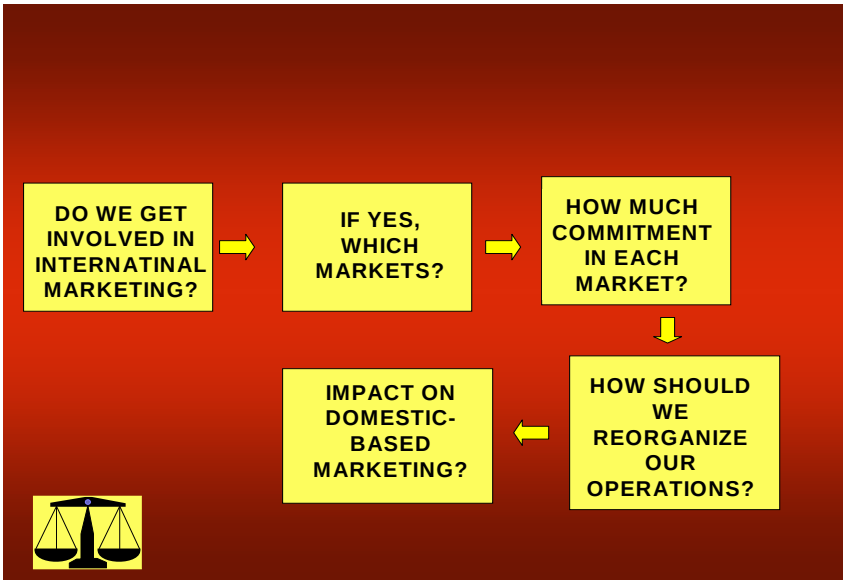
Lesson – 41

Lesson overview and learning objectives:
Discuss the global marketing environment, the international trade system and the economic, political-legal, and cultural environments that affect marketing decisions. Outline the key elements of deciding whether to go international, deciding which markets to enter, and deciding how to enter the market, either through exporting, joint venturing, or direct investment. Explain the primary issue of deciding on the global marketing program, whether to use a standardized or adapted marketing mix, or some combination of the two. Distinguishing among the ways companies manage their global marketing organizations, through export departments, international divisions and becoming a global organization.

A. GLOBAL MARKETING

Companies today can no longer afford to pay attention only to their domestic market, no matter how large it is. Many industries are global industries, and those firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and several other factors. Given the potential gains and risks of international marketing, companies need a systematic way to make their international marketing decisions. The company must understand the international marketing environment.
The l990s mark the first decade in which companies around the world must start thinking globally. Time and distance are shrinking rapidly with the advent of faster communication, transportation, and financial flows. Products developed in one country are finding enthusiastic acceptance in other countries. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards. The firm that stays at home to play it safe not only might lose its chance to enter other markets but also risks losing its home market. A company faces six major decisions in international marketing.

a. Getting involved in international marketing:



Before getting involved in the international marketing some important aspects should be considered by the organization, these include the basic decisions that why should we go international than in which specific market to enter, how to reorganize the resources and the impact of the international operations on local or domestic operations should also be considered major decisions that company takes in involving into international marketing are:

Major International Marketing Decisions:

1. Understanding - comes from looking at the international marketing environment. Multinational companies operating in many countries have proliferated and in a global economy more companies must consider international markets if they are to grow.

2. Deciding - whether to go abroad may be the best growth opportunity, even for relatively small companies. More foreign markets can increase volume.
3. Which Markets - to enter is also based upon environmental conditions.
4. How to Enter - involves choices about how to compete.
5. The Marketing Program - appropriate to international markets includes variations on the product and promotion.
6. The Marketing Organization - choices available in international marketing include export department, international division, and global organization.

b. LOOKING AT THE GLOBAL MARKETING ENVIRONMENT

i. Globalization

A myriad of forces are coming together in the late 1990's which are triggering the globalization of industries, companies and individuals. Trade blocks are forming which are consolidating market regions; global communications and media are bringing information, services, cultures and brands to all corners of the world. Industries such as finance, computers, telecommunications and media have become global.

ii. International Trade System

Trade system concerns identify opportunities and obstacles for US firms abroad. Companies should investigate tariffs (taxes on imported goods), quotas (which restrict import amounts), and other obstacles such as non-tariff barriers that may affect ability to compete.

1. The General Agreement on Tariffs and Trade - GATT: This is a 45-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers.
2. Regional Free Trade Zone: 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 Community (EC)

When selling aboard, the firm faces various restrictions. Examples are:

1). A tariff is a tax levied by a government against certain imported products, which is designed to raise revenue or to protect domestic firms. This is the most common barrier. The tariff may be designed either to raise revenue or to protect domestic firms.

2). A quota is a limit on the amount of goods that an importing country will accept in certain product categories. It is designed to conserve on foreign exchange and to protect local industry and employment.

3). An embargo is a ban on the import of a certain product (the strongest form of quota).

4). Exchange controls are limits placed by a government on the amount of its foreign exchange with other countries and on its exchange rate against other countries.

5). Non tariff trade barriers are no monetary barriers to foreign products, such as biases against a foreign company's bids or product standards that go against a foreign company's product features.

c. Looking at the Global Marketing Environment

i. Economic Environment.

Concerns relate to the industrial structure of the host country. Subsistence and raw-material exporting countries may be limited markets for some kinds of consumer goods.

ii. Political/Legal Environments.

Regulations and government attitudes vary from country to country and in each country in their attitude toward foreign firms. Scrutiny of legal regulation is a must. At least four political—legal factors should be considered when considering whether to do business in a given country.

1. Attitudes towards international buying: Some nations are quite receptive to foreign firms and others are quite hostile.
2. Political Stability: Stability is another issue. Governments change hands, sometimes violently. Even without a change a government may decide to respond to new popular feelings.
3. Monetary Regulations: Firms need to assess the government and currency regulations within a country to determine if any restrictions exist and if they will play a negative role in the international business in that country. Besides currency limits, a changing exchange rate also creates high risks for the seller. International trade usually involves cash transactions; however in some instances a barter system can be developed, this practice has been called counter trade and now accounts for about 25% of all world trade.

iii. Cultural Environment.

Cultural differences are very important in international marketing. Most advertising and even product images are culturally based and may be inappropriate, ineffective, and even offensive in another culture. Care is required.

d. DECIDING WHETHER TO GO INTERNATIONAL

Not all companies need to venture into foreign markets to survive. For example, many companies are local businesses that need to market well only in the local marketplace. However, companies that operate in global industries, where their strategic positions in specific markets are affected strongly by their overall global positions, must think and act globally. Any of several factors might draw a company into the international arena. International competitors might attack the company's domestic market by offering better products or lower prices. The company might want to counterattack these competitors in their home markets to tie up their resources. Or the company might discover foreign markets that present higher profit opportunities than the domestic market does. The company's domestic market might be shrinking, or the company might need an enlarged customer base in order to achieve economies of scale. Or it might want to reduce its dependence on any one market so as to reduce its risk. Finally, the company's customers might be expanding abroad and require international servicing.

e. DECIDING WHICH MARKETS TO ENTER

Before going abroad, the company should try to define its international marketing objectives and policies. First, it should decide what volume of foreign sales it wants. Second, the company must choose how many countries it wants to market in. Third, the company must decide on the types of countries to enter. Possible international markets should be ranked on several factors, including market size, market growth, and cost of doing business, competitive advantage, and risk level.

f. DECIDING HOW TO ENTER THE MARKET

i. Exporting.

Exporting may be of two kinds.

1. Indirect Exporting: works through independent international intermediaries and involves less investment by the exporter.
2. Direct Exporting: involves more risk and investment as the firm sets up its own presence in the host country but the potential return is also greater.

ii. Joint Venturing.

Firms have four types of joint venture available to them.

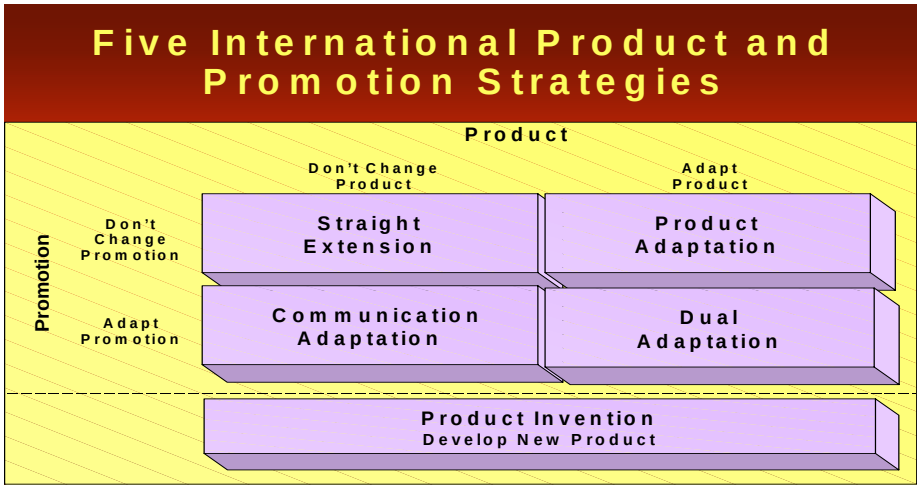
1. Licensing: occurs when a company enters into an agreement with a licensee in the foreign market. Licensing means little risk but also little control.
2. Contract Manufacturing: arranges for a foreign producer to make products in the host country for that market.
3. Management Contracting: has the exporting firm provide the management team with the host country supplying the capital.
4. Joint Ownership consists: of one company joining with another in the host country to create a local business in which they share owner ship and control.

iii. Direct Investment

Direct investment occurs when the exporting firm enters a foreign market by developing foreign-based assembly or manufacturing facilities.

g. DECIDING ON THE INTERNATIONAL MARKETING PROGRAM

Global or multinational?



Although the issue has been vigorously debated, there is increasing recognition that a global strategy can possess sufficient flexibility to have a standardized business strategy and yet still market and deliver products adapted for many different markets.

i. Product Strategies.

