Directorate of Distance Education

UNIVERSITY OF JAMMU
JAMMU

SELF LEARNING MATERIAL

FOR

PGDBM-IIND SEMESTER

MARKETING MANAGEMENT

PAPER : II	**UNIT I - V**

COURSE CO-ORDINATOR

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MARKETING MANAGEMENT

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PGDBM Semester - II

Course Title : Marketing Management — Total Marks : 100

Paper : II — Internal Assessment : 20

Contact Hours : 45 — Semester Examination : 80

Duration of Examination : 3 Hours

Objectives :

The course has been outlined with a purpose to provide a conceptual foundation of Marketing and to explore and analyze varous basic components of Marketing.

UNIT - I (Introduction to Marketing)

Definition of Marketing; Core Marketing Concpets : Need, Want, Demand, Marketing vs Market; Markets : Definition of Market, Market Places, Market Spaces, Meta-Markets; Company Orientation towards Market Place; Marketing Myopia; Introduction to Marketing Mix.

UNIT - II (Consumer Behavior)

Meaning and Importance of Consumer Behaviour; Factors Influencing Consumer Behaviour; Buying Decision Stages; Buying Roles; Buying Motives of Consumers; Significance of Buying Motives.

UNIT - III (Marketing Research)

Marketing Reserach - Concepts, Scope Importance; Type of Marketing Research; Process of Marketing Research; Instruments of Data Collection - Secondary Data Source and Usage, Online Data Sources; Priary Data Collection Methods - Questionnaire Techniques, Online Surveys, Observatrion Methods; Questionnaire Development.

UNIT - IV (Product and Pricing Decisions)

Concept of Product; Product Life Cycle-Stages and Strategies; New Product Development Process; Basic requirements for new Product Success.

Concept of Price; Pricing Objectives; Factors influencing Pricing Decisions; Price Setting Methods; Pricing Policies and Stragegies.

UNIT - V (Channels of Distribution and Promotional Methods)

Concept of Distribution, Meaning of Channels of Distribution; Channel Objectives; Marketing Channels Functions; Retailers and Wholesalers; Channel Design Decisions.

Concept and Importance of Promotion; Sales Promotion-Purpose, Importance and Methods, Personal Selling - Importance, Steps in Pesonal Selling.

Note for Paper Setter :

The question Paper shall contain two questions from each Unit (Total 10 Questions) and the candidates shall be required to answer one question from each unit (total number of questions to be attempted shall be five, i.e. there shall be internal choice within each unit)

Suggested Readings :

1. Philip Kotler and Gary Armstrong; Principles of Marketing 12th Edition, Prentice Hall.
2. Stanton : Fundamentals of Marketing, Mc Graw-Hill Inc., US
3. Rajan Saxena : Marketing Management, Tata McGraw-Hill Education.
4. V. S. Ramaswamy and S. Namakumari : Marketing Management, Mac Millan Publishers, New Delhi.
5. Donald Lehmann and Rusell Winer : Analysis for Marketing Planning, Tata McGraw-Hill Publishing Company Limited, 6th ed.
6. R. Srinivas : Case Studies in Marketing - Indian Context, Prentice Hall of India.

Unit I **Lesson 1-5**

INTRODUCTION TO MARKETING

Structure

1.1 Introduction

1.2 Objectives

1.3 Marketing

1.4 Definitions of Marketing

1.5 Core Concepts of Marketing

1.6 Types of Marketing

1.7 Market

1.8 Types of Markets

1.9 Market Space

1.10 Types of E-Marketplaces/Market Spaces

1.11 Market Space vs. Market Place

1.12 Meta-Markets

1.13 Difference between Market and Marketing

1.14 Company Orientation towards Market Place

1.1 Introduction

Marketing relates to forward looking strategies to understand customer needs, influence customer perceptions, and identify how a company can capitalize on that. The end result of the marketing process, and what it directly supports, is making sales easier. Marketing techniques and strategies are based on what it takes to identify the right product mix, the prices for those products, and what needs to be communicated to target customers (via advertisement) in order to ensure successful sales.

1.2 Objectives

This chapter will help the students to understand the different concepts related to marketing, markets and marketing mix.

1.3 Marketing

Marketing is traditionally the means by which an organisation communicates to, connects with, and engages its target audience to convey the value of and ultimately sell its products and services. However, since the emergence of digital media, in particular social media and technology innovations, it has increasingly become more about companies building deeper, more meaningful and lasting relationships with the people that they want to buy their products and services. The ever-increasingly fragmented world of media complicates marketers' ability to connect and at the same time presents incredible opportunity to forge new territory (**Julie Barile –** Vice President of eCommerce, Fairway Market). It includes research, targeting, communications (advertising and direct mail) and often public relations. Marketing is to sales as ploughing is to planting for a farmer—it prepares an audience to receive a direct sales pitch.

Noted Harvard Professor of Business **Theodore Levitt**, states that the purpose of all business is to **"find and keep customers."** Furthermore, the only way you can achieve this objective is to create a competitive advantage. That is, you must convince buyers (potential customers) that what you have to offer them comes closest to meeting their particular need or want at that point in time. Hopefully, you will be able to provide this advantage consistently, so that eventually the customer will no longer consider other alternatives and will purchase your product out of habit. This loyal behavior is exhibited by people who drive only Fords, brush their teeth only with Crest, buy only Dell computers, and have their plumbing fixed only by "Samson Plumbing-On Call 24 hours, 7 days a week." Creating this blind commitment-without consideration of alternatives-to a particular brand, store, person, or idea is the dream of all businesses. It is unlikely to occur, however, without the support of an effective marketing program. In fact, the specific role of marketing is to provide assistance in identifying, satisfying, and retaining customers. While the general tasks of marketing are somewhat straightforward, attaching an acceptable definition to the concept has been difficult. A textbook writer once noted, "Marketing is not easy to define. No one has yet been able to formulate a clear, concise definition that finds universal acceptance." Yet a definition of some sort is necessary if we are to layout the boundaries of what is properly to be considered "marketing." How do marketing activities differ from non-marketing activities? What activities should one refer to as marketing activities? What institutions should one refer to as marketing institutions?

1.4 Definitions of Marketing

Marketing comes in a wide variety of flavours based on audience, media platform and business in today's evolving and dynamic marketplace. Therefore, it's no surprise that marketers define what they do differently.

According to the American Marketing Association (AMA) Board of Directors "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large".

Philip Kotler defines marketing as "The science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services."

Marketing is an ongoing communications exchange with customers in a way that educates, informs and builds a relationship over time. The over time part is important because only over time can trust be created. With trust, a community builds organically around products and services and those customers become as excited about the products as you are — they become advocates, loyal evangelists, repeat customers and often, friends. Marketing is a really great way to identify what grabs people and gets them excited about your brand and give it to them, involve them in the process, and yeah, the best part, build great friendships in the process (**Renee Blodgett – Chief Executive Officer/ Founder, Magic Sauce Media)**

"Marketing when done well is (a) the strategy of the business – its value proposition, go to market strategy, and brand positioning and image to the world (b) an endless checklist of advertising and promotional to-dos that can never be completed. (c) largely, but not entirely, measurable and accountable around driving business goals" (**Matt Blumberg – Chairman and Chief Executive Officer, Return Path**)

"Marketing is the process by which a firm profitably translates customer needs into revenue" (**Mark Burgess – Managing Partner, Blue Focus Marketing**)

"Intuitive by design, marketing matches the right message/cause to the right person. Finding someone, who has a personal connection with your product, service or cause in a way that is unobtrusive and inviting. Marketing can be as simple as networking at an event or as complex as a multi-million dollar global campaign that integrates print, digital, PR, social media and broadcast delivering a specific message with one unified goal. Some of the best marketing outcomes come from the simplest initiatives. Keeping it simple is sometimes the best strategy" (**Lisa Buyer – President and Chief Executive Officer, The Buyer Group**)

Marketing is the art and science of persuading a potential buyer of a product/ service to purchase from a company that's responsible for creating a compelling message and communicating that message through targeted channels with enough reach and frequency to guide that potential buyer through the purchase cycle of "attention, interest, desire, action." (**Paul Mosenson President, NuSpark Marketing**)

While the definitions of marketing vary based on perspective, they generally refer to engaging a target market of consumers or other users to ultimately sell a product and hopefully to maintain a relationship beyond the purchase.

Tracing the evolution of the various definitions of marketing proposed during the last thirty years reveals two trends: 1) Expansion of the application of marketing to non-profit and non-business institutions; e.g., charities, education, or health care; and 2) Expansion of the responsibilities of marketing beyond the personal survival of the individual firm, to include the betterment of society as a whole. These two factors are reflected in the official American Marketing Association definition published in 1988. "Marketing is the process of planning and executing the conception about pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual (customer) and organisational objectives".

While this definition can help us better comprehend the parameters of marketing, it does not provide a full picture. Definitions of marketing cannot flesh out specific transactions and other relationships among these elements. The following propositions are offered to supplement this definition and better position marketing within the firm:

a) The overall directive for any organization is the mission statement or some equivalent statement of organizational goals. It reflects the inherent business philosophy of the organization.

b) Every organization has a set of functional areas (e.g., accounting, production, finance, data processing, marketing) in which tasks that are necessary for the success of the organisation are performed. These functional areas must be managed if they are to achieve maximum performance.

c) Every functional area is guided by a philosophy (derived from the mission statement or company goals) that governs its approach toward its ultimate set of tasks.

d) Marketing differs from the other functional areas in that its primary concern is with exchanges that take place in markets, outside the organization (called a transaction).

e) Marketing is most successful when the philosophy, tasks, and manner of implementing available technology are coordinated and complementary.

1.5 Core Concepts of Marketing

The marketing concept is the belief that companies must assess the needs of their consumers first and foremost. Based on those needs, companies can make decisions in order to satisfy their consumers' needs, better than their competition. Companies that hold this philosophy believe that their consumers are the driving forces of their business. Nowadays, most companies have incorporated the marketing concept. So if you were a new company, how would you know what a customer would need and want?