1. Straight Product Extension: involves marketing a product in the foreign market without making any changes. Some products may have very strong brand awareness and already be desired as is in the new market.
2. Product Adaptation: involves changing the product to meet local conditions or wants. Often product forms need to be altered. Size and tastes, for example, are usually at least partially preferred on some culturally related dimensions.
3. Product Invention: consists of creating something entirely new for the foreign market.

ii. Promotion

1. Communication Adaptation: is often required. Although some companies can use a single theme and meaning internationally, it is often the case that the local variation on even a universal theme may require some modification. Also, media vary in the reach and effectiveness, even their availability.
2. Dual Adaptation: involves a combination of promotion and product alternations for the foreign market.

iii. Price

International pricing: Regardless of method used to calculate prices, they will probably be higher than domestic prices. Issues relate to transfer pricing, dumping (The controversial trade practice of selling a product in a foreign market at a lower price than it commands in the producer's domestic market.) and grey market.

iv. Distribution channels

1. Whole-channel view: This view involves designing channels that take into account all the necessary links in distributing the seller's products to final buyers, including the seller's headquarters organization, channels between nations and channels within nations.

h. THE GLOBAL STRATEGY FRAMEWORK

i. Three Step Global Strategy

Every industry has aspects that are global or potentially global - global meaning that there are inter country connections. A strategy is global to the extent that it is integrated across countries. George Yip suggests that a total global strategy usually has three separate steps or components:

1. Step one is the development of a core strategy which is the basis of the firm's competitive advantage.
2. Step two involves the internationalization of the strategy through expansion of activities and adaptation of the core strategy to several country markets.
3. Step three integrates the strategy across countries. At this stage globalization is achieved. This involves managing for worldwide business leverage and competitive advantage.

ii. Globalization strategy

1. Market participation relates to the choice of country markets and the level of activity in these countries.
2. Product/Service standardization involves the extent to which standardization or differentiation exists in each country.
3. Location of value adding activities requires choices of location of each of those activities in the business's value chain from R & D to service back-up.
4. Marketing involves choices about worldwide use of brand names, advertising, sales strategies and service.
5. Competitive moves relate to the extent to which moves in specific countries form part of a global competitive strategy.

i. DECIDING ON THE MARKETING ORGANISATION

i. Export Department.

During early international marketing efforts, companies typically just create a new department to coordinate international operations. The sales manager may take on larger staff if and as the international business grows in importance and more marketing services are needed to support it.

ii. International Division.

As the level of involvement in and complexity of international operations increases, companies commonly organize an international division. In addition to running international operations, the division oversees strategic growth and investigates different types of foreign entry opportunities in new countries. Operating units in foreign markets under division control may be organized by geographical organization, world product groups, or international subsidiaries.

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iii. International Organization.

For many large companies, the scope of operations grows to the point where they are no longer a firm involved in many foreign markets, they are a truly a multinational company. Recruitment, management, suppliers, manufacturing, and financing are no longer linked to a single-country mentality. The entire world becomes a single market whose segmentation is base upon strategic and tactical competitive advantage, not national affiliation.

j. BASIC COMPETITIVE STRATEGY PROFILES

i. Global Leader Strategy

Innovator in technologies, products and markets with high global share and wide country market coverage

ii. Global Challenger Strategy 1

Frontal or encirclement attack on the leader in all markets with increasing country market coverage and high global share but less than the leader.

iii. Global Challenger Strategy 2

Flanking or bypassing world leader with increasing country market coverage and high global share but less than the leader.

iv. Global Follower Strategy

Rapid imitation of leader or challenger with moderate country market coverage and emphasis on price sensitive markets. The result is overall moderate share with high shares in selected country markets.

v. Global Niche Strategy 1

Rapid penetration of narrow market segments by selective targeting of country markets and small share of overall market.

vi. Global Niche Strategy 2

Infiltration - slow penetration of selected narrow markets with focus on selected country markets and low share of the overall market.

vii. Global Collaborator Strategy

Innovations in research and development of technologies, products and markets, set standards and shares them with other firms. This shows small or moderate country market shares but high shares when all strategic "standards users" are included.

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Lesson – 42

After today's Lesson students should be able to explain the importance of the E. Marketing, benefits of using internet as a tool to reach the customers, and at the same time a tool to do business in more effective and time saving way.

A. E-MARKETING

a. Internet Marketing:

Internet was used for the first time in 1982. It began to expand in 1991 with the World Wide Web. Internet technologies pose managerial implications to business. Marketers are using internet as very effective tool of marketing

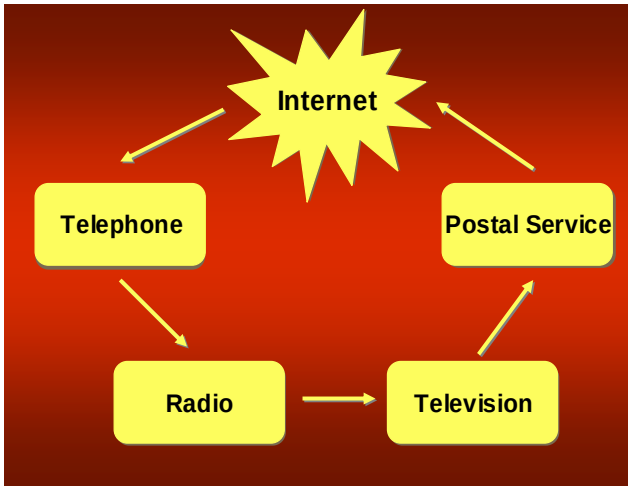
b. Major Forces Shaping the Digital Age:

Digitalization and Connectivity: The flow of digital information requires connectivity which is best provided by the Intranets, Extranets, and the Internet. The Internet explosion is the key driver of the "new economy". New types of the intermediaries are also playing important role in the shaping of digital age

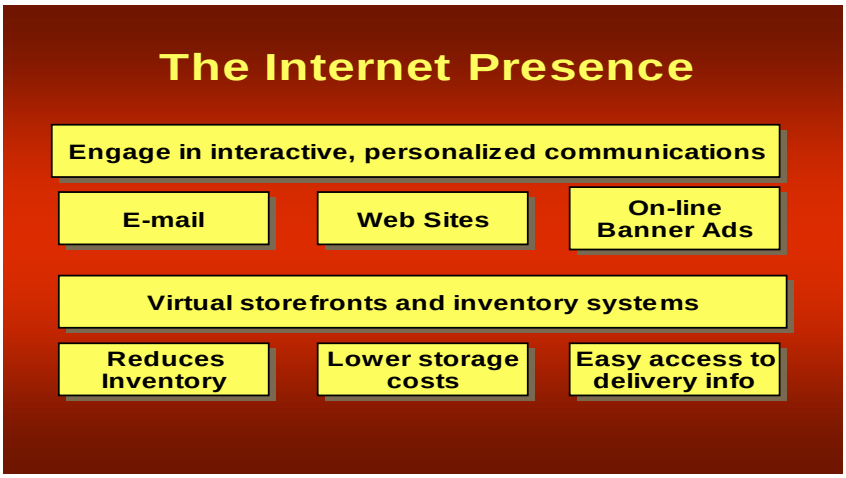
c. The Role of the Internet in Marketing:

Internet is very important tool in marketing. It is useful for marketers in different ways like:

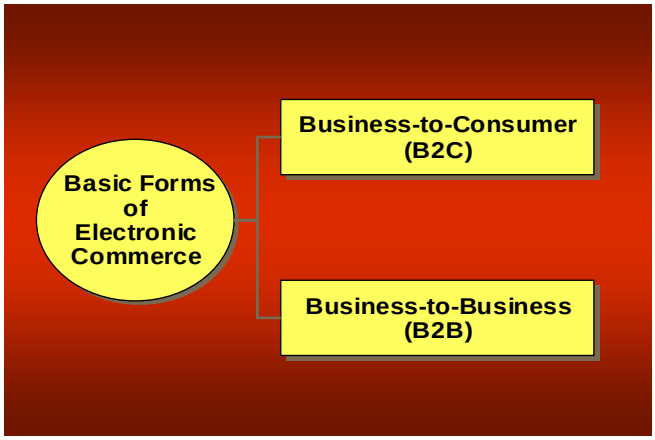
- It is the fastest growing communication technology.
- Within the first five years, 50 million people were connected.
- Capable of interactively sharing information in real time.



Internet is a new tool to reach consumers initially different tools like telephone, postal services, radio and televisions were used as a source to communicate to consumers but now days along with these tools internet is also being used as a source to reach and to communicate to customers/consumers. Using internet companies can provide their information to customers through websites, search engines can be used to coordinate the consumers and producers, customers can used the e. mails to connect to the producers. Customers and consumers not only acquire information through internet but also can make online purchases by placing orders to desired producers, it provides convenience and time saving for both



consumers and producers, as shown in the fig. Companies can reduce their need of inventory stocks by using the inventory systems. Online banners, ads, website and e. mails can be used as personalized communication tools.



d. Electronic Commerce

- **E-Commerce-** The process of conducting business transactions over electronic networks, mostly the Internet

- **E-Marketing :** The process of utilizing Information Technology in the conception, distribution, promotion, and pricing of goods, services, and ideas to create exchanges that satisfy individual and organizational objectives

- **E-Business:** The use of Information Technology in all business tasks including production, marketing, accounting, finance, and human resources management

Basic objective of the marketing is to use of 4 "P's" to meet customer's needs. This objective is best achieved by using E. marketing in Supply Chain Management. Technology can be used to increase efficiency of marketing and increases company profitability and adds customer value

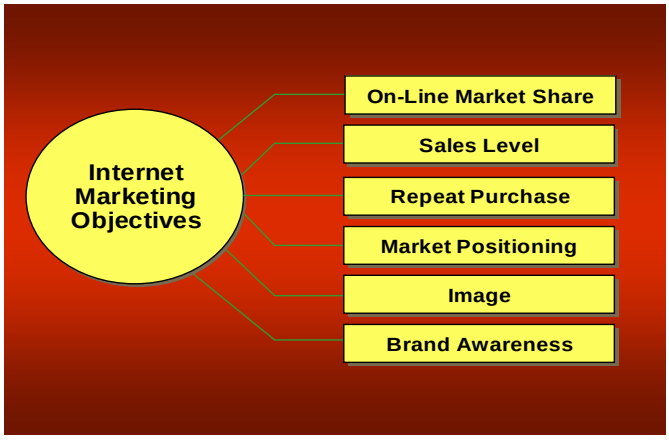
e. Rules of E-Marketing:

General rules of E. Marketing are:

1. Power Shift from sellers to buyers
2. Increasing Velocity
3. Death of Distance
4. Global reach
5. Time compression
6. Knowledge management is key
7. Market deconstruction
8. Intellectual capital rules

f. Buyer Benefits of E-Commerce

- Convenience
- Easy and private
- Greater product access/selection
- Access to comparative information
- Interactive and immediate

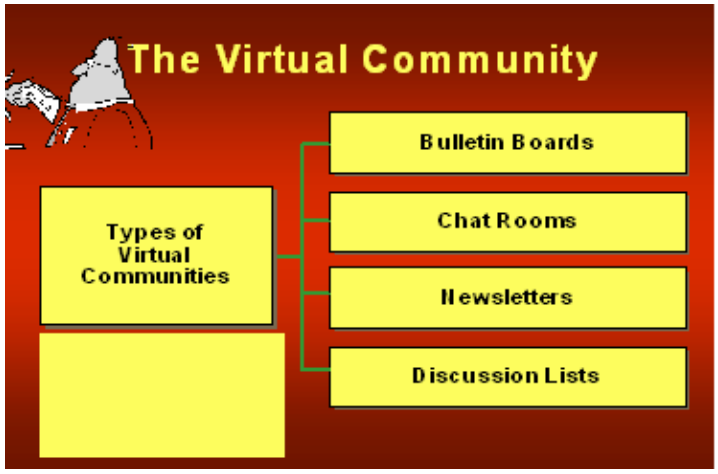


g. Seller Benefits of E-Commerce:

- Relationship building
- Reduced costs
- Increased speed and efficiency
- Flexibility
- Global access, global reach

h. Basic-Forms

i. Virtual Business:



There are two types of the electronic commerce one is termed as business to business and second is termed as business to business electronic commerce. As the term indicates business to consumer commerce mean consumer acquires product through electronic commerce for consumption purpose while for business to business commerce is used to sale the product for further business processes. What ever is the type of commerce it requires connection between the two parties which are buyer and the seller. This connection and the interaction are provided by the virtual communities. Manufacturers or sellers can use the bulletin boards, chat rooms, newsletters and discussion lists for communication process that can facilitate the exchange process between the buyers and the sellers. Major source of effectiveness of this system is dependent upon the internet technology that is changed the world into global village.

j. Key Success Factor for Internet Businesses

Success of the internet business depends upon the offer of value and customer driven products adjusting the prices according to products values, going for specific customers instead of the mass marketing, distributing the products according to customer's convenience. Designing the marketing mix that is 4ps in that way which is beneficent for both customers and producers.

k. Internet Marketing Objectives

As shown in the fig the main objectives of the internet marketing are, to have online market share, to increase the sales level, make customers to make repeat purchases, market positioning, image building of the company and creation of awareness regarding the brand of the company this can be created by using different online promotional tools on internet that include bulletin advertisement, button advertisement, targeted E. mail etc. By using these tools phenomenon of the digital world is being created. Basic concept of the phenomenon is to provide the value products to the customers with speed. Pakistani manufacturers/ producers can use the internet technologies for the development of the businesses.