Needs wants and demands are a part of basic marketing principles. Though they are 3 simple worlds, they hold a very complex meaning behind them along with a huge differentiation factor. In fact, a product can be differentiated on the basis of whether it satisfies a customer's needs, wants or demands. Each of them is discussed in detail below:

Needs:

Human needs are the basic requirements and include food clothing and shelter. Without these humans cannot survive. An extended part of needs today has become education and healthcare. Generally, the products which fall under the needs category of products do not require a push. Instead the customer buys it themselves. But in today's tough and competitive world, so many brands have come up with the same offering satisfying the needs of the customer that even the "needs category product" has to be pushed in the customers mind. Example of needs based on category products / sectors are: Agriculture sector, Real Estate (land always appreciates), FMCG, etc.

Wants:

Wants are a step ahead of needs and are largely dependent on the needs of humans themselves. For example, you need to take a bath. But i am sure you take baths with the best soaps. Thus Wants are not mandatory part of life. You DONT need a good smelling soap. But you will definitely use it because it is your want. In the above image, the baby needs milk but it wants candy. Examples of wants pertaining to category products / sectors are: Hospitality industry, Electronics, Consumer Durables etc, FMCG, etc.

Demands:

Demand is the economic principle that describes a consumer's desire, willingness and ability to pay a price for a specific good or service. You might want a BMW or a Mercedes for a car. You might want to go for a cruise. But can you actually buy a BMW or go on a cruise? You can provided you have the ability to buy a BMW or go on a cruise. Thus a step ahead of wants is demands. When an individual wants something which is premium, but he also has the ability to buy it, then these wants are converted to demands. The basic difference between wants and demands is desire. A customer may desire something but he may not be able to fulfil his desire. Example of demands are: Cruises, BMW's, 5 star hotels etc. A firm in the market economy survives by producing goods that are in demand by consumers. Consequently, ascertaining consumer demand is vital for a firm's future viability. Many companies today have a customer focus. In this approach, consumer wants and needs are the drivers of all strategic marketing decisions. No strategy is pursued until it passes the test of consumer research. Every aspect of a market offering, including the nature of the product itself, is driven by the needs and wants of potential consumers.

The needs wants and demands are a very important component of marketing because they help the marketer decide the products which he needs to offer in the market. Thus, the flow is like this:

Market → Identify needs wants and demands → Offer products to satisfy either needs wants or demands

1.6 Types of marketing:

a) Macro-marketing and Micro-m

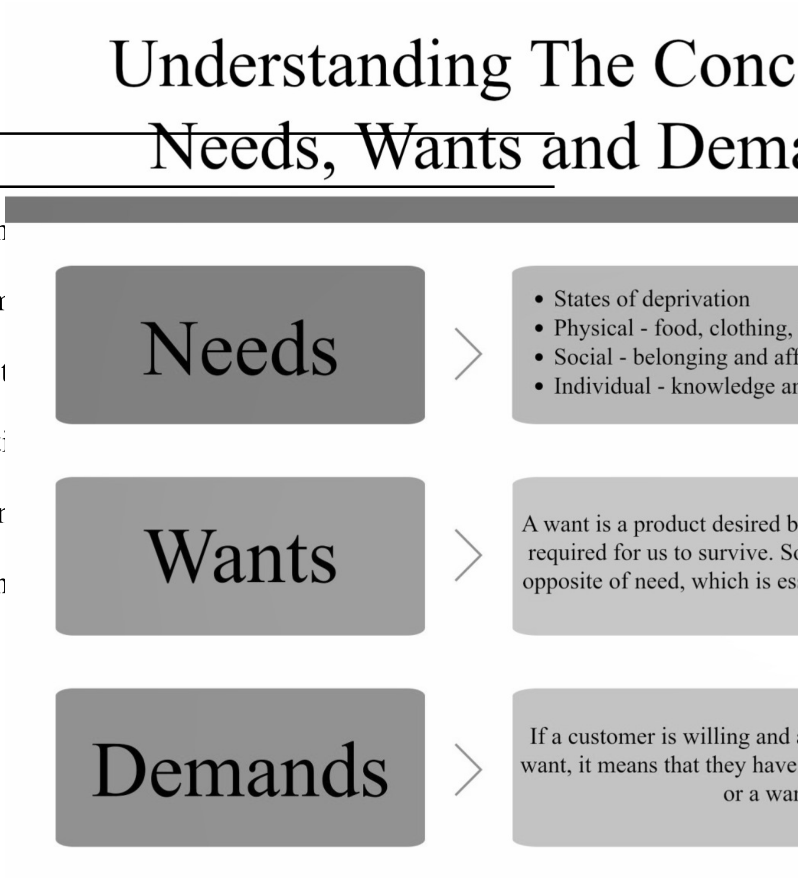
b) Service marketing and goods m

c) Profit marketing and non-profit

d) Mass marketing, direct marketi

e) Local, regional, national, and ir

f) Consumer goods marketing an



Macro-marketing and Micro-marketing

The division of marketing into macro-marketing and micro-marketing is a fairly recent one.

Initially, the division was a result of the controversy concerning the responsibility of marketing. Should marketing be limited to the success of the individual firm, or should marketing consider the economic welfare of a whole society? Accepting the later, or "macro," point of view dramatically changes the way marketing is carried out. In this light, every marketing decision must be evaluated with regard to how it might positively or negatively affect each person and institution operating in that society. In 1982, Bunt and Burnett surveyed the academic community in order to define more precisely the distinction between macro- and micro-marketing. Their findings suggest that the separation depends upon "what is being studied," "whether it is being viewed from the perspective of society or the firm," and "who receives the consequences of the activity."

Examples of macro-marketing activities are studying the marketing systems of different nations, the consequences on society of certain marketing actions, and the impact of certain technologies on the marketing transaction. The use of scanners in supermarkets and automatic teller machines in banking illustrates the last example. Micro-marketing examples include determining how Nikon Steel should segment its market, recommending how National Jewish Hospital should price their products, and evaluating the success of the "Just Say No" anti-drug campaign.

Service Marketing and Goods Marketing

The distinction between services and goods products is not always clear-cut. In general, service products tend to be intangible, are often consumed as they are produced, are difficult to standardize because they require human labour, and may require the customer to participate in the creation of the service product. Goods products tend to be just the opposite in terms of these criteria.

Consequently, marketers of service products usually employ a marketing strategy quite different from that of goods marketers. For example, a local family physician creates tangibility by providing an environment e.g. waiting room, examination rooms, and diplomas on the walls that convinces patients that they are receiving good health care. Conversely, coffee producers create intangibility in order to appear different from competitors. This is done through colourful pack

Profit Marketing and Non-profit Marketing

As the terms connote, the difference between for-profit and non-profit marketing is in their primary objective. For-profit marketers measure success in terms of profitability and their ability to pay dividends or pay back loans. Continued existence is contingent upon level of profits. Non-profit institutions exist to benefit a society, regardless of whether profits are achieved. Because of the implicit objectives assigned to nonprofits, they are subject to an entirely different additional set of laws, notably tax laws . While they are allowed to generate profits, they must use these monies in specific way~ in order to maintain their nonprufit status. There are several other factors that require adjustments to be made in the marketing strategies for nonprofits.

Mass Marketing, Direct Marketing, and Internet Marketing

Mass marketing is distinguished from direct marketing in terms of the distance between the manufacturer and the ultimate user of the product. Mass marketing is characterized as having wide separation and indirect communication. A mass marketer, such as Nike, has very little direct contact with its customers and must distribute its product through various retail outlets alongside its competitors. Communication is impersonal, as evidenced by its national television and print advertising campaigns, couponing, and point-of-purchase displays. The success of mass marketing is contingent on the probability that within the huge audience exposed to the marketing strategy.. there exist sufficient potential customers interested in the product to make the strategy worthwhile.

Direct marketing establishes a somewhat personal relationship with the customer by first allowing the customer to purchase the product directly from the manufacturer and then communicating with the customer on a first-name basis. This type of marketing is experiencing tremendous growth. Apparently, marketers have tired of the waste associated with mass marketing and customers want more personal attention. Also, modern mechanisms for collecting and processing accurate mailing lists have greatly increased the effectiveness of direct marketing. Catalogue companies (Spiegel, J.e. Penney), telecommunications companies (Sprint), and direct mail companies (Publishers Clearing House) are example of direct marketers. A modified type of direct marketing is represented by companies that allow ordering of product by calling a toll-free number or mailing in an order card as part of an advertisement.

Internet marketing is a type of direct marketing. It has evolved so quickly and demanded the attention of so many companies that a separate section here is warranted. Essentially, Internet technology (which changes by the moment) has created a new way of doing business. In the Internet age, the way consumers evaluate and follow through on their purchase decisions has changed significantly. "Call now!" is no longer an effective pitch. Consumers have control over how, when, and where they shop on the Internet.

Local, Regional, National, International and Global Marketing

As one would expect, the size and location of a company's market varies greatly. **Local marketers** are concerned with customers that tend to be clustered tightly around the marketer. The marketer is able to learn a great deal about the customer and make necessary changes quickly. Naturally, the total potential market is limited. There is also the possibility that a new competitor or environmental factor will put a local marketer out of business.

Regional marketers cover a larger geographic area that may necessitate multiple production plants and a more complex distribution network. While regional marketers tend to serve adjoining cities, parts of states, or entire states, dramatic differences in demand may still exist, requiring extensive adjustments in marketing strategy.

National marketers distribute their product throughout a country. This may involve multiple manufacturing plants, a distribution system including warehouses and privately owned delivery vehicles, and different versions of the marketing "mix" or overall strategy. This type of marketing offers tremendous profit potential, but also exposes the marketer to new, aggressive competitors.

International marketers operate in more than one country. Massive adjustments are normally made in the marketing mix in various countries. Legal and cultural differences alone can greatly affect a strategy's outcome. As the U.S. market becomes more and more saturated with U.S.-made products, the continued expansion into foreign markets appears inevitable.