Some advantages that can be achieved by using internet include:

- it can be used as a tool to do business
- increase your customers base
- increase your efficiency and effectiveness
- cost effective
- time saving
- open new venue
- Can become the part of global economy through internet marketing

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Lesson – 43

Lesson overview and learning objectives:
This Lesson examines the social effects of private marketing practices. A marketing system should sense, serve, satisfy consumer needs and improve the quality of consumers' lives. In working to meet the consumer's needs, marketers may take some actions that are not approved of by all the consumers or publics within the social sector. Marketing managers must understand the criticism that the marketing function may encounter. By understanding the criticism, the manager is better prepared to respond to it in a proactive manner. Some of the criticism is justified; some is not. After this Lesson students should be able to Identify the major social criticisms of marketing. Describe the principles of socially responsible marketing. Explain the role of ethics in marketing.

MARKETING AND SOCIETY

Responsible marketers discover what consumers want and respond with the right products at right price to give good value to buyers, and profit to the producer. The marketing concept is a philosophy of customer satisfaction and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of millions of consumers. Not all marketers follow the marketing concept; however private transactions may involve larger questions of public policy (i.e., the illustration of the sale of cigarettes). Two major issues in marketing are ethics and Social responsibilities which we will be discussing today.

A. Social Criticisms of Marketing

Marketing receives much criticism. Some of this is justified and some is not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole, and other business firms.

a. Marketing's Impact on Individual Consumers:

Consumers have many concerns about how well the marketing system serves their interests. There are six primary criticisms leveled at the marketing function by consumers, consumer advocates, and government agencies.

i. Harming consumers through high prices.
ii. Deceptive practices.
iii. High-pressure selling.
iv. Shoddy or unsafe products.
v. Planned obsolescence.
vi. Poor service to disadvantaged consumers.

i. **Harming consumers through high prices:** Many critics charge the marketing system causes prices to be higher than need be. Some factors to which these critics point are as follows:

- **High costs of distribution**. Greedy intermediaries mark up prices beyond the value of their services. There are too many intermediaries and they duplicate services. Resellers have responded by saying that: the work performed by the intermediaries is necessary and takes away the responsibility from the consumer or the manufacturer, the rising markup is really the result of improved services, operating costs are driving up prices, in reality, profit margins are low because of intense competition. Strong retailers pressure their channel members to keep prices low.
- **High advertising and promotion costs.** Marketing is accused of driving up promotion and advertising costs. Marketers respond by saying that: consumers want more than the merely functional qualities of products, they want psychological benefits, branding, even

though it may cost more, gives buyers confidence, heavy advertising is needed to inform millions of potential buyers of the merits of a brand, Heavy advertising and promotion may be necessary for a firm to match competitors' efforts. Companies are cost-conscious and try to spend their promotional dollars wisely.

- **Excessive markups**. Critics charge that some companies mark up goods excessively. This charge is responded by the marketers respond by saying as: most businesses try to deal fairly with consumers because they want the repeat business, most consumer abuses are unintentional, When shady marketers do take advantage of consumers, and they should be reported to the authorities, Consumers often do not understand the reason for the high markup.

ii. **Deceptive Pricing:** Marketers are sometimes accused of deceptive practices that lead consumers to believe that they will get more value than they actually do. Three groups exist with respect to these alleged practices:

1). Deceptive pricing includes such practices as falsely advertising "factory" or "wholesale" prices, or a large reduction from a phony high list price.

2). Deceptive promotion includes such practices 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.

3). 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.

Deceptive practices have led to legislation and other consumer protection actions. Marketers argue that most companies avoid deceptive practices because such practices harm their business in the long run. According to some experts, some puffery, however, will always occur.

iii. **High-pressure selling:** High-pressure selling is another criticism of marketing. Laws require door-to-door salespeople to announce that they are selling a product. Also, buyers have a "three-day cooling-off period" in which they can cancel a contract after rethinking it.

iv. **Shoddy and Unsafe products:** Shoddy or unsafe products are another criticism leveled against marketers. Complaints include: 1). Complaints about products not being made well or services were not performed well. 2). Products deliver little benefit. 3). Product safety has been a problem for several reasons:

a). Manufacturer indifference.
b). Increased production complexity.
c). Poorly trained labor.
d). Poor quality control.

Responses to these complaints from marketers are positive. Marketers in general want to make beneficial and safe products.

v. **Planned obsolescence:** Planned obsolescence is a strategy of causing products to become obsolete before they actually need replacement and is a criticism leveled by consumers. Fashion is often cited as an example. Marketers respond that consumers like lifestyle changes; they get tired of old goods and want a new look. Much of so-called planned obsolescence is actually the normal interaction of competitive and technological forces in a free society.

vi. **poor service:** In contemporary society poor service to disadvantaged consumers is another criticism against marketing. Clearly, better marketing systems must be built in low-income areas. Critics believe the poor have been exploited by marketers.

b. Marketing's Impact on Society as a Whole

Some criticisms have also been leveled at marketing because of its perceived negative impact on society as a whole. Criticisms include marketing creating:

i. **False wants and too much materialism**. People are judged by what they own rather than who they are. This criticism perhaps overstates the power of business to create needs. Our needs are influenced by other forces than just marketing needs. Some even see materialism as a positive force.

ii. **Producing too few social goods**. There needs to be more of a balance between social (public) and private goods. Options are the government could require more safety be built into products (autos for example), or make consumers pay social costs.

iii. **Cultural pollution**. Constant assaults on privacy by advertising and noise clutter. Marketing answers by saying: Marketers hope that their ads reach primarily the target audience; ads make much of television and radio free to users and keep down the costs of magazines and newspapers.

iv. **Too much political power.**

companies do promote and protect their own interests. They have a right to. Counter forces are in place to offset business promotional and political power.

c. Marketing's Impact on Other Businesses

Critics charge that a company's marketing practices can harm other companies and reduce competition. Three problems are involved:

1). Acquisitions of competitors. There may be too many of these according to some acquisition is a complex subject, however, and sometimes acquisition may be good for society.

2). Marketing practices that create barriers to entry. Patents and heavy promotional spending are often cited

3). Unfair competitive marketing practices. Predatory competition is dangerous to the overall well-being of the economy. To distinguish between what is predatory and what is healthy competition is often difficult.

B. Marketing Ethics

Marketing Ethics are marketers' standards of conduct and moral values. People develop standards of ethical behavior based on their own systems of values and that may differ from employer's organizational ethics, which produces conflicts Conscientious marketers face many moral dilemmas. Companies need to develop corporate marketing ethics policies—broad guidelines that everyone in the organization must follow. Areas of concern include:

1). Distributor relations.
2). Advertising standards.
3). Customer service.
4). Pricing.
5). Product development.
6). General ethical standards.

The finest guidelines cannot resolve all the difficult ethical situations a marketer faces. What principle should guide companies and marketing managers on issues of ethical and social responsibility? Two general philosophies are used:

1). Issues are decided by the free market and legal system. Under this system companies and their managers are not responsible for making moral judgments. Companies can do whatever the system allows.

2). Issues are the responsibility of individual companies and managers. This approach says that the company should have a "social conscience" that guides action. This is a more enlightened philosophy.

Each company and marketing manager must work out a philosophy of socially responsible and ethical behavior. Remember that written codes do not ensure ethical behavior. The issue of ethics provides special challenges for international marketers. Bribery may be socially acceptable in one country and completely illegal in another. Companies must commit to a single ethical standard

that can be applied worldwide. Many industrial and professional associations have suggested codes of ethics; many companies are now adopting their own codes. Companies are developing programs to teach managers about important ethics issues and help them find the proper responses. Still, written codes and ethics programs do not ensure ethical behavior. Given the challenges of this century, companies that are able to create new values in a socially-responsible way will have a world to conquer.

a. Consumerism:

Business firms have been the target of organized consumer movements **Traditional sellers' rights include:**

1). 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.
2). Right to charge any price for the product, provided no discrimination exists among similar kinds of buyers.
3). Right to spend any amount to promote the product, provided it is not defined as unfair competition.
4). Right to use any product message, provided it is not misleading or dishonest in content or execution.
5). Right to use buying incentive schemes, provided they are not unfair or misleading.

Traditional buyers' rights include:

1). Right not to buy a product that is offered for sale.
2). Right to expect the product to be safe.
3). Right to expect the product to perform as claimed.
4). Right to be well informed about important aspects of the product.
5). Right to be protected against questionable products and marketing practices.
6). Right to influence products and marketing practices in ways that will improve the "quality of life."

Consumers have the right but also the responsibility to protect themselves instead of leaving this function to someone else.

b. Environmentalism

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 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 operate with more care for the environment. The marketing system's goal should be to maximize "life quality." Companies are adopting policies of environmental sustainability developing strategies that both sustain the environment and produce profits for the company. The challenge is to develop a sustainable global economy. Environmental sustainability has several strategies:

- Pollution prevention—this involves more than pollution control (cleaning up waste after it has been created). It means eliminating or minimizing waste before it is created. Green marketing programs have helped.
- Product stewardship—minimizing not just pollution from production but all environmental impacts throughout the full product life cycle a]. 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.
- New environmental technologies—new technologies.
- Sustainability vision—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. Environmentalism creates special challenges for global

marketers because environmental policies vary widely between countries. There are no uniform standards.

C. Enlightened Marketing

Enlightened marketing is a philosophy holding that a company's marketing should support the best long-run performance of the marketing system. It has five principles:

a. **Consumer-oriented marketing**. A principle of enlightened marketing which holds that the company should view and organize its marketing activities from the consumer's point of view.

b. **Innovative marketing.** A principle of enlightened marketing that requires that a company seek real product and marketing improvements.

c. **Value marketing**. A principle of enlightened marketing which holds that a company should put most of its resources into value-building marketing investments.