Global marketing differs from international marketing in some very definite ways. Whereas international marketing means a company sells its goods or services in another country, it does not necessarily mean that the company has made any further commitments. Usually the product is still manufactured in the home country, sold by their people, and the profits are taken back to that country. In the case of Honda Motors, for example, it means building manufacturing plants in the U.S., hiring local employees, using local distribution systems and advertising agencies, and reinvesting a large percentage of the profits back into ‘ the U.S.

Consumer Goods Marketing and Business-to-Business Marketing

Consumer goods marketers sell to individuals who consume the finished product. Business to business marketers sell to other businesses or institutions that consume the product in turn as part of operating the business, or use the product in the assembly of the final product they sell to consumers. Business-to-business marketers engage in more personal selling rather than mass advertising and are willing to make extensive adjustments in factors such as the selling price, product features, terms of delivery, and so forth.

For the consumer goods marketer, the various marketing components are relatively fixed. In addition, consumer goods marketers might employ emotional appeals and are faced with the constant battle of getting their product into retail outlets.

1.7 Market

Knowing your market accurately and completely is a prerequisite for successful marketing. This task is made even more difficult for companies trying to advertise on the Web. Yet, as noted earlier, this trend toward using the Internet will continue. The market can be viewed from many different perspectives and, consequently, is impossible to define precisely. In order to provide some clarity, we provide a basic definition of a market: A group of potential buyers with needs and wants and the purchasing power to satisfy them. Rather than attempting to cut through the many specialized uses of the term, it is more meaningful to describe several broad characteristics and use this somewhat ambiguous framework as the foundation for a general definition.

The Market is People

Since exchange involves two or more people, it is natural to think of the market as people, individuals, or groups. Clearly, without the existence of people to buy and consume goods, services, and ideas, there would be little reason for marketing. Yet this perspective must be refined further if it is to be useful. People constitute markets only if they have overt or latent wants and needs. That is, individuals must currently recognize their need or desire for an existing or future product, or have a potential need or desire for an existing or future product. While the former condition is quite straightforward, the latter situation is a bit more confusing, in that it forces the marketer to develop new products that satisfy unmet needs. Potential future customers must be identified and understood. When speaking of markets as people, we are not concerned exclusively with individual ultimate consumers. Although individuals and members of households do constitute the most important and largest category of markets, business establishments and other organized behavior systems also represent valid markets. People, individually or in groups, businesses, and i.nstihltions create markets. However, people or organizations must meet certain basic criteria in order to represent a valid market:

a) There must be a true want for the product, service, or idea. This need may be recognized unrecognized, or latent.

b) The person/organization must have the ability to pay for the product via means acceptable to the marketer.

c) The person/organization must be willing to buy the product.

d) The person/organization must have the authority to buy the product.

e) The total number of people/organizations meeting the previous criteria must be large enough to be profitable for the marketer.

All five criteria must be met for an aggregate group of people or organizations to equate to a market. Failure to achieve even one of the criteria may negate the viability of a market. An interesting example is the pharmaceutical industry. There are several serious human diseases that remain uncured only because they have not been contracted by a large enough number of people to warrant the necessary research. The excessive research costs required to develop these drugs necessitates that companies are assured a certain level of profitability. Even though the first four criteria may be met, a small potential customer base means no viable market exists.

The Market is a Place

Thinking of the market as a place- “the marketplace”- is a common practice of the general public. Such locations do exist as geographical areas within which trading occurs. In this context, we can think of world markets, international markets, American markets, regions, states, cities, and parts of cities. A shaping centre, a block, a portion of a block, and even the site of a single retail store can be called a market. While not as pervasive as the "people" component of the market, the "place" description of a market is important too. Since goods must be delivered to and customers attracted toward particular places where transactions are made, this identification of markets is useful for marketing decision-making purposes. Factors such as product features, price, location of facilities, routing salespeople, and promotional design are all affected by the geographic market. Even in the case of immeasurable fields, such as religion, a marketplace might be Yankee Stadium, where Billy Graham is holding a revival. Finally, a market may be somewhere other than a geographical region, such as a catalogue or ad that allows you to place an order without the assistance of a marketing intermediary or an 800 number.

The Market is an Economic Entity

In most cases, a market is characterized by a dynamic system of economic forces. The four most salient economic forces are supply, demand; competition, and government intervention. The terms buyer's market and seller's market describe different conditions of bargaining strength. We also use terms such a~ monopoly, oligopoly, and pure competition to reflect the competitive situation in a particular market. Finally, the extent of personal freedom and government control produces free market systems, socialistic systems, and other systems of trade and commerce. I Again, placing these labels on markets allow the marketer to design strategies that match a particular economic situation. We know, for instance, that in a buyer's market, there is an abundance of product, prices are usually low, and customers dictate the terms of sale. U.S. firms find that they must make tremendous strategy adjustments when they sell their products in Third World markets. The interaction of these economic factors is what creates a market. There is always the pressure of competition as new firms enter and old ones exit. Advertising and selling pressure, price and counter-price, claim and counterclaim, service and extra service are all weapons of competitive pressure that marketers use to achieve and protect market positions. Market composition is constantly changing.

1.8 Types of Markets

Now that we have defined market~ in a general sense, it is useful to discuss the characteristics of the primary types of markets: (1) consumer markets, (2) industrial markers, (3) institutional markets, and (4) reseller markets. It should be noted that these categories are not always clear-cut. In some industries, a business may be in a different category altogether or may even encompass multiple categories. It is also possible that a product may be sold in all four markets. Consequently, it is important to know as much as possible about how these markets differ so that appropriate marketing activities can be developed.

Consumer Markets

When we talk about consumer markets, we are including those individuals and households who buy and consume goods and services for their own personal use. They are not interested in reselling the product or setting themselves up as a manufacturer. Considering the thousands of new products, services, and ideas being introduced each day and the increased capability of consumers to afford these products, the size, complexity, and future growth potential of the consumer market is staggering.

Industrial Markets

The industrial market consists of organizations and the people, who work for them. Those, who buy products or services for use in their own businesses or to make other products, for example, a steel mill might purchase computer software, pencils, and flooring as part of the operation and maintenance of their business. Likewise, a refrigerator manufacturer might purchase sheets of steel, wiring, shelving, and so forth, as part of its formal product. These purchases occur in the industrial market. There is substantial evidence that industrial markets function differently than do consumer markets and that the buying process in particular is different.

Institutional Markets

Another important market sector is made up of various types of profit and non-profit institutions, such as hospitals, schools, churches, and government agencies. Institutional markets differ from typical businesses in that they are not motivated primarily by profits or market share. Rather, institutions tend to satisfy somewhat esoteric, often intangible, needs. Also, whatever profits exist after all expenses are paid are normally put back into the institution. Because institutions operate under different restrictions and employ different goals, marketers must use different strategies to be successful.

Reseller Markets

All intermediaries that buy finished or semi-finished products and resell them for profit are part of the reseller market. This market includes approximately 383,000 wholesalers and 1,300,000 retailers that operate in the U.S. With the exception of products obtained directly from the producer, all products are sold through resellers. Since resellers operate under unique business characteristics, they must be approached carefully. Producers are always cognizant of the fact that successful marketing to resellers is just as important as successful marketing to consumer

1.9 Market Space

Market space is a relatively new concept in marketing which is a virtual market place. It is an electronic information exchange environment in which the constraints of physical boundaries are eliminated. A market space is an integration of several market places through technology. This is the reason it is also called an electronic market space. The term market space was introduced by **Jeffrey Rayport** and **John Sviokla** (1994) in their article "Managing in the Market space" that appeared in Harvard Business Review. In the article the authors distinguished between electronic and conventional markets. In a market space, information and/or physical goods are exchanged, and transactions take place through computers and networks. These networks consist of blogs, forum threads, and micro-blogging services like Twitter. Businesses and their customers are enabled to create conversations and two-way communications about products and services. These conversations may also happen outside the sphere of control of a given business, when a marketing campaign or customer-service issue captures the attention of web-savvy consumers.

Characteristics of market space

a) Transactions happen through internet or online media

b) Content: There is information about the products available, not products themselves

c) Context: Instead of a face-to-face transaction, it is through electronic medium

d) Infrastructure: Actual stores and showrooms are replaced by computers and internet

Advantages of market space

a) Lesser cost because transportation costs and stocking costs are reduced

b) Convenience to the consumers. They need not travel around to research or purchase

c) It is present everywhere, so the problem of unavailability or inaccessibility doesn't arise

d) No rent for stores like market place

e) Greater information richness

f) Lower information search costs for buyers

g) Diminishes information asymmetry between sellers and buyers

h) Greater temporal separation between time of purchase and time of possession

i) Greater temporal proximity between time of purchase and time of possession

j) Enables buyers and sellers to be in different locations

Components of Market Space

Similar to a marketplace, in a market space sellers and buyers exchange goods and services for money (or for other goods and services if bartering is used), but they do it electronically. A marketspace includes electronic transactions that bring about a new distribution of goods and services. The major components and players of a marketspace are customers, sellers, goods (physical or digital), infrastructure, a front end, a back end, intermediaries and other business partners, and support services. A brief description of each follows.

Customers

The tens of millions of people worldwide that surf the Web are potential buyers of the goods and services offered or advertised on the Internet. These consumers are looking for bargains, customized items, collectors' items, entertainment, and more. They are in the driver's seat. They can search for detailed information, compare, bid, and sometimes negotiate. Organizations are the major consumers, accounting for over 85 percent of EC activities.

Sellers

Hundreds of thousands of storefronts are on the Web, advertising and offering millions of items. Every day it is possible to find new offerings of products and services. Sellers can sell direct from their Web site or from a-marketplaces.

Products

One of the major differences between the marketplace and the market space is the possible of digitization of products and services in a market space. Although both types of markets can sell physical products, the market space also can sell digital products, which are goods that can be transformed to digital format and delivered over the Internet. In addition to digitization of software and music, it is possible to digitize dozens of other products and services. In digitization, most of the costs are fixed and the variable cost is very small. Thus, profit will increase very rapidly as volume increase once the fixed costs are paid for. This is one of the major potentials of electronic markets.

Infrastructure

An electronic market infrastructure includes hardware, software and networks.

Front end Customers interact with a market space via a front end. The business processes in the front end include the seller's portal, electronic catalogues, a shopping cart, a search engine and a payment gateway.

Back end

All the activities that are related to order aggregation and fulfilment, inventory management, purchasing from suppliers, payment processing, packaging and delivery are done in what is termed the back end of the business.

Intermediaries

In marketing, an intermediary typically is a third party that operates between sellers and buyers. Intermediaries of all kinds offer their services on the Web. Online intermediaries create and manage the online markets (such as in the NTE case). They help match buyers and sellers, provide some infrastructure services, and help customers and/or sellers to institute and complete transactions. Most of these online intermediaries are computerised systems.

Other business partners

In addition to intermediaries, there are several types of partners, such as shippers, that collaborate on the Internet, mostly along the supply chain.

Support services

Many different support services are available, ranging from certification and trust services, which ensure security, to knowledge providers. These service are created to address implementation issues.

1.10 Types of E-Marketplaces/Market Spaces

1. **Electronic Storefronts:** A single company's Web site where products or services are sold. Most common mechanisms are:
   - electronic catalog
   - search engine
   - electronic cart
   - e-auction facilities
   - payment gateway

2. **E-mall (online mall)**

   It is an online shopping centre where many online stores are located. Different types of Stores and Malls are
   - General stores/malls
   - Specialized stores/malls
   - Regional versus global stores
   - Pure online organizations versus click-and-mortar stores

3. **E-marketplace**: An online market, usually B2B, in which buyers and sellers exchange goods or services; the three types of e-marketplaces are private, public, and consortia

4. **Private e-marketplaces**: Online markets owned by a single company; may be either sell-side or buy-side e-marketplaces.

5. **Sell-side e-marketplace**: A private e-marketplace in which a company sells either standard or customized products to qualified companies

6. **Buy-side e-marketplace**: A private e-marketplace in which a company makes purchases from invited suppliers

7. **Public e-marketplaces**: B2B marketplaces, usually owned and/or managed by an independent third party, that include many sellers and many buyers; also known as *exchanges*

8. **Information portal**: A single point of access through a Web browser to business information inside and/or outside an organization. The major types of portals are:

   a) Commercial (public) portals: A portal accessible via a mobile device

   b) Corporate portals: A portal accessed by telephone or cell phone

   c) Publishing portals

   d) Personal portals

   e) Mobile portals

   f) Voice portals

1.11 Market Space vs. Market Place

A market space differs from a market place in the fact that it is bi-directional unlike market place, which is uni-directional. Here, not only sellers can list their products, but buyers can also list their needs. When there is a similarity between the needs of the buyer and the product offered by the seller, a transaction takes place. Examples of such market spaces are ebay.com, quicker.com.

1.12 Meta-Markets

In economic literature, the meta-market is defined as "**a market based on the new form of communication - World Wide Web, centred around an event or an industry and not on a single product**''. These are the markets of complementary products, which are closely interrelated in the minds of consumers, belonging to different sectors.

From a specific marketing approach, nearest to the customer vision of the business practices, the concept of meta market consists "in a proposal or a variety of proposals, defined by reference to all elements (activities and services) which are included in the cognitive space of the client'' (Lambin, J.J., Chumpitaz, R, Schuiling, 2007). In other words, a meta-market is created when the cognitive associations between various logic-related activities, are physical reproduced on the market, optimizing the actions perception for the customers and giving him a unique experience.

The concept of meta-market comes from a simple idea, but profound insight: customers think about products and markets in a very different manner from the way in which products and markets are physically combined and placed on the market. In other words, consumers think in terms of activities, while firms thinking through the products and/or services. Activities that are logically linked in the cognitive space can be extremely widespread, as belonging to the various suppliers in the market. Meta-markets are thus cognitive clusters of related activities, found for customers, who are committed to meet a set of distinct needs.

They are markets in the customer's minds, the boundaries of these outlets being derived from the activities which are closely related into the cognitive structure of individuals, and not derived for the fact that they are created or associated by the companies from related industries.

Meta-markets are closely related markets from the customer point of view but are different set of industries. For example, in the automobile meta market different industries are Automobile Manufacturers, Insurance Providers, Service Centres, Spares, Driving Academy, Finance Companies etc. These are markets of complementary products that are closely related in the minds of consumers, but spread across different industries. The combination of an intangible market such as the internet, promoting closely related tangible or intangible products is known as a Meta market. An online website such as the Maruti suzuki website for second hand cars which promotes the purchase of physical goods (Maruti suzuki cars) is known as a meta-market. Let's take a look at the automobile industry. Whatever company it may be, an automobile company would involve suppliers, channels, service providers so and so forth. Thus the meta-market will bring all these buyers and sellers online in one place for one purpose only. Rather than giving multiple products to one customer, the meta-market brings together different customers of the same product.

It can also be said that the combination of various entities within the same industry can be known as a meta-market. The meta-markets are on the rise because of the increase in accessibility of internet on both computers as well as smart phones. Almost every individual in urban areas have access to the computer and the internet. There are plans being made by the Indian government to have an internet outlet in every 2 Km of India thus making internet available to even the rural population.

The meta-market helps facilitate the movement of physical goods through online medium. Take an example of 99acres.com – a real estate portal. It brings together buyers and sellers or real estate. Yatra.com brings together the travelers and the travel providers. Shaadi.com brings the marriage service providers and the groom/brides family together. So on and so forth. Thus both Yatra.com and 99acres.com are meta markets for real estate and travelers respectively.

The factor contributing most to meta markets is the convenience of users. Nowadays you can make purchases in one click. However, what if instead of going on ebay or amazon, which offers tons of different options, you want to go for the website which is specific to your niche itself? That's a meta-market. Among the essential conditions for the construction of meta-markets are:

a) A whole range of related activities in the cognitive space. These activities should be important in terms of customer, in terms of time and economic impact;

b) To perform these tasks, customers must be "confronted" with a diverse set of products and service providers, including a number of industries;

c) An openness of the consumer, in terms of time and financial resources.

1.13 Difference between Market and Marketing

In the business world, you have heard about the terms market and marketing end number of times. A question arises in the mind of many people that these two terms are same or different? The term marketing is derived from the term market, but these two signify different meaning and hence they are not one and the same thing. Market refers to a place where buyer and sellers can meet and trade. On the other end, we have marketing, which is a process that involves some activities which creates value for customers, clients and society as a whole. So, here we go to describe the substantial differences between market and marketing.

The important points of differences between market and marketing are indicated below:

a) The market is defined as a physical or virtual set up where the buyers and seller need to proceed exchange of goods and services. Marketing is a set of activities that identifies, creates, communicates and supplies consumer needs.

b) A market is a place, i.e. physical or non-physical. On the other hand, marketing is an act (abstract) of creating a utility of the product.

c) The market is a process which sets the price of the product with demand and supply forces. Conversely, Marketing is a process which analyses, creates, informs and delivers value to the customers.

d) The concept of marketing is wider than the concept of a market.

e) The market varies by product, place and other factors. As opposed to marketing, the philosophy can be consistently applied, irrespective of product, place and any other factor.

f) Market facilitates trade between the parties. Unlike marketing, that creates a link between the customer and company, to provide the right product at a right time at right place.

1.14 Company Orientation towards Market Place

As the market has changed, so has the way the company deals with the marketplace. The company orientation towards marketplace deals with the concepts which a company may apply while targeting a market. There are basically five different orientations which a company takes towards the marketplace. Notably, not all these marketing concept types work for all industries, because they differ in function. Every marketing concept was created depending on the need of the market. As markets changed, so did the concepts. Brief description of each concept/orientation is given below:

The Production Concept

Companies that use the production concept have the belief that customers primarily want products that are affordable and accessible. The production concept is based on the approach that a company can increase supply as it decreases its costs. Moreover, the production concept highlights that a business can lower costs via mass production. A company oriented towards production believes in economies of scale (decreased production cost per unit), wherein mass production can decrease cost and maximize profits. As a whole, the production concept is oriented towards operations.

A working example of the production concept is a company that produces their goods overseas. Producing retail goods abroad lowers costs and the resulting savings can be passed on to the consumer. These lower prices could be a good incentive to attract new consumers.

However, the company may experience a decline in quality and gradually a decline in sales, if the process is not kept to a standard. Businesses oriented towards production are required to avoid production efficiency procedures that affect their product's quality and design. By compromising product quality and design simply for production would probably lower the desirability of a product for customers.

The production concept actually came about in the early 1920s during the industrial revolution. During that time, the production concept was very popular because the goods produced back then were mainly basic necessities. Moreover, there was quite a high level of demand that was unfulfilled. Almost everything that was manufactured then were easily sold based on production costs. There were just two main concerns for a company before they produced a product back then—whether they could produce the product and if they could produce enough of it.

The use of the production concept is only effective when demand is greater than supply. The biggest disadvantage of this concept is that it is not always the case that your customer chooses to buy the most affordable and easily accessible product.

The Product Concept

Companies that focus on the product concept believe that the most significant priorities for a customer are quality and functional characteristics of a product. What this indicates is that a customer looks for innovative alternatives and always searches for the best of what is currently available in the market. In addition, within this concept, it is assumed that consumers stay loyal if they receive more product options and benefits.

Companies who keep this philosophy intact direct their marketing efforts in raising their product quality. With this in mind, it is not surprising that many companies in technology use the product concept. These companies always update and release their new products. It is then important for these technology companies to create strong decisions on how often they should release their new products.

By releasing too often, consumers can feel frustration due to minimal changes. Not releasing often enough would make consumers feel that the business is out of step. Companies that believe in the product concept always have to review consumer needs and execute those changes as efficiently and as quickly as possible.

The disadvantage of the product concept is that companies must recognize that superior quality of a product does not make it sell automatically. Superior products will sell only if they satisfy a consumer’s needs and wants. Moreover, consumers are not attracted to goods simply because of its quality. They also factor in other variables, such as a product's price, availability, and the like. A quality product yet with a high price can dent the budget of a consumer.