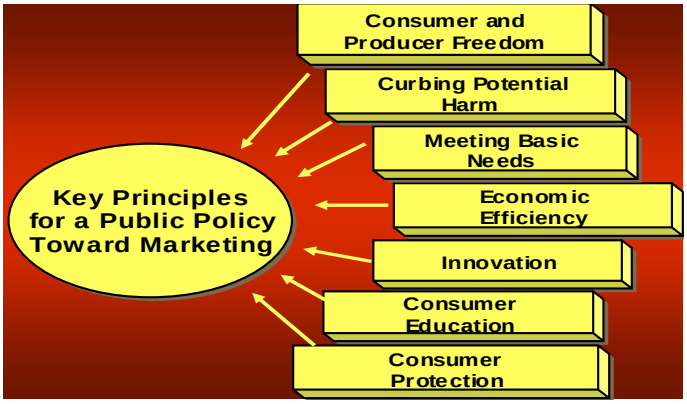
d. **Sense-of-mission marketing.** A principle of enlightened marketing that holds that a company should define its mission in broad social terms rather than narrow product terms.

e. **Societal marketing.** A principle of enlightened marketing which holds that a company should make marketing decisions by considering consumer's wants, the company's requirements, consumer's long-run interests, and society's long-run interests. A societal oriented marketer wants to design products that are pleasing and beneficial. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit. Degree of satisfaction might include:

- Deficient products are products that have neither immediate appeal nor long-term benefits. Example: bad-tasting medicine.
- Pleasing products are products that give high immediate satisfaction but may hurt consumers in the long-run. Example: cigarettes.
- Salutary products are products that have low appeal but may benefit consumers in the long-run. Example: seat belts and air bags.
- Desirable products are products that give both high immediate satisfaction and high long-run benefits. Example: a tasty and nutritious food.

Key Principles for Public policy towards Marketing:

Certain public policy principles can be used to make the marketing more effective these principles include full consumer and producer freedom, potential harms should be eliminated**,** producers should meet the basic needs of the consumers, there should be economic efficiency consumers and producers both should be on beneficent in practicing the exchange process, producer should ensure the innovation , consumer should be provided full knowledge about the products and should be protected against any sort of unethical and illegal practices by the producers,



Lesson – 44

Learning objectives:
After reading this handout you will be able to learn the following areas.

A. MARKETING
B. SIMPLE MARKETING SYSTEM
C. CORE CONCEPTS OF MARKETING
D. CUSTOMER RELATIONSHIP MANAGEMENT
E. MARKETING PHILOSOPHIES
F. BCG MATRIX
G. PRODUCT MARKET EXPANSION GRID
H. MARKETING PROCESS
I. MARKETING ENVIRONMENT
J. MARKETING INFORMATION SYSTEM AND MARKETING RESEARCH
K. CONSUMER BEHAVIOR
L. MARKETING SEGMENTATION
M. PRODUCT AND SERVICES

Marketing

Marketing involves having the right product available in the right place at the right time and making sure that the customer is aware of the product.

Marketing is part of all of our lives and touches us in some way every day. To be successful each company that deals with customers on a daily basis must not only be customer-driven, but customer-obsessed. The best way to achieve this objective is to develop a sound marketing function within the organization. Marketing is defined as "a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others." Marketing is a key factor in business success. The marketing function not only deals with the production and distribution of products and services, but it also is concerned with the ethical and social responsibility functions found in the domestic and global environment. Marketers must also be aware of customer value and customer satisfaction and make these concepts a central part of the firm's strategic plan. Marketing must also be aware of and respond to change. Four of the greatest changes that have had an impact on the way companies bring value to their customers are the explosive growth of the computer, the Internet, telecommunications, and information technology. Marketing and its core concepts, the exchange relationship, the major philosophies of marketing thought and practice, customer relationship management

What is Marketing?

a. Creating customer value and satisfaction are at the very heart of modern marketing thinking and practice.
b. A very simple definition of marketing is managing profitable customer relationships.
   1). The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.
   2). Sound marketing is critical to the success of every organization.
c. You already know a lot about marketing—it's all around you.

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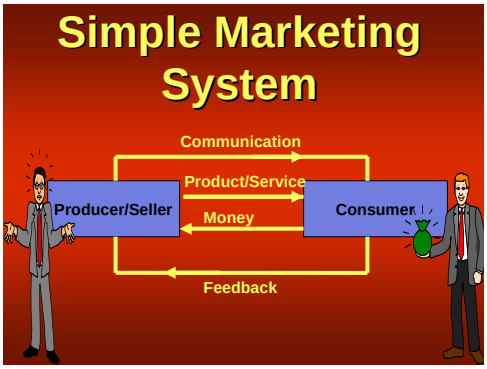
D. Simple Marketing System

1. **Producer/ seller**
2. **Consumer**
3. **Communication**
4. **Product/ service**
5. **Money**
6. **Feedback**

Participants in a simple marketing system:

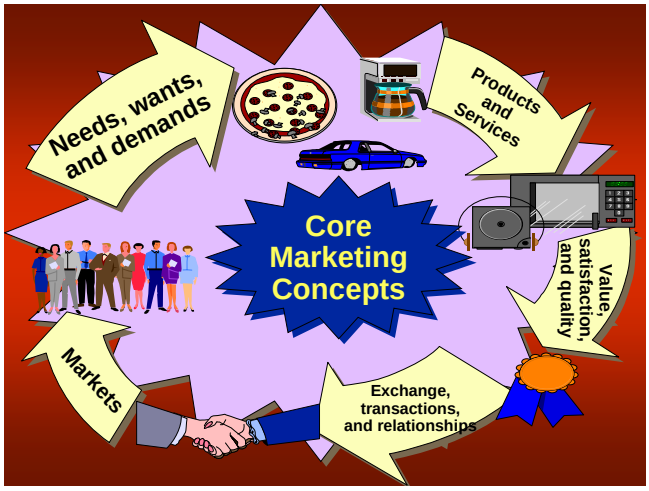
1. Producer/ seller
2. Consumer
3. Communication
4. Product/ service
5. Money
6. Feedback

E. Core Marketing Concepts



Core Marketing Concepts:

1. Needs, wants, and demands
2. Products and Services
3. Value, satisfaction, and quality
4. Exchange, transactions, and relationships
5. Markets



1. Needs, wants, and demands

Needs: Human needs are the most basic concept underlying marketing. A human need is a state of felt deprivation.

1). Humans have many complex needs.

a). Basic, physical needs for food, clothing, warmth, and safety.

b). Social needs for belonging and affection.

c). Individual needs for knowledge and self-expression.

2). These needs are part of the basic human makeup.

Demands: Another concept in marketing is human wants. A human want is the form that a human need takes as shaped by culture and individual personality.

Demands: are human wants that are backed by buying power.

Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. Outstanding marketing companies go to great lengths to learn about and understand their customer's needs, wants, and demands.

2. Products and Services

Marketing Offers—Products, Services, and Experiences

Companies address needs by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs.

a. The value proposition is fulfilled through a marketing offer—some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

b. The concept of product is not limited to physical objects and can include experiences, persons, places, organizations, information, and ideas.

c. Be careful of paying attention to the product and not the benefit being satisfied.

d. "Marketing myopia" is caused by shortsightedness or losing sight of underlying customer needs by only focusing on existing wants.

e. Smart marketers create brand meaning and brand experiences for consumers.

3. Value, satisfaction

Customer value: is the difference between the values that the customer gains from owning and using a product and the costs of obtaining the product. Customers form expectations about the value of various marketing offers and buy accordingly.

Customer satisfaction: depends on a product's perceived performance in delivering value relative to a buyer's expectations. Customer satisfaction is a key influence on future buying behavior.

1). Marketers must be careful to set the right level of expectations.

2). Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

4. Exchange, transactions, and relationships

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining a desired object from someone by offering something in return.

Whereas exchange is a core concept of marketing, a transaction (a trade of values between two parties) is marketing's unit of measurement. Most involve money, a response, and action.

Marketing consists of actions taken to build and maintain desirable exchange relationships with target audiences involving a product, service, idea, or other object.

5. Markets

The concepts of exchange and relationships lead to the concept of a market. A market is the set of actual and potential buyers of a product.

1). originally a "market" was a place where buyers and sellers gathered to exchange goods (such as a village square).

2). Economists use the term to designate a collection of buyers and sellers who transact in a particular product class (as in the grain or housing market).

3). Marketers see buyers as constituting a market and sellers constituting an industry.

4). Marketers are keenly interested in markets.

F. Customer Relationship Management

Customer relationship management (CRM) has been defined narrowly as a customer database management activity.

Customer relationship management. "is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction?"

1). Today, customer relationship management is seen as the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

2). Traditional marketing practices focused on attracting new customers rather than retaining existing ones. The move today, however, is toward building long-term relationships with customers and other stakeholders.

G. Marketing Philosophies

There are five alternative concepts under which organizations conduct their marketing activities: the production, product, selling, marketing, and societal marketing concepts.

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The Production Concept

The production concept holds that consumers will favor products that are available and highly affordable and that management should, therefore, focus on improving production and distribution efficiency. This is one of the oldest philosophies that guide sellers.
The production concept is useful when:

1). Demand for a product exceeds the supply.

2). The product's cost is too high and improved productivity is needed to bring it down.
The risk with this concept is in focusing too narrowly on company operations. Do not ignore the desires of the market. This concept can lead to "marketing myopia."

The Product Concept

The product concept states that consumers will favor products that offer the most quality, performance, and features, and that the organization should, therefore, devote its energy to making continuous product improvements.
1). some manufacturers mistakenly believe that if they "build a better mousetrap," Consumers will beat a path to their door just for their product.
2). the product concept can also lead to "marketing myopia," the failure to see the challenges being presented by other products.

The Selling Concept

Many organizations follow the selling concept. The selling concept is the idea that consumers will not buy enough of the organization's products unless the organization undertakes a large-scale selling and promotion effort.
1). this concept is typically practiced with unsought goods (those that buyers do not normally think of buying).
2). to be successful with this concept, the organization must be good at tracking down the interested buyer and selling them on the product benefits.
3). Industries that use this concept usually have overcapacity. Their aim is to sell what they make rather than make what will sell in the market.
4). There are not only high risks with this approach but low satisfaction by customers.

The Marketing Concept

The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.
Under the marketing concept, customer focus and value are paths to sales and profits. The marketing and selling concepts are often confused. The primary differences are:

1). The selling concept takes an "inside-out" perspective (focuses on existing products and uses heavy promotion and selling efforts).
2). The marketing concept takes an "outside-in" perspective (focuses on customer needs, values, and satisfactions).
Many companies claim to adopt the marketing concept but really do not unless they commit to market-focused and customer-driven philosophies.

1). Customer-driven companies research current customers to learn about their desires, gather new product and service ideas, and test proposed product improvements.