The Selling Concept

The selling concept involves companies that are sales oriented. What this means is that they can make a product and then sell it to their target market without consideration of their consumers needs or wants. The selling concept highlights that customers would buy a company's products only if the company were to sell these products aggressively.

This concept became very popular in the early 1930s. At this stage in time, mass production had become the norm, there was more competition, and most of customer demand had already been met. So, companies started to practice the selling concept. Companies would produce the product, but at the same time attempt to convince consumers to buy them through personal selling and advertising. The key considerations companies had for using the selling concept was whether they could sell the product and if they could charge sufficiently for it.

The selling concept pays little attention to whether or not a product was truly needed by consumers. The objective was to beat the competition merely in sales, with few regarding the satisfaction of a consumer. Nowadays, this is called "hard selling," wherein goods are not bought – they are sold. This concept is based on the belief that consumers may be attracted; hence, companies can focus their efforts in attracting and educating consumers.

Although it may be effective for some time –

1) That repeated efforts can sell anything.

2) This cannot be sustained for a long period of time. If a company is able to entice a consumer once, he or she cannot be won each and every time.

Actually, this may even damage the reputation of a business. Thus, this concept offers only short-term gains but not long-term benefits.

The Marketing Concept

A company that believes in the marketing concept places the consumer at the centre of the organization. All activities are geared towards the consumer. A business, oriented towards the market, aims to understand the needs and wants of a customer and executes the marketing strategy according to market research beginning from product conception to sales. As sales begin, further research can be implemented to figure out what customers think about a product and whether improvements are needed. While markets change continuously, product development and market research is always ongoing for a company that concentrates on the market.

Learn how to create a customer centric business in the following video from Harvard Business Review. By focusing on the needs and wants of a target market, a company can deliver value, more than its competitors. The marketing concept highlights the pull strategy, wherein a brand is so strong that customers would always prefer your brand to others'. The main concerns of a company that was focused on the marketing concept were the wants of consumers, if they could develop the product while the consumers still wanted it, and how they could keep customer satisfaction.

The marketing concept came about after the Second World War. There were more product variety and the selling concept could not be depended upon to generate sales. With raised discretionary income, consumers were also able to be selective. They could buy products that met their needs precisely but those needs were not patently obvious.

As companies started to use the marketing concept actively, they usually put up individual marketing departments in their organizations. Their goals were to satisfy the needs of their customers. Oftentimes, the departments were sales departments with extended responsibilities. Although these extended sales departments are still found in the companies of today, many companies have structured themselves to marketing organizations with more wide-ranging focus on the company.

Because the whole organization is in existence because it aims to satisfy the needs of a consumer, no one can neglect a consumer problem by just tagging it as a marketing challenge. The whole company must be concerned with consumer satisfaction.

Companies who believe in the marketing concept opine that they can be successful only through the satisfaction of their customers. This thinking is based on the belief that goods and services are only made available only if consumers need or want them. A small problem with the marketing concept is that there is no focus given towards societal welfare.

Four Pillars of Marketing concept are

(a) Target market

(b) Customer needs

(c) Integrated marketing

(d) Profitability

The Societal Marketing Concept

The societal marketing concept is a relatively new marketing concept. While the societal marketing concept highlights the needs and wants of a target market and the delivery of better value than its competitors, it also underscores the importance of the well-being of customers and society as a whole (consumer welfare or societal welfare).

The societal marketing concept goes one step further than the marketing concept. Case in point, if a company creates a car that uses less fuel but has more pollution, this would merely increase customer satisfaction, but not societal welfare. Companies who believe in the societal marketing philosophy direct their marketing towards giving customer satisfaction and social welfare. With this concept of marketing, companies receive long-term profit, not only from the viewpoint of the consumer, but also of society.

1.15 Marketing Myopia

Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others which are thought of as seasoned growth industries have actually stopped growing. In every ease the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management (Theodore Levitt, 1960).

Every year, a large majority of product launches fail. There's debate about exactly what percentage—some say it is 75%, others claim it's closer to 95%. Regardless of which number is right, there is no doubt that a lot of time and energy go into marketing products that will no longer exist in a year. Why is this? Some of the failure is likely attributable to the fact that many company leaders, including executives, have what's called marketing myopia—a nearsighted focus on selling products and services, rather than seeing the "big picture" of what consumers really want.

The term was coined by the late Harvard Business School marketing professor, Theodore Levitt, in a 1960 article by the same name (republished in 2004). The "heart of the article," according to Deighton, is Levitt's argument that companies are too focused on producing goods or services and don't spend enough time understanding what customers want or need. Therefore, he "encouraged executives to switch from a production orientation to a consumer orientation." As Levitt used to tell his students, "People don't want a quarter-inch drill. They want a quarter-inch hole!" (cited in Ammy Gallo, 2016)

What is marketing myopia ?

It is a short-sighted and inward looking approach to marketing that focuses on the needs of the company instead of defining the company and its products in terms of the customers' needs and wants. It results in the failure to see and adjust to the rapid changes in their markets. The myopia that Levitt describes is "a lack of insight into what a business is doing for its customers." Organizations invest so much time, energy, and money in what they currently do that they're often blind to the future. They get lulled into thinking they're in a "growth industry," which, according to Levitt, don't exist. Instead, there are really only companies continuously capitalizing on growth opportunities.

Its theme is that the vision of most organizations is too constricted by a narrow understanding of what business they are in? By the influence of this concept many oil companies redefined their business as "energy" instead of just "petroleum".

The fundamental concept to take away from marketing myopia is that a business will survive and perform better if it focuses on satisfying customer needs rather than selling specific products. Thus, this is as much about strategic planning as it is about marketing.

Every industry once upon a time was once considered a 'growth industry.' For instance, the buggy whip industry (an example torn directly from Levitt's article) once was thriving with many buggy whip manufacturers and purveyors of buggy whips for horse-drawn carriages. But then Henry Ford cam e along and the buggy whip industry went into decline and eventually became extinct.

Causes of Marketing Myopia

a) The belief that growth is assured by an expanding and more affluent population.

b) The belief that there is no competitive substitute for the industry's major product.

c) Too much faith in mass production and in the advantages of rapidly declining unit costs as output rises.

d) Preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement, and manufacturing cost reduction without any concentration on customer's needs

e) Not considering the changing consumer lifestyle in digital age—Focusing on product rather than the customer (Lacking innovation)

Prevention of Marketing Myopia

There is a core concept in the process of avoiding marketing myopia that needs to be addressed. Every company needs to capitalize in these concepts: Markets, Needs, Value (Satisfaction), Products/ Services, and customer relationship management (CRM). First, the company should target a market and if the marketing strategy includes diversification, the company would also need to make some R&D to be able to define the other target markets. Then, the company should carefully study and research on the current and future needs in every market. Later, it is important for a company to measure the value that is trying to offer to the customers through their products and/or services. Last, but not least, is the most important tool to create loyalty: Customer relationship management or CRM which is one of the most important competitive advantage in a marketing strategy.

In addition, is necessary to avoid marketing strategies based on inward looking approach and pursue a market strategy based on the needs of the customers first to find the company's need and objectives later. An outward looking would help to be focus on what is most important for every company: customers and prospects customers.

The mighty pigeon - hailed for its athletic prowess, loved as a family pet, employed as a trustworthy message carrier. For centuries, the pigeon was renowned the world over. It was a high-priced, prized commodity.

Fast forward to today, and the once-noble bird is now an utter nuisance - dubbed "a rat with wings". So what has changed? How did the pigeon lose its value so quickly?

It had the marketplace on utilitarian birds all to itself, only to lose it in one fell swoop. Unfortunately, many brands once considered titans of their industry have suffered similar fates, and it comes down to marketing myopia.

When companies and brands climb rapidly through the growth stage, they can lose sight of the business they're really in. This doesn't happen overnight. Systemic mismanagement and a focus on the needs of the company rather defining the company in terms of the customers' goals, often lead to a failure to identify and adjust quickly to changes in the market. Refusal to see beyond your own narrow definition of what exactly your company offers can be a near-sighted approach to businesses, and for many companies, can lead to failure.

Technology will always change. Competition will always pop up, sometimes from where you least expect it. To successfully navigate through these cycles and come out stronger at the end, companies have to always look externally and ask themselves not what they are selling specifically, but what problem they are solving. Following steps can help to solve the problem of marketing myopia:

a) **Listen to Your Customers**: They aren't just buying your products, they're defining an entire marketplace. Pay close attention to their purchasing habits and ask yourself: where do they learn? Are we present where the learning is happening? (e.g. social media, business forums, etc.).

b) **Don't Be Afraid to Evolve**: Just because a tactic has worked well in the past does not mean that it will always be. Be aware of new trends, listen to the experts and don't be afraid to try new things. Content marketing should be dynamic and never 'self-serving' – think about creative ways to help your customers and how to connect with them in a way that makes them feel safer, smarter or successful.

c) **Measure Your Results**: Learn about what your audience liked (or didn't like) and use the information to continually improve. If possible, implement a marketing automation solution to collect actionable metrics and track conversions. Happier prospects that eventually grows your customer base. In today's cluttered market place, companies that disrupt the buyers' journey and delight customers with solutions they can't find anywhere else are adding real value and differentiating from competitors. Once B2B marketers make the shift to relationship-building content, they will improve their business results by attracting the right prospects – the ones that are interested in the problems their company can solve.

d) **Practice Self-Cannibalis**): A company should never be afraid to compete with itself for more market share. A great example of this is an automobile company moving horizontally and producing electric vehicles. By doing so, they are stealing market share from themselves in one area but are also gaining it in fresh frontiers.

e) **Listen to the Experts**: There are entire websites, blogs, and industry analyses devoted to tracking changes in the market. Although it's important not to rely too heavily on forecasted data, it is worth mentioning that professional marketers have taken quite a bit of time (time you don't necessarily have) to research new trends and changes within the market. An example of this would be companies that research small tweaks and any changes to Google's top-secret search algorithm (which we happen to do!).