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2). Such customer-driven marketing usually works well in a situation of clear need and when customers know what they want.

3). When customers do not know what they want, marketers can try customer-driving marketing—understanding customer needs even better than customers themselves do, and creating products and services that will meet existing and latent needs now and in the future.

The Societal Marketing Concept

The societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets. It should then deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and the society's well-being.

1). The societal marketing concept is the newest of the marketing philosophies.

2). It questions whether the pure marketing concept is adequate given the wide variety of societal problems and ills.

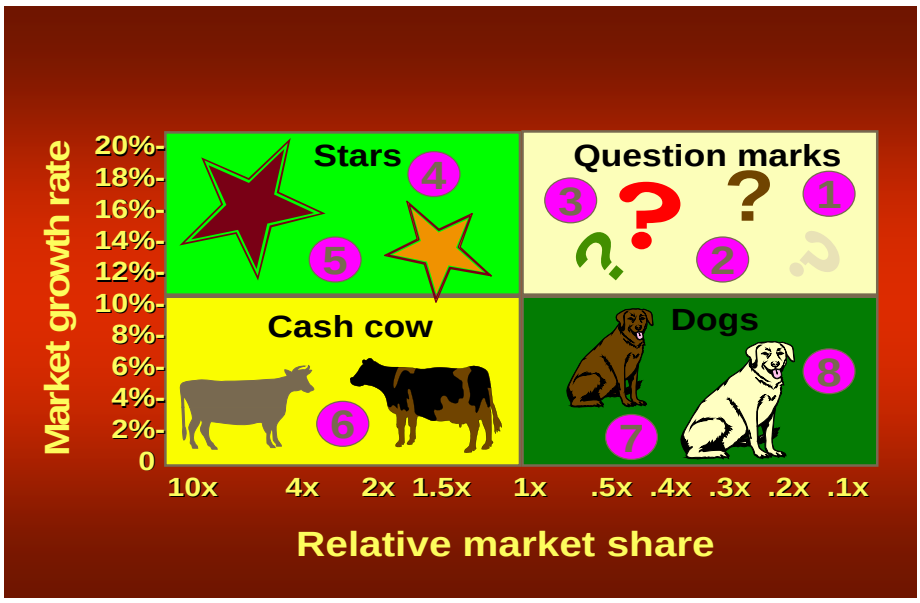
3). According to the societal marketing concept, the pure marketing concept overlooks possible conflicts between short-run consumer wants and long- run consumer welfare.

4). The societal concept calls upon marketers to balance three considerations in setting their marketing policies:

a). Company profits.
b). Customer wants.
c). Society's interests.

5). It has become good business to consider and think of society's interests when the organization makes marketing decisions.

H. Boston Consulting Group



Using the matrix, four types of SBUs can be identified:

a). Stars are high-growth, high-share businesses or products (they need heavy investment to finance their rapid growth potential).

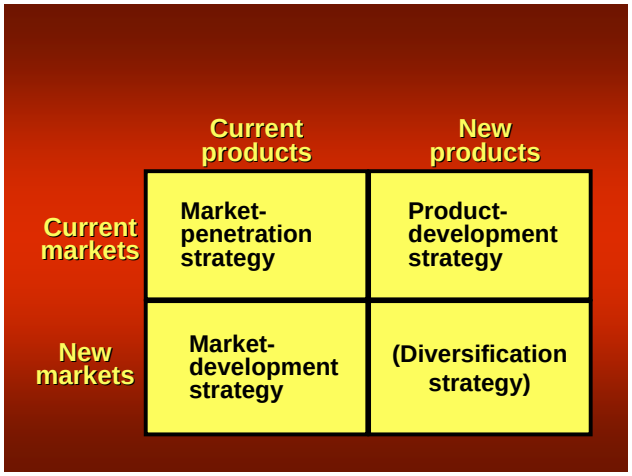
b). Cash Cows are low-growth, high-share businesses or products (they are established, successful, and need less investment to hold share).

c). Question Marks are low-share business units in high-growth markets (they require a lot of cash to hold their share).

d). Dogs are low-growth, low-share businesses and products (they may generate enough cash to maintain them, but do not have much future).

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I. Product/Market Expansion Grid



Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market expansion grid is a portfolio-planning tool for identifying company growth opportunities through:

1). Market Penetration—making more sales to present customers without changing products in any way (example, adding more stores).

2). Market Development—a strategy for company growth by identifying a developing new markets for current company products (example, demographic and geographical markets).

3). Product Development—a strategy for company growth by offering modified or new products to current markets.

4). Diversification—a strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

J. Marketing Process

Once the strategic plan has defined the company's overall mission and objectives, Marketing plays a role in carrying out these objectives. The marketing process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort. Target customers stand at the center of the marketing process. The goal is to make strong and profitable connections with these customers.

K. Marketing Environment

In order to correctly identify opportunities and monitor threats, the company must begin with a thorough understanding of the marketing environment in which the firm operates. The marketing environment consists of all the actors and forces outside marketing that affect the marketing management's ability to develop and maintain successful relationships with its target customers. Though these factors and forces may vary depending on the specific company and industrial group, they can generally be divided into broad micro-environmental and macro-environmental components. For most companies, the micro-environmental components are: the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics. The macro-environmental components are thought to be: demographic, economic, natural, technological, political, and cultural forces. The wise marketing manager knows that he or she cannot always affect environmental forces. Smart managers can take a proactive, rather than reactive, approach to the marketing environment.

As a company's marketing management collects and processes data on these environments, it must be ever vigilant in its efforts to apply what it learns to developing opportunities and dealing with threats. Studies have shown that excellent companies not only have a keen sense of customer but an appreciation of the environmental forces swirling around them. By constantly looking at the dynamic changes that are occurring in the aforementioned environments, companies are better prepared to adapt to change, prepare long-range strategy, meet the needs of today's and tomorrow's customers, and compete with the intense competition present in the global marketplace.

L. Marketing Information System and Marketing Research

In carrying out their marketing responsibilities, marketing managers need a great deal of information. "Information is power" is a legitimate statement. Despite the importance and growing

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supply of information, managers often lack enough information of the right kind or have too much of the wrong kind to make the critical decisions necessary to be successful in our highly competitive global marketplace. Most marketing managers don't need more information, they need better information. To overcome these problems, many companies are taking steps to improve their marketing information systems. A commitment to an information system is not just a technological commitment but a corporate culture commitment as well.

A well-designed marketing information system (MIS) first assesses information needs. The MIS next develops needed information (generally from internal company data, marketing intelligence activities, marketing research, and information analysis procedures and sources). Finally, the MIS distributes information to managers in the right form at the right time to help them make better marketing decisions. Once the system is in place and functioning, decision-making becomes easier and better. Few firms with efficient information systems fail in the marketplace.

Marketing research, which is one of the components of an information system, involves collecting information relevant to a specific marketing problem facing the company. The marketing research process consists of four steps: defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings. In addition to traditional sources of information that can now be used for marketing research, online databases and Internet data sources are becoming more important to the marketing research process.

Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing an organization.

1). Every marketer needs research.

2). Marketing research can be done by an internal department or it can be done by an outside firm.

The marketing research process consists of four steps: defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings.

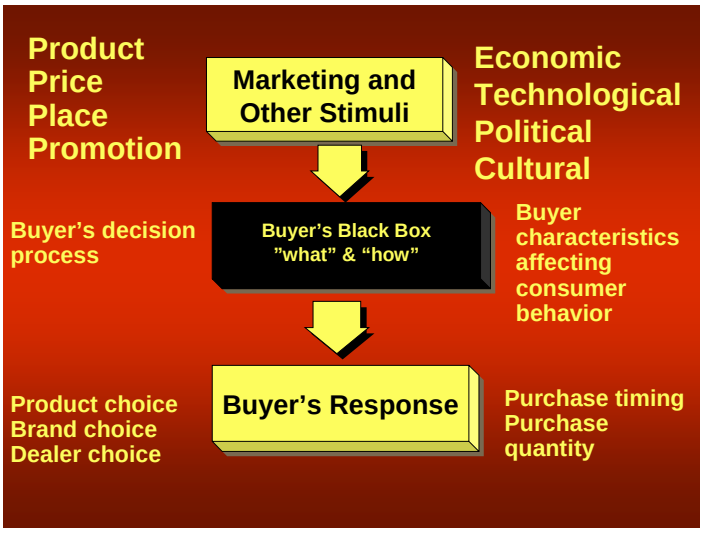
Step 1—Problem Definition and the Research Objectives
Step 2— Developing the Research Plan
Step 3 — Implementation
Step 4— Interpretation and Reporting of Findings

M. Consumer Buying Behavior

Markets (and those which they serve) have to be understood before marketing strategies can be developed. The consumer market buys goods and services for personal consumption. With respect to the individuals in the consumer market, the behavior of the consumer is influenced by the buyer's decision process. Buyer characteristics include four major factors: cultural, social, personal, and psychological. Each of these factors is explored in detail. Relationships are drawn between the factors (and factor subparts) and the consumption purchases made by consumers. Because many of these factors are deep and long lasting in their effect, the marketing manager should pay special attention to acquiring information about them with respect to the organization's target markets. Decisions vary based on the degree of buyer involvement and the degree of differences among brands. For new products, special situations affect the consumer choice decision. It has been found that consumers respond at different rates (depending on consumer and product characteristics), gain knowledge about the products in different ways, and become aware of "newness" with varying rates of consideration. Factors that speed the rate of adoption of new products are covered and explained. Understanding consumer behavior is difficult enough for companies marketing within the borders of a single country. The problem is compounded when a firm attempts to market in the global environment.

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Consumer Black Box



a) Consumers make many buying decisions every day.

b) A model of consumer behavior helps managers answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy.

1). Learning about the what, where, when, and how much is fairly easy.

2). Learning about the "why" is much more difficult.

c) The central question is: How do consumers respond to various marketing efforts the company might use.

d) The stimulus-response model of buyer behavior shows that marketing (made up of the four P's—product, price, place, and promotion) and other stimuli (such as the economic, technological, political, and cultural environments) center on the consumer's "black box" and produce certain responses.

e) Marketers must figure out what is "in" the consumer's "black box."

f) The "black box" has two parts.

1). The buyer's characteristics influence how he or she perceive and react to stimuli.

2). The buyer's decision process itself affects the buyer's behavior.

N. Market Segmentation

Market Segmentation: "Dividing a market into distinct groups with distinct needs, characteristics, or behavior who might require separate products or marketing mixes".