f) **Sustaining a Blockbuster Hit**: Think about Blockbuster, the blue and yellow pigeon of the entertainment world. You probably think their demise was inevitable as soon as Netflix burst onto the scene. What you may not know is that the movie rental giant had several opportunities to acquire Netflix but balked, citing current sales. Blockbuster saw itself as strictly a retailer that sold a specific good in a linear fashion, instead of taking the holistic view of an all-around entertainment delivery company that could evolve its offerings to fit the soon-to-be-changing needs of its customers. They forgot what business they were in. And in a relatively short time frame went from a Friday night staple to running joke.

g) **Adapting to New Assumptions**: For years BlackBerry dominated the mobile PDA market. It was the premier mobile gadget and became so ubiquitous in business it earned the moniker "Crack Berry." So what happened? How did it fall to the bottom of the smart phone barrel? It's fairly simple really. They failed to adapt and innovate in a consumer-technology market that was, and continues to, evolve at a rapid pace. The best PDA maker (arguably one of the first smart phone makers) completely missed the smart phone market. It was their steadfast insistence to their old assumptions that contributed to their myopia. BlackBerry also failed to tune into the fact that consumers were driving the smart phone industry - it was no longer just for business. As such, they missed the boat on the "app economy" and that smart phones were no longer just communications devices - they were entertainment devices.

h) **Pigeon-Proofing your Business**: Take a look at the landscape of newly successful companies of the present day and you'll probably find a future pigeon or two in the bunch. But you'll also be able to pick out the companies that are built to last in the very long run, not because of the technology they've built, but because of how they focus on solving pain points within their customers' journeys. The biggest disrupter of this young century has been Uber. They understood from the start that they are a transportation company, not a taxi company. This way of thinking will always open doors as technology evolves and needs change. Traditional taxi companies who only considered other taxi companies as competition were blindsided by a left-field idea with a solid basis confirmed through extensive customer lifecycle mapping. Same story with Airbnb. Hotels focus on selling hotel rooms, Airbnb is in the business of experiences. It plays out in everything from the design of the app to their refreshingly breezy marketing efforts. Airbnb is one of a number of companies expanding their innovative approach inwardly to align each and every employee with the company mission and give greater insight into the customer journey. Through visuals, Airbnb puts itself in the well-worn shoes of its travellers, empathizing with them each step of the way. Customer experience has to be the heartbeat of your business. Companies, whether early-stage or enterprise, can never lose sight of the North Star that guided them to early success. A hundred years ago, when pigeons were the muses for some of our greatest artists, no one could have predicted their fall into obsolescence. If you want your company to avoid the fate of the pigeon, Blockbuster or Polaroid, you need to understand the business you are truly in.

i) **Diversification:** "Do not bite off more than you can chew" or the well-known saying "Jack of all trades, master of none." That might be a good advice for other aspects in life but business. Today's biggest empires and leaders of all industries have proven that diversification is a must do. They are competing in various trades now, yet they are mastering at least one of all markets. Pepsi-

Cola and Nike are the best example in this matter. Pepsi Cola Inc. went from being the long-lasting runner-up (always falling behind Coca Cola) until Pepsi Cola decided to diversify. The company began to penetrate into different markets like chips and soft drinks. Currently, Pepsi Cola is second in the market in carbonated drinks, but they become the leaders in soft drinks and chips making almost double the amount of net income last year 2010. Nike Inc. has also chose to redefine their company beyond what it was the original or initial product. Nike Inc. has successfully diversified their products becoming one of the leaders in the sports gear and apparel industry. Thus, another effective way to avoid marketing myopia is with diversification.

j) **Never Stop Evolving**: Managers or upper level management with marketing myopia would normally share comments like "Customers loyalty would not change regardless of what happens in the market," or "that won't ever happen to us." Those expressions are clearly signs of marketing myopia and often can lead to outdated and old-fashion marketing strategies. Our modern society, with their new trends formed as a result of fast pace of life, is challenging these outdated concepts. Avoiding marketing myopia means to continuously evolve research, advertise, recognize consumer needs or go out of business. Apple Inc., is a perfect example of never stop evolving as a way to avoid marketing Myopia. In the 90's apple was just a mere and pure computer company. The problem was that they were lacking behind the Microsoft Empire. Apple evolved and when from being a computer company to cancelling their operating systems licensing agreement and develop what would become the new generation of computers: the iPod. From the tremendous success of the new era in technology, music, and electronics: the iPod, Apple never stop evolving. Until today, Apple

Inc. continues to innovate beyond consumer expectation and investing a substantial amount of money in marketing and R&D.

k) **Innovation as a Marketing strategy:** One of the normal symptoms when marketing myopia occurs is thinking that the company is its own competitor. In other words, the company does not have any important competitor. That thought is wrong, in fact, there are many competitors out there in the market that can and will be influential. The market place is becoming more and more competitive through the years; globalization is one important cause for this expanding competitive world. Despite the marketing myopia of those companies that believe they do not have competitors, in reality, companies are battling for shrinking market shares; while struggling with differentiation. The more competitors in the market, the less profit there is for the leaders. Thus, when differentiation is a problem among competitors of a specific industry, innovative marketing strategies will be the bridge to a sustainable growth. Innovation and marketing can be the way to take over that uncontested market space.

For companies to ensure continued evolution, they must define their industries broadly to take advantage of growth opportunities. They must ascertain and act on their customers' needs and desires, not bank on the presumed longevity of their products. In short, the best way for a firm to be lucky is to make its own luck.

An organization must learn to think of itself not as producing goods or services but as doing the things that will make people want to do business with it. And in every case, the chief executive is responsible for creating an environment that reflects this mission.

1.16 Marketing mix

The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place. McCarthy classified these tools into four broad groups that he called the four P's of marketing: Product, Price, Place and Promotion. Marketing mix decisions must be made for influencing the trade channels as well as the final consumers. The 4Ps are discussed as under:

Price: refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

Product: refers to the item actually being sold. The product must deliver a minimum level of performance; otherwise even the best work on the other elements of the marketing mix won't do any good.

Place: refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.

Promotion: this refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes.

Over the years, as the concept of marketing has evolved, and the definition of a product has grown more complex, the traditional marketing mix has also been redefined and extended.

In 1987, Kotler proposed an additional two Ps to the original model. These were political power and public opinion formation. Kotler proposed that when entering foreign markets, there was a need to satisfy an audience beyond the target market. These were the governments, regulatory bodies, trade associations and even other interested groups who had power over the intended market. Hence the political power and public opinion formation was needed to gain their support.

The 7Ps of Services Marketing

The 7Ps model was devised by E. Jerome McCarthy and published in 1960 in his book ”Basic Marketing: A Managerial Approach.” This model has gained significant attraction over the years as services and their marketing is increasingly being given due importance as an independent field of study. This model extends the marketing mix by 3 new Ps that directly relate to the service provision industry.

- **People**: All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.

- **Processes**: The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.

- **Physical Evidence**: Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example a hair salon would provide their client with a completed hairdo and an insurance company would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDF’s) they are still receiving a “physical product” by this definition.

The 4Cs marketing model

It was developed by Robert F. Lauterborn in 1990. It is a modification of the 4Ps model. It is not a basic part of the marketing mix definition, but rather an extension. Here are the components of this marketing model:

- **Cost**: According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience or opportunity cost is also part of the cost of product ownership.
- **Consumer Wants and Needs**: A company should only sell a product that addresses consumer demand. So, marketers and business researchers should carefully study the consumer wants and needs.
- **Communication**: According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open dialogue with potential clients based on their needs and wants.
- **Convenience**: The product should be readily available to the consumers. Marketers should strategically place the products in several visible distribution points.

The 15Ps Model

The longest extension to the original model was proposed by Baumgartner in 1991 and includes people, politics, publicrelations, probe, partition, prioritize, position, profit, plan, performance, and positive implementations.

1. Product: What Product is being offered ?
2. Price: What Price the product is being offered?
3. Place: What Place the product is being offered?
4. Promotion: What kind of promotion is being offered?

5. Public: What is the customer base or target audience which might lead to market segmentation.

6. Personalization: Personalization of the product to the target customers and customer segment.

7. Packaging: Bundle of services, in case of service based product and in case of physical product shelf life of product.

8. Protection: Guarantee, Service package, after service.

9. Positioning: Identifying and attempting to occupy a market niche for a brand

10. Presentation: What kind of management or brand is standing behind the product.

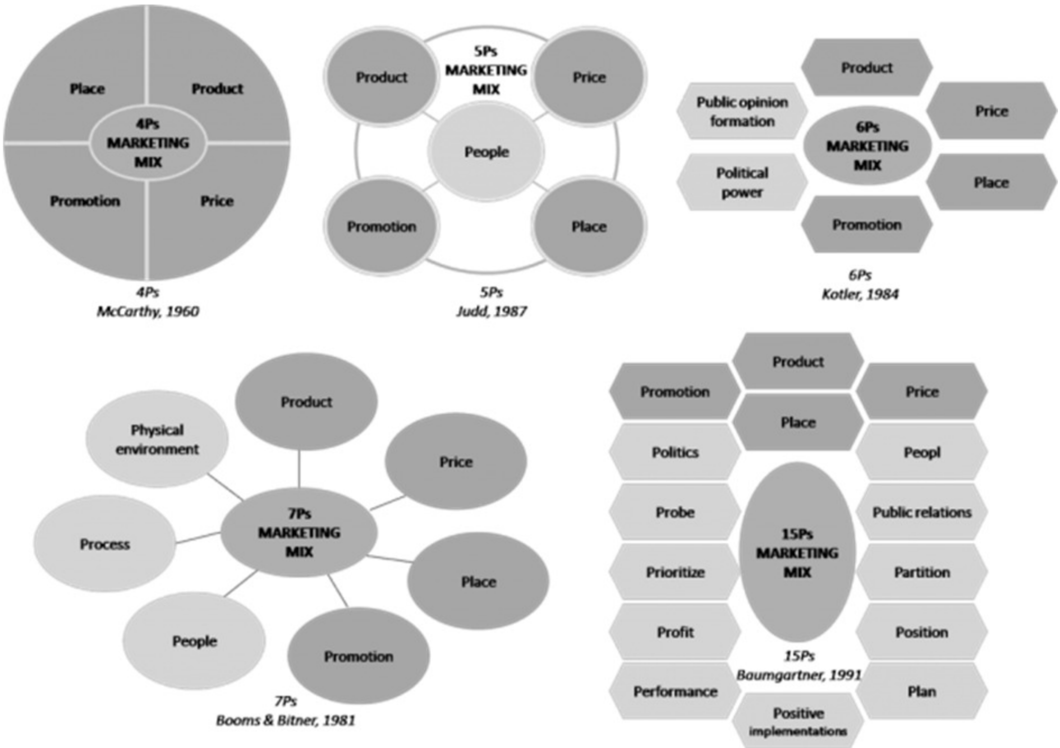
11. Payment: It will include the key component of forms of payment as well as the cut for the payment processors and processing of product sold.

12. Purse: Financial strength of customers or target audience.

13. Pouch: How much per cent of the Purse (overall market) the company is able to capture and what is the per cent captured by competitors.

14. Promise: Commitment, quality, brand performance.

15. Principles: The capital invested in the product to define the ROI, brand value, company values and principles.



1.17 Conclusion

This introductory chapter described marketing as one of the major strategic tools available to the business organization. It began with a basic definition and expanded to a set of propositions of marketing. Simply, marketing is based on the mission statement of the organization. It is dependent on the effective management of other functional areas; contains a functional area guided by its own philosophy; concerned with market exchanges: and is likely to be successful when the philosophy, tasks, and manner of implementing available technology are coordinated and complimentary.

1.18 Self Assessment Questions

Q1. Explain different types of marketing orientations ?

Q2. Explain the different types of marketing ?

Q3. Explain 7Ps model of marketing mix and its applicability ?

Q4. Contrast macro- and micromarketing ?

Q5. Contrast services and goods marketing ?

1.19 Suggested Readings :

a) Peter D. Bennett (1988), "Dictionary of Marketing Tenns", American Marketing Association, p. 54.

b) "A New Recipe for the Family Dinner," Adweek, April 27. 1992, p. 46. 3.

c) Theodore Levitt (1960), "Marketing Myopia," Harvard Business Review, pp. 45-66.

d) Shelby D. Hunt and John J. Burnett (1982), "The Macro-marketing Micro-marketing Dichotomy: A Taxonomical Model", Journal of Marketing, Summer, pp.11-26.

e) Rayport and Sviokla (1995), Exploiting the virtual value chain, Harvard Business Review

f) Rayport and Sviokla (1994), "Managing in the marketplace", Harvard Business Review. Pp. 141-150.

g) Kotler, P. "Principles of Marketing"

h) Kotler, P. "Marketing Management"

Unit II **Lesson 6-10**

Structure :

2.1 Introduction

2.2 Objectives

2.3 What is a Consumer ?

2.4 Factors affecting Consumer Behaviour

2.5 Influence of Children on buying decision.

2.6 Stages of the Consumer buying decision Process.

2.7 Glossary

2.8 Self Assessment Questions

2.9 Lesson End Exercise

2.10 Suggested Readings/ Books Recommended

2.1 Introduction

The relationship between the buyer and the seller exists through a phenomenon called market exchange. The exchange process allows the parties to assess the relative trade-offs they must make to satisfy their respective needs and wants. For the marketer, analysis of these trade-offs is guided by company policies and objectives. For example, a company may engage in exchanges only when the profit margin is 10% or greater. The buyer, the other member in the exchange, also has personal policies and objectives that guide their responses in an exchange. Unfortunately, buyers seldom write down their personal policies and objectives. Even more likely, they often don't understand what prompts them to behave in a particular manner. This is the mystery or the "black box" of buyer behaviour that makes the exchange process so unpredictable and difficult for marketers to understand.

Buyers are essential partners in the exchange process. Without them, exchanges would stop. They are the focus of successful marketing; their needs and wants are the reason for marketing. Without an understanding of buyer behaviour, the market offering cannot possibly be tailored to the demands of potential buyers. When potential buyers are not satisfied, exchange falters and the goals of the marketer cannot be met. As long as buyers have free choice and competitive offerings from which to choose, they are ultimately in control of the marketplace.

2.2 Objectives

After studying this chapter, you will be able to understand the terms :

- Consumer
- Customer
- Need of consumer behavioural study
- Industrial buyer's needs and motives
- Understand t he behaviour of the individual consumers in the market place.

- Examine the factors that influence consumer behaviour.
- The model of consumer behaviour

2.3 Who is a consumer?

A consumer need not just be an individual; a consumer can also be an organization. A consumer can be someone who will buy either goods or services or you can also specify the goods and services as economic services or products, or good or commodities. A consumer is the end user or a target to whom the goods and services are sold. In simple words a consumer can be described as:

- A person or an organization that is specifically targeted to sell a products or a service of a company.
- Someone again, mind you this someone can either be an individual or an organization that pays a price to use the goods and services of an organization.
- A person or an organization who is the final user of the goods and the services produced by a company.

You can consider all three definitions to define a consumer. The consumer is the decision maker here in the economic system. He can take the following decisions:

- The decision of buying or not a product in a store or at a shop
- The consumer will decide if he would want to be influenced by the marketing strategies and the advertisements of the organization for a product or a service.
- Many consumers are influenced by marketing and advertisements
- The consumer decides what he wants and when to buy
- The consumer chooses between competitors and their products.

Consumer Behaviour

Consumer behaviour refers to buyers, who are purchasing for personal, family, or group use. Consumer behaviour can be thought of as the combination of efforts and results related to the consumer's need to solve problems. Consumer problem solving is triggered by the identification of some unmet need. A family consumes all of the milk in the house or the tires on the family care wear out or the bowling team is planning an end-of-the-season picnic. This presents the person with a problem which must be solved. Problems can be viewed in terms of two types of needs: physical (such as a need for food) or psychological (for example, the need to be accepted by others).

Although the difference is a subtle one, there is some benefit in distinguishing between needs and wants. A need is a basic deficiency given a particular essential item. You need food, water, air, security, and so forth. A want is placing certain personal criteria as to how that need must be fulfilled. Therefore, when we are hungry, we often have a specific food item in mind. Consequently, a teenager will lament to a frustrated parent that there is nothing to eat, standing in front of a full refrigerator. Most of marketing is in the want-fulfilling business, not the need-fulfilling business. Timex doesn't want you to buy just any watch; they want you to want a Timex brand watch. Likewise, Ralph Lauren wants you to want Polo when you shop for clothes. On the other hand, the American Cancer Association would like you to feel a need for a check-up and doesn't care which doctor you go to in the end, however, marketing is mostly interested in creating and satisfying wants.

Consumer behaviour is a physiological process, which is all related to the emotions of the consumer. In this process the consumer starts with recognizing the need of the product, and then finds a way or a medium of solving these needs, makes purchase decisions like planning whether he should buy or not buy a certain product, and then he confirms the information, jots down a plan and then implements the plan of making the purchase.

Consumer behaviour is physiological human behaviour, which can change with the slightest change in the market, the atmosphere and the trend. Answer to following questions support the understanding of consumer behaviour:

a) Who is the market and what is the extent of their power with regard to the organisation?

b) What do they buy ?

c) Why do they buy ?

d) Who is involved in the buying ?

e) How do they buy ?

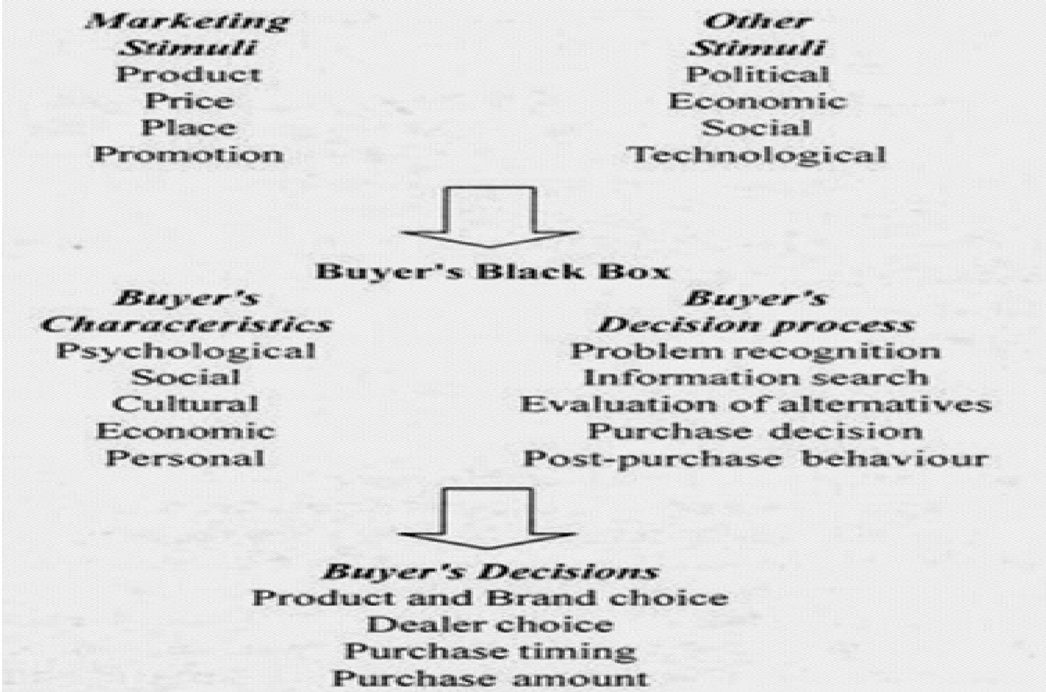
f) When do they buy ?

g) Where do they buy ?

The answers of these questions provide the understanding of the ways in which buyers are most likely to respond to marketing stimuli.