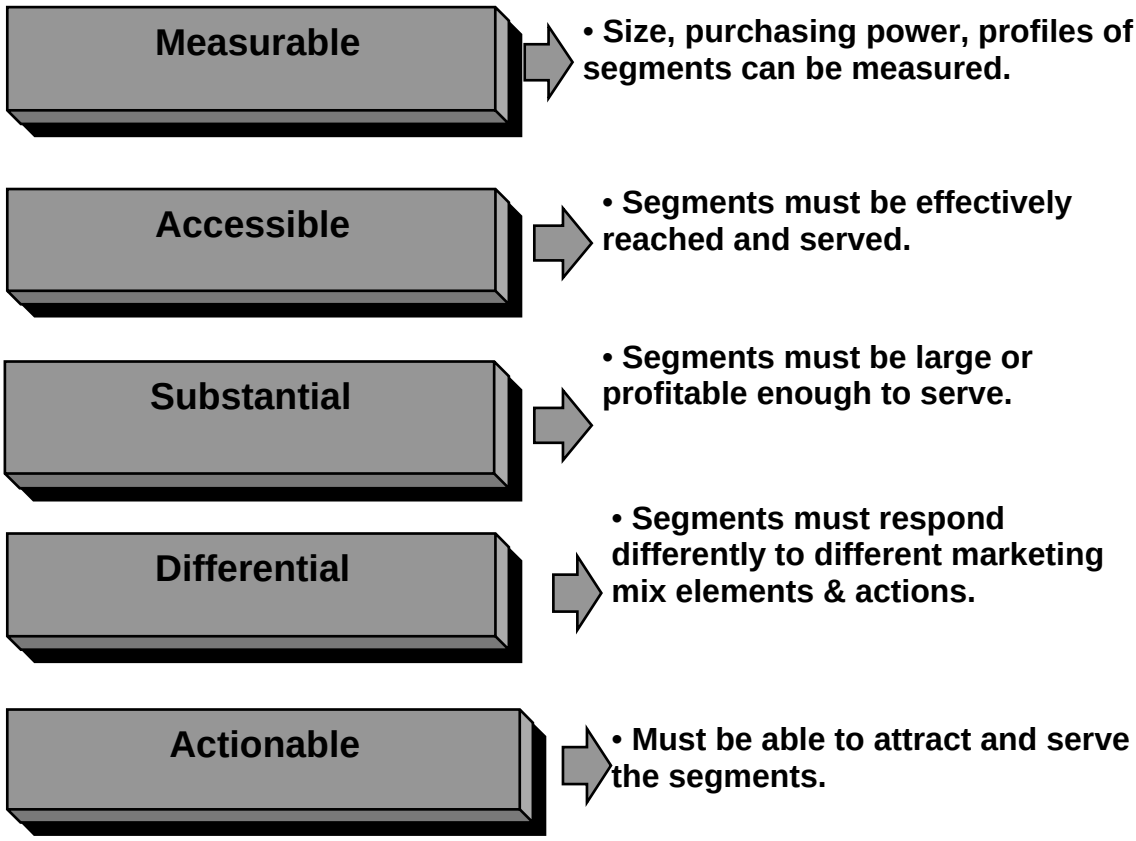
Market segmentation provides a method to divide or segment the market into narrow segments (using a variety of different meaningful variables—these variables or bases are discussed at length in the chapter) that can be better reached with the resources of the marketer. Market targeting examines each of the designated segment's attractiveness and chooses one or more that match the marketing desires and objectives of the organization. Various coverage strategies are explained and detailed.

The concept of market positioning arranges for a product to occupy a clear, distinctive, and desirable place relative to competition. Various methods for achieving significant differentiation are explained and illustrated. The above three steps aid the marketer in effectively arranging the company's marketing mix so that the likelihood of consumer response and competitive advantage is maximized by the organization.

Segmentation Variables

- Geographical segmentation
- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation

Requirements for Effective Segmentation



Product & services

Product is a complex concept that must be carefully defined. As the first of the four marketing mix variables, it is often where strategic planning begins. Product strategy calls for making coordinated decisions on individual products, product lines, and the product mix. Products and services can be thought of as occupying three levels: the core product, the actual product, and the augmented product. Consumer products are usually classified according to how consumers buy them (convenience, shopping, specialty, or unsought products). Industrial goods are classified according to whether materials and parts, capital items, and supplies and services are produced. The primary difference between industrial and consumer goods is the purpose for which the product is bought.

In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other "marketable entities"—namely, organizations, persons, places, and ideas. Whether an organization is classed as profit or nonprofit, marketing has a role to play in the entity. Political candidates and sports figures are perhaps the best examples of how important marketing is to person marketing. With the growth of tourism marketing, many states, nations, and attractions have learned how to market themselves effectively. Lastly, idea marketing (primarily social marketing issues) has gained in popularity in the latter part of this century. Those that study trends in marketing believe that all of the above areas will continue to grow and expand in the years ahead.

Companies have to develop strategies for the items in their product lines. They must decide on product attributes, branding, packaging, labeling, and product support services. Each of these areas is explained so that the individual product decision is seen as a sequence of planned events. Most companies produce a product line rather than a single product. Product line and product mix decisions are critical to the success of the product in a competitive environment. The product mix

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describes the set of product lines and items offered to customers by a particular seller. Product lines must be managed carefully. One way to do this is to examine how to stretch and fill lines. The product mix is described by its width, length, depth, and consistency. Each of these tools helps the planner to properly view the product so it can achieve competitive superiority and better product strategy.

The twenty-first century may well indeed be the century of the brand. There has been renewed interest in the concept of brand equity (the positive differential effect that knowing the brand name has on customer response to the product or service). Solid brands counter cynical consumers. Managing brand is an art that must be mastered by the successful marketer. This art is increasingly difficult and complicated with the emergence of strong global brands and increasing competition for consumer dollars. In reality, a brand's position will not take hold fully unless everyone in the company lives the brand.

Services (although many times mentioned in the same breath as product) are different from products. Because the United States has become a service economy, it is very important that the marketer understand the strategies associated with the delivery of services. The characteristics of services (intangibility, inseparability, variability, and perish-ability) are examined and detailed. The ability to differentiate and produce high quality services is a must for the services marketer. Today, successful companies focus on the creation of service-profit chains. To make these chains work, a company may have to undertake internal and interactive marketing. Service productivity is as important as manufacturing productivity.

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Lesson – 45

Learning objectives:

- **A. A NEW PRODUCT DEVELOPMENT**
- **B. PRODUCT LIFE CYCLE STRATEGIES**
- **C. PRICING STRATEGIES**
- **D. PLACING STRATEGIES**
- **E. PROMOTION STRATEGIES**
- **F. CREATING COMPETITIVE ADVANTAGE**
- **G. GLOBAL MARKET PLACE**
- **H. MARKETING AND SOCIETY**

A. New Product Development

Organizations must develop new products and services. A company has to be good at developing new products. It also must manage them in the face of changing tastes, technologies, and competition. As a reason to change, the company must realize that products face limited life spans and must be replaced by newer products. In addition, new products can fail. The risks of innovation can be as great as the rewards.

The key to successful innovation is in a total-company effort, strong planning, and a systematic new-product development process. The new-product development process consists of eight stages: idea generation, idea screening, concept development and testing, marketing strategy development, business analysis, product development, test marketing, and commercialization. At each stage, a decision must be made as to whether the idea should be further developed or dropped. The company wants to minimize the chances of poor ideas moving forward or good ideas being rejected.

Each product has a life cycle marked by a changing set of problems and opportunities. The sales of a typical product follow an S-shaped curve made up of five stages.

These stages include:

- the product-development stage
- the introduction stage
- the growth stage
- the maturity stage
- and the decline stage

As the product passes through these stages, the marketing planner must adjust the organization's strategies and be aware of changing problems, threats, and opportunities. The planner must adjust the firm's marketing mix to these changes and be able to predict when significant changes will occur. Managing change is a true marketing management art and is necessary for the organization to be successful in the long-term.

New Product development Process

1. Idea Generation

The first step in the new-product development process is idea generation, which is the systematic search for new product ideas. For every one hundred new product ideas, only a very few ever make it to commercialization. The search for these ideas should be systematic not haphazard. There are many sources for new product ideas.

Among the most significant are:

a. Internal sources where formal research and development, company scientists and engineers, company executives, and company salespeople can contribute ideas based on their formal and informal research and experience.

b. Customers can also produce good new-product ideas (simply by watching and listening to them). Customers often create new products and uses on their own.
c. Competitors are another source of new-product ideas. It is a good idea to watch competitor's ads and other communications to get clues about new products. In addition, the organization can buy competing products, take them apart, analyze the business processes used to sell the product, and then decide whether to make a similar product themselves.
d. Distributors, suppliers, and others in the distribution chain can be sources of information. Resellers are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell about new concepts, techniques, and materials that can be used to develop new products. Other sources can be trade magazines, trade shows, seminars, government agencies, consultants, university and commercial laboratories, etc.

I). The search for new-product ideas should be systematic rather than haphazard.

ii). Top management can avoid many problems by adopting an idea management system that directs the flow of new ideas to a central point where they can be collected, reviewed, and evaluated. The idea manager:

1]. Helps to create an innovation-oriented culture.
2]. Yields a larger number of ideas.

2. Idea Screening

The second step in the new-product development process is idea screening which involves screening new product ideas in order to spot good ideas and drop poor ones as soon as possible. Because product-development costs rise dramatically in later stages, companies must proceed only with product ideas that will turn into profitable products. One way to keep information organized is to have executives write up new-product ideas on a standard form that can be reviewed by a new-product committee. A well-designed system for rating and evaluating new-product ideas prevents problems at latter stages.

3. Concept Development and Testing

The third stage in the process is concept development and testing. Concepts may take on several forms:

1). A product idea is an idea for a possible product that the company can see itself on the market.
2). A product concept is a detailed version of the new-product idea stated in meaningful consumer terms.
3). A product image is the way consumers perceive an actual or potential product.

a. Concept development involves developing product ideas into some alternative product concept, finding out how attractive each concept is to consumers, and choosing the best one.
b. Concept testing involves testing the concepts with a group of target consumers to find out if the concepts have strong consumer appeal. Concepts may be presented to consumers either symbolically or physically. Marketers are always trying to find new ways to make product concepts more real to concept-test subjects.

1). For some concept tests, a word or picture description might be sufficient.
2). Virtual reality tests are becoming popular.
3). It is routine to test concepts before consumers before attempting to turn them into actual products.

4. **Marketing Strategy Development**
   a. The fourth step is marketing strategy development which involves designing an initial marketing strategy for a new product based on the product concept.
   b. A marketing strategy statement should be produced. This is a statement of the planned strategy for a new product that outlines the intended target market, the planned product positioning, the sales, market share, and profit goals for the first few years.

1). The statement also outlines the product's planned price, distribution, and marketing budget for the first year.
2). Lastly, the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy.

5. Business Analysis

The next step is business analysis, which is a review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives. To estimate sales, the company should look at the sales history of similar products and should survey market opinion.

6. Product Development

The sixth step is product development, which involves developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product. This step calls for a large jump in investment.
1). The R&D department will develop one or more physical versions of the product concept and these prototypes can take varying lengths of time to develop.
2). When ready, these prototypes must be tested.
3). The prototype must have the required functional features and convey the intended psychological characteristics.

7. Test Marketing

The seventh step is test marketing, which is the stage at which the product and marketing programs are introduced into more realistic marketing settings. Test marketing lets the marketer get experience with marketing the product.
1). The basic purpose is to test the product itself in real markets.
2). The amount of test marketing varies with each new product.
   a). Not all products are test marketed.
   b). Simple line extensions and copies of competitor products are often not test marketed.
3). The test marketing costs can be high but they are often small when compared to with the costs of making a major mistake.
4). Using test marketing doesn't guarantee success, however.