The stimulus-response model of buyer behaviour is shown below

FIGURE 2.1: MODEL OF BUYER BEHAVIOUR



According to this model, stimuli in the form of both the external environment and the elements of the marketing mix enter the buyer's 'black box' and interact with the buyer's characteristics and decision processes to produce a series of outputs in the form of purchase decisions.

The task faced by the marketing planner involves understanding how the black box operates, for which two principal components of the box must be considered; firstly the factors that the individual brings to the buying situation and secondly the decision processes that are used.

Types of Consumer Buying Behaviour

The four type of consumer buying behaviour are :

Routine Response/Programmed Behaviour: It include buying low involvement frequently purchased low cost items; need very little search and decision effort; purchased almost automatically. Examples include soft drinks, snack foods, milk etc.

Limited Decision Making—buying product occasionally. When you need to obtain information about unfamiliar brand in a familiar product category, perhaps. Requires a moderate amount of time for information gathering. Examples include Clothes—know product class but not the brand.

Extensive Decision Making/Complex high involvement, unfamiliar, expensive and/ or infrequently bought products. High degree of economic/performance/psychologica l risk. Examples include cars, homes, computers, education. Spend alot of time seeking information and deciding. Information from the companies MM; friends and relatives, store personnel etc. Go through all six stages of the buying process.

Impulse buying, no conscious planning: The job of the organizations here is to educate the consumers about their goods and services and motivate them to buy their goods and services. Predicting single or consumer behaviour of a group is not just difficult because you never know what factors might influence them and when. Reason being the consumers today have a huge variety of choice and a number of factors influence the behaviour of the consumers. Let's take a look at the notes given below to understand what influences consumer behaviour.

2.4 The Factors Affecting Consumer Behaviour

The consumer behaviour or buyer behaviour is influenced by several factors or forces. They are: 1. Internal or Psychological factors 2. Social factors 3. Cultural factors 4. Economic factors 5. Personal factors:

1. Internal or psychological factors:

The buying behaviour of consumers is influenced by a number of internal or psychological factors. The most important ones are Motivation and Perception.

a) Motivation:

A need becomes a motive when it is aroused to a sufficient level of intensity. A motive is a need that is sufficiently pressing to drive the person to act. There can be of types of needs:

a.1) Biogenic needs:

They arise from physiological states of tension such as thirst, hunger

a.2) Psychogenic needs:

They arise from psychological states of tension such as needs for recognition, esteem.

In the words of William J Stanton, "A motive can be defined as a drive or an urge for which an individual seeks satisfaction. It becomes a buying motive when the individual seeks satisfaction through the purchase of something". A motive is an inner urge (or need) that moves a person to take purchase action to satisfy two kinds of wants viz. core wants and secondary wants. Let us take two examples:

TABLE 2.1: Examples of core and secondary want:

Products	Core want	Secondary want
Glasses	Protection to eyes	It should look goo
Shoes	Protection to feet	Elegance in style

So, motivation is the force that activates goal-oriented behaviour. Motivation acts as a driving force that impels an individual to take action to satisfy his needs. So it becomes one of the internal factors influencing consumer behaviour.

b) Perception:

Human beings have considerably more than five senses. Apart from the basic five (touch, taste, smell, sight, hearing) there are senses of direction, the sense of balance, a clear knowledge of which way is down, and so forth. Each sense is feeding information to the brain constantly, and the amount of information being collected would seriously overload the system if one took it all in. The brain therefore selects from the environment around the individual and cuts out the extraneous noise.

In effect, the brain makes automatic decisions as to what is relevant and what is not. Even though there may be many things happening around you, you are unaware of most of them; in fact, experiments have shown that some information is filtered out by the optic nerve even before it gets to the brain. People quickly learn to ignore extraneous noises: for example, as a visitor to someone else's home you may be sharply aware of a loudly ticking clock, whereas your host may be entirely used to it, and unaware of it except when making a conscious effort to check that the clock is still running.

Therefore the information entering the brain does not provide a complete view of the world around you. When the individual constructs a world-view, she then assembles the remaining information to map what is happening in the outside world. Any gaps (and there will, of course, be plenty of these) will be filled in with imagination and experience. The cognitive map is therefore not a 'photograph'; it is a construct of the imagination. This mapping will be affected by the following factors:

b.1 Subjectivity:

This is the existing world-view within the individual, and is unique to that individual.

b.2 Categorisation:

This is the 'pigeonholing' of information, and the pre-judging of events and products. This can happen through a process known as chunking, whereby the individual organises information into chunks of related items. For example, a picture seen while a particular piece of music is playing might be chunked as one item in the memory, so that sight of the picture evokes the music and vice versa.

b.3 Selectivity:

This is the degree to which the brain is selecting from the environment. It is a function of how much is going on around the individual, and also of how selective (concentrated) the individual is on the current task. Selectivity is also subjective: some people are a great deal more selective than others.

b.4 Expectation:

These lead individuals to interpret later information in a specific way.

b.5 Past experience:

This leads us to interpret later experience in the light of what we already know. Psychologists call this the law of primacy, Sometimes sights, smells or sounds from our past will trigger off inappropriate responses: the smell of bread baking may recall a village bakery from twenty years ago, but in fact the smell could have been artificially generated by an aerosol spray near the supermarket bread counter.

An example of cognitive mapping as applied to perception of product quality might run as follows.

The consumer uses the input selector to select clues and assign values to them. For quality, the cues are typically price, brand name and retailer name. There are strong positive relationships between price and quality in most consumers' perceptions, and brand name and quality; although the retailer name is less significant, it still carries some weight.

For example, many consumers would feel confident that Big Bazaar would sell higher-quality items than the local corner shop, but might be less able to distinguish between Food Bazaar and Giant hyper store. The information is subjective in that the consumer will base decisions on the selected information. Each of us selects differently from the environment and each of us has differing views. Information about quality will be pigeonholed, or categorised: the individual may put Scoda Octavia in the same category as Mercedes Benz or perhaps put Sony in the same slot as Aiwa.

2. Social factors:

Man is a social animal. Hence, our behaviour patterns, likes and dislikes are influenced by the people around us to a great extent. We always seek confirmation from the people around us and seldom do things that are not socially acceptable. The social factors influencing consumer behaviour are a) Family, b) Reference Groups, c) Roles and status.

a) Family:

There are two types of families in the buyer's life viz. nuclear family and Joint family. Nuclear family is that where the family size is small and individuals have higher liberty to take decisions whereas in joint families, the family size is large and group decision-making gets more preference than individual. Family members can strongly influence the buyer behaviour, particularly in the Indian contest. The tastes, likes, dislikes, life styles etc. of the members are rooted in the family buying behaviour.

The family influence on the buying behaviour of a member may be found in two ways

i) The family influence on the individual personality, characteristics, attitudes and evaluation criteria and

ii) The influence on the decision-making process involved in the purchase of goods and services. In India, the head of the family may alone or jointly with his wife decides the purchase. So marketers should study the role and the relative influence of the husband, wife and children in the purchase of goods and services.

An individual normally lives through two families:

Family of orientation:

This is the family in which a person takes birth. The influences of parents and individual's upbringing have a strong effect on the buying habits. For instance, an individual coming form an orthodox Tamil or Gujarati vegetarian family may not consume meat or egg even though she may appreciate its nutritional values.

Family of procreation:

This is the family formed by an individual with his or her spouse and children. Normally, after marriage, an individual's purchasing habits and priorities change under the influence of spouse. As the marriage gets older, the people usually settle in certain roles. For instance, a father normally takes decisions on investment whereas the mother takes decision on health of children.

From a marketing viewpoint, the level of demand for many products is dictated more by the number of households than by the number of families. The relevance of families to marketing is therefore much more about consumer behaviour than about consumer demand levels .In terms of its function as a reference group, the family is distinguished by the following characteristics:

i. Face-to-face contact:

Family members see each other every day and interact as advisers, information providers and sometimes deciders. Other reference groups rarely have this level of contact.

ii. Shared consumption:

Durables such as refrigerators, washing machines, televisions and furniture are shared, and food is collectively purchased and cooked. Purchase of these items is often collective; children even participate in decision making on such major purchases as cars and houses.

iii. Subordination of individual nee:

Because consumption is shared, some family members will find that the solution chosen is not one that fully meets their needs.

iv. Purchasing agent:

Because of the shared consumption, most families will have one member who does most, or all of the shopping. Traditionally, this has been the mother of the family, but increasingly the purchasing agents are the older children of the family and even pre-teens are sometimes taking over this role.

The reason for this is the increase in the number of working mothers who have less time for shopping. This has major implications for marketers, since pre-teens and young teens generally watch more TV than adults and are therefore more open to marketing communications.

Role specialisation is critical in family decision making because of the sheer number of different products that must be bought each year in order to keep the family supplied. What this means in practice is that, for example, the family member responsible for doing the cooking is also likely to take the main responsibility for shopping for food. The family member who does the most driving is likely to make the main decision about the car and its accessories, servicing, fuelling and so forth; the family gardener buys the gardening products, and so on.

Culture has a marked effect on family decision-making styles. Religion and nationality will often affect the way decisions are made. Indian cultures tend to be male dominated in decision-making, whereas European and North American cultures show a more egalitarian pattern of decision-making.

There are two issues here for the marketer: first, what is the effect on the marketing mix of the multiethnic society like in India; and secondly, what is the effect when dealing internationally? This is a somewhat sensitive area and the marketers are still getting to grips with.

Social class creates patterns of decision-making. Among very wealthy families, there appears to be a greater tendency for the husbands to make the decisions, but at the same time the norms of purchase tend to be well established and therefore discussion is unnecessary.

Lower-class families, with low incomes, tend to be more matriarchal, with the wives often handling the financial decisions about rent, insurance, grocery and food bills without reference to the husbands. Middle-class families tend to show greater democratic involvement in decision-making. These social class distinctions are gradually breaking down, however, as a result of increasing wealth and mass education.

The family may well adopt different roles according to the decision-making stage. At the problem recognition stage of, for example, the need for new shoes for the children, the children themselves may be the main contributors. The mother may then decide what type of shoes should be bought, and the father may be the one who takes