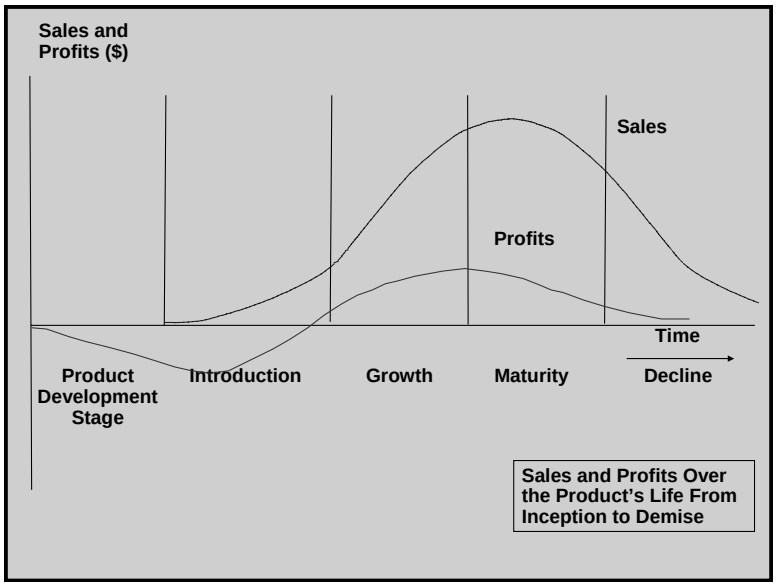
8. Commercialization

The eighth and final step in the new-product development process is commercialization. This step is introducing a new product into the market. The company bringing out a new product must make the following decisions:
1). When? When is the time right (timing) to introduce the new product?
2). Where? The company must decide whether to launch the new product in a single location, a region, several regions, the national market, or the inter-national market. Sometimes a market rollout works best where introduction is phased in. Global rollout may also be done.

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B. Product life Cycle Strategies

After launching a new product, management hopes it will enjoy a long and profitable life. Management, however, is also aware of that each product will have a life cycle. The product life-cycle (PLC) is the course of a product's sales and profits over its lifetime. It involves five distinct stages:



- **a.** The product development stage begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mount.
- **b.** The introduction stage is a period of slow sales growth as the product is being introduced in the market. Profits are nonexistent in this stage because of heavy expenses of product introduction.
- **c.** The growth stage is a period of rapid market acceptance and increasing profits.
- **d.** The maturity stage is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
- **e.** The decline stage is the period when sales fall off and profits drop.

1. Introduction Stage

Because the product-development stage of the PLC was examined at the beginning of the chapter, the first stage to explore in more detail at this point is the introduction stage. This stage is when the product is new and first distributed and made available for purchase.

- **a.** In this stage, profits are negative or low because of the low sales and high distribution expenses.
- **b.** Prices tend to be on the high side because of low output, production problems, high promotion, and other expenses.
- **c.** There are usually few competitors.
- **d.** The focus is on buyers who are the most ready to buy.
- **e.** The market pioneer must launch its product with a strategy that is consistent with a long-term focus on the market rather than a quick profit gain. Retaining market leadership may be difficult, but is desirable.

2. Growth Stage

The growth stage is the product life-cycle stage during which a product's sales start climbing quickly.

- **a.** Early adopters will continue buying and later buyers will start following their lead.
- **b.** New competitors may enter the market and introduce new product features.
- **c.** The market will expand.
- **d.** Prices will remain where they are or fall only slightly.

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e. Companies keep their promotion spending at the same or at a slightly higher level.
f. Educating the market remains a goal, but the company must also meet the competition.
g. Profits increase.
h. The firm faces a trade-off between high market share and high current profit.

3. Maturity Stage

The maturity stage is that stage in the product life cycle where sales growth slows or levels off. Product managers may have to do more than simply defend their products. Most products are in their maturity stage, and therefore, management has the most experience with this stage.

a. Market modification is an approach in which the company tries to increase the consumption of the current product. It looks for new users and market segments. It tries to increase usage among present customers. It may also reposition the brand to appeal to a larger or faster-growing segment.
b. Product modification is an approach to change product characteristics. This can be accomplished by quality improvement, feature improvement, or style improvement.
c. Marketing mix modification is an approach in which the product manager tries to improve sales by changing one or more marketing mix elements.

4. Decline Stage

The decline stage is the stage in the product life cycle in which a product's sales decline. This can occur for several reasons:

a. Technological advances.
b. Shifts in consumer tastes.
c. Increased competition.

Firms must be aware that carrying a weak product past its useful life can be very costly to the firm in many ways. Companies need to pay more attention to their aging products. Decisions that need to be made are:

a. The firms may decide to maintain a brand without change in the hope that competitors will leave the industry.
b. Managers may decide to harvest the product (which means reducing various costs and hoping that sales hold up).
c. Managers may decide to drop the product from the line (sell it or liquidate it at salvage value).

C. Price

"The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service".

Price goes by many names in our economy. In the narrowest sense, price is the amount of money charged for a product or service. This meaning, however, has been broadened. Today, despite the increased role of non-price factors in the modern marketing process, price remains an important element in the marketing mix.

Many internal and external factors influence the company's pricing decision. Internal factors include the firm's marketing objectives, marketing mix strategy, costs, and organizational factors. External factors that influence pricing decisions include the nature of market and demand, competition, and other environmental factors like the economy, reseller needs, and government actions. In the end, the consumer decides whether the company has set the right price. The

consumer weighs the price against the perceived value of using the product. If the price exceeds the sum of the value, consumers will not buy the product. Consumers differ in the values they assign to different product features and marketers often vary their pricing strategies for different price segments.

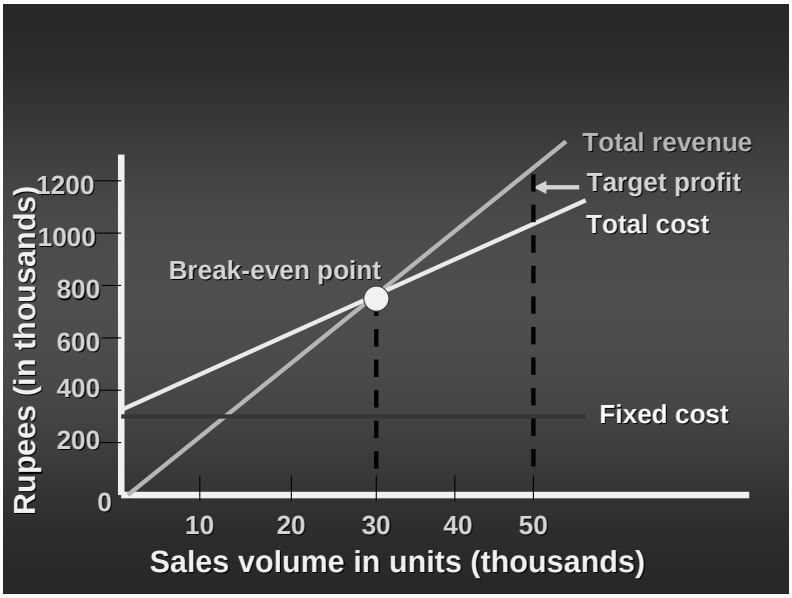
Because pricing is a dynamic process, companies must design a pricing structure that covers all their products and a variety of constantly changing conditions (such as changes that occur as the product progresses through the stages of the product life cycle).

The marketer wishing to explore pricing strategy options will find a wealth of alternatives from which to choose. The first major option will be pricing with respect to the product mix. Numerous forms of product-mix pricing strategies are examined within the context of the competitive environment. Examples include product-line pricing, optional-product pricing, captive-product pricing, by-product pricing, and product-bundle pricing. The average marketer does not use all of these methods; however, by studying the options available, the marketer enhances his or her ability to be creative with respect to pricing within the context of the product mix.

Sometimes, however, the firm must make adjustments in their pricing process and strategy. These adjustments are made to account for differences in consumer segments and changing situations. Adjustments can occur through discounts and allowances or by the desire to segment markets by price. Additionally, price has a psychological aspect that allows for adjustments just as geographical, promotional, and international relationships can alter pricing methods and strategies.

Break-Even Analysis

Break-even pricing (target profit pricing) is an approach to setting price to break-even on the cost of making and marketing products or to make the target (desired) profit It uses a break-even chart that shows the total cost and total revenue at different levels of sales volume.



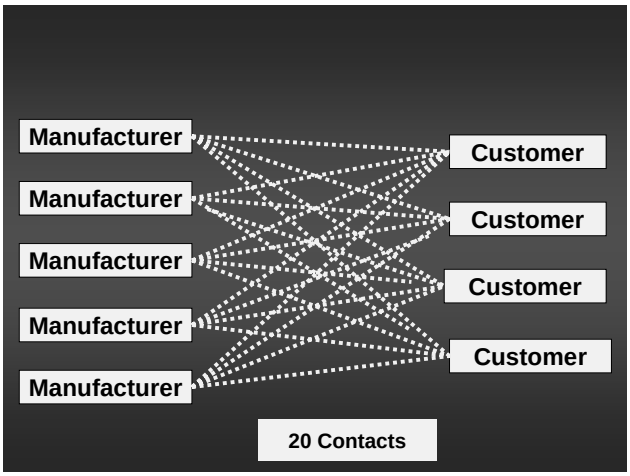
a. Although break-even analysis and target profit pricing can help the company to determine minimum prices needed to cover expected costs and profits, they do not take the price-demand relationship into account.

b. When using this method, the company must also consider the impact of price on the sales volume needed to realize target profits and the likelihood that the needed volume will be achieved at each possible price.

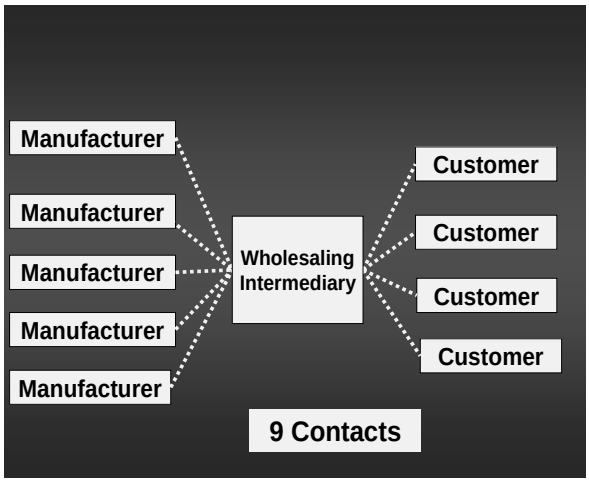
D. Place

Distribution channels have been identified as being a set of independent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Making decisions involving distribution channels are among the most complex and challenging decisions facing the firm. Each channel system (and there can be several) creates a different level of sales and costs. Unlike flexible elements of the marketing mix (price decisions for example), once a distribution channel has been chosen, the firm must usually stick with their choice for some time. In addition, the chosen channel strongly affects, and is affected by, the other elements in the marketing mix.

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A strategic planner limits their options if they consider only one channel choice. Each firm needs to identify alternative ways to reach its market. There are many means available. Some of the choices include the range of direct selling to multiple intermediary levels (which may involve several distribution relationships). Each of these options has advantages and disadvantages associated with them. Vertical and horizontal systems are more sophisticated than the basic channel alternatives and each is explained in context with contemporary usage. E-commerce and the use of the Internet have also impacted channel choice and strategy in a profound way.



Channel design begins with assessing customer channel-service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the types of intermediaries, the number of intermediaries, and the channel responsibilities of each. No system, no matter how well it has been planned, is without conflict. If quality service and low cost is to be delivered, management of distribution conflict is a necessity. Because distribution relationships tend to be long-term in nature, the choice of channel partners is very important and should be taken very seriously.

In today's global marketplace, selling a product is sometimes easier than getting it to customers. Therefore, marketing logistics and supply chain management is receiving increased attention from strategic planners. The task of marketing logistics systems is to minimize the total cost of providing a desired level of customer services although bringing those services to the customer with the maximum amount of speed. Major logistics functions of warehousing; inventory management, transportation, and logistics information management are discussed and explored.

Retailing and Wholesaling

Retailing and wholesaling consist of many organizations bringing goods and services from the point of production to the point of use. Retailing by definition includes all the activities involved in selling goods and services directly to final consumers for their personal, non-business use. Retailers can be classified as store retailers and non store retailers. Store retailers can be further classified by the amount of service they provide, the product line sold, relative prices charged, and retail organization format (control of outlets). Non store retailers are described as being in direct marketing, catalogs, telephone, home TV shopping shows, home and office parties, door-to-door contact, automatic vending, online services and the Internet, and other direct retailing approaches.

Retailing decisions involve the constant search for new marketing strategies to attract and hold customers. Considerations are the target market and positioning decision, the product assortment and services decision, the price decision, the promotion decision, and the place decision. All of

these decisions are examined closely in the chapter. Numerous examples provide explanations of several options that are available in all the aforementioned areas.

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter. In addition to the traditional forms of retailing, consumers now have an array of nontraditional alternatives to choose from including mail order, television, phone, and online shopping. The last major trend that seems to be of interest to business strategists and marketers is the rise of huge mass merchandisers and specialty superstores. These forms will have a pronounced effect on the way retailing is conducted in the future.

Wholesaling, unlike retailing, deals with the sale of goods and services that will be resold by and/or used by the business customer itself. One way to study and understand wholesaling is to examine the functions that are performed by the wholesalers. These functions include selling and promoting, buying and assortment building, bulk-breaking, warehousing, transportation, financing, risk bearing, supplying market information, performing management services, and providing advice for customers. Wholesalers can be divided into numerous groups. Three primary types of wholesalers are merchant wholesalers, agents and brokers, and manufacturer and retailer sales branches and offices. Each of these general types (and their numerous subdivisions) are explained and detailed.

E. Promotion

Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with their customers and there should be controlled direction to those communications. Promotion provides the primary communication function. As one of the four major elements of the marketing mix, promotion uses advertising, sales promotion, public relations, personal selling, and direct marketing to achieve the company's communication objectives.

During the past several decades, companies around the world have perfected the art of mass marketing. The companies must recognize that the face of marketing communications is constantly changing and, to be effective in the future, the marketer must learn to utilize the new emerging communication techniques. The growth and challenges of the electronic promotional communication form are great. The use of computer technology, a desire to get close to the consumer, and an increased use of direct marketing databases has set the stage for increased integrated marketing communications. Under this concept, the company carefully integrates and coordinates its many communication channels—mass media advertising, personal selling, sales promotion, public relations, direct marketing, packaging, and others—to deliver a clear, consistent, and compelling message about the organization and its products. Integrated marketing communications produce better communications consistency and greater sales impact.

Integrated marketing communications involves identifying the target audience and shaping a well-coordinated promotional program to elicit the desired audience response. Too often, marketing communications focus on overcoming immediate awareness, image, or preference problems rather than managing the customer relationship over time.

Building on the aforementioned communications model, describes the steps in developing effective communication. One of the most important decisions to be made by the organization is how much to spend on promotion. This discusses several approaches to the organization of a promotional budget and a mix of tools to accomplish the organization's promotional objectives. There are various strategies that can be considered by the promotional planner. The primary strategies of push and pull are described. In addition, the buyer-readiness stage and the product life-cycle stage are also considered.

Three of the promotional mix elements (advertising, sales promotion, and public relations) are mass communication tools. Advertising is described as being any paid form of non-personal presentation and promotion of ideas, goods, and services by an identified sponsor. There are four

important decisions to be accomplished as the marketer attempts to organize and direct the advertising function. Each of these decisions (setting objectives, budget decisions, advertising strategy [message decisions and media decisions], and evaluating advertising campaigns) is discussed in detail and explained within the context of building an advertising campaign. In addition, several forms of advertising, various advertising strategies, and descriptions of the mass media are presented to the reader. The marketing firm can undertake the advertising function themselves or they can contract with an advertising agency to accomplish their advertising objective, planning, and implementation.

Sales promotion is a process of providing short-term incentives to encourage purchase or sales of a product or service. Sales promotion offers the buyer reasons to buy now. In addition, sales promotion is also intended to stimulate reseller effectiveness. Sales promotion has grown rapidly in the recent past because of pressure to increase sales, increased competition, and the declining efficiency of the other mass communication methods.

Public relations, the final mass communication tool described in this chapter, is an attempt to build good relations with the company's various publics by obtaining favorable publicity, building up a good "corporate image," and handling or heading off unfavorable rumors, stories, or events. The organization has a variety of tools at their disposal for accomplishing this feat. One of the overriding tasks of public relations is to control the exposure and relationship with the mass media. By focusing on consumer attitudes, awareness, and knowledge of the organization, the company is better prepared to succeed. Public relations has even been extended to the Internet and companies are beginning explore ways to increase its effect in the newly emerging world of e-commerce.

Advertising

A paid form of non-personal communication about an organization and/or its products to a target audience through a mass medium.

Personal Selling

A paid form of non-personal communication about an organization and/or its products to a target audience through a mass medium.

Sales Promotion

Demand-stimulating activity designed to supplement advertising and facilitate personal selling.

Public Relations

A planned communication effort by an organization to contribute to generally favorable attitudes and opinions toward an organization and its products.

Direct Marketing

Direct connections with carefully targeted individual consumers to obtain an immediate response and cultivate lasting customer relationship

F. Creating Competitive Advantage

Two key trends in marketing for the twenty-first century are: (a) the trend toward the use of relationship marketing to improve customer satisfaction; and (b) the trend toward in-depth competitor analysis as a means of identifying the company's major competitors (using both an industry and market-based analysis) and closely examining and formulating strategies to deal with competitors' objectives, strategies, strengths and weaknesses, and reaction patterns.

To be successful, a company must consider its competitors as well as its actual and potential customers. In the process of performing a competitor analysis, the company carefully analyzes and gathers information on competitors' strategies and programs. A competitive intelligence system helps the company acquire and manage competitive information. The company must then choose a competitive marketing strategy of its own. The strategy chosen depends on the company's industry position and its objectives, opportunities, and resources. Several basic competitive strategies are outlined in the chapter. Some of these are time-tested and some are relatively new. The first is that of the market leader which faces three challenges: expanding the total market, protecting market share, and expanding market share. The market leader is interested in finding

ways to expand the total market because it will benefit most from any increased sales. The leader must also have an eye toward protecting its share. Several strategies for accomplishing this protection task are presented. Aggressive leaders also try to expand their own market share. The second position is that of the market challenger. This is a firm that aggressively tries to expand its market share by attacking the leader, other runner-up firms, or smaller firms in the industry. The third position is that of the market follower which is designated as a runner-up firm that chooses not to rock the boat (usually out of fear that it stands to lose more than it might gain). Lastly, the market niche is a position option open to smaller firms that serve some part of the market that is not likely to attract the attention of the larger firms. These firms often survive by being specialists in some function that is attractive to the marketplace. The competitive analysis of the four competitive position options presented. This information can be used by every mid-level strategic planner who seeks insight into competitive strategy dynamics.

G. Global Market Place

The world is shrinking rapidly with the advent of faster communication, transportation, and financial flows. In the twenty-first century, firms can no longer afford to pay attention only to their domestic market, no matter how large it is. Many industries are global industries, and those firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and other prohibitive factors.

Given the potential gains and risks of global marketing, companies need a systematic way to make their international marketing decisions. Decision areas that must be addressed are: (1) How to look at the global market environment; (2) Deciding whether to go international; (3) Deciding which markets to enter; (4) Deciding how to enter the market; (5) Deciding on the global marketing program; and, (6) Deciding on the global marketing organization. Each of these decisions must be seriously considered and answered if success is to be achieved in the international competitive arena. All markets and industrial bases around the world are not the same. There are varying degrees of economic sophistication. The marketer must make plans for operations in subsistence economies, raw-material-exporting economies, industrializing economies, and established industrial economies separately if true marketing success is to be achieved. It would be easier on the decision maker if all the economies were like the United States. They, however, are not. Global marketing requires an extensive amount of learning and, in some instances, adaptation of the marketing mix to fit the particular situation and economy.

In addition to global challenges with consideration of the marketing mix, the marketer that wishes to go global must also consider a variety of options on how to align the organization with international partners. These considerations are different than those that the marketer faces in its own domestic environment. The end result of making these new global decisions is not only improvement in marketing skills, but improvement toward attaining a truly global organization.

H. Marketing and Society

In working to meet the consumer's needs, marketers may take some actions that are not approved of by all the consumers or publics within the social sector. Marketing managers must understand the criticism that the marketing function may encounter. By understanding the criticism, the manager is better prepared to respond to it in a proactive manner. Some of the criticism is justified; some is not.

The primary criticisms of the marketing function with respect to the impact on individual consumers have been categorized as being: (1) high prices; (2) deceptive practices; (3) high-pressure selling; (4) shoddy or unsafe products; (5) planned obsolescence; and (6) poor service to disadvantaged consumers. These criticisms have come from a failure to meet individual consumer welfare needs.

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A separate set of criticisms is directed toward the marketing function by society in general. Criticism from this larger public body includes comments on creating: (1) false wants and too much materialism; (2) too few social goods; (3) cultural pollution; and (4) too much political power. In addition, critics have also pointed out that marketing's impact on businesses may not be good either. Marketing is accused of harming competitors and reducing competition by acquisition of competitors, creating barriers to entry, and using unfair marketing practices.

Concerns about the marketing function have led action groups to participate in consumer and environmental movements and to form protest organizations. Marketing's response to action groups and social criticism has largely been positive and proactive. Many companies that were originally opposed to social movements and legislation that was created to address consumer complaints have now recognized a need for positive consumer information, education, and protection.

THE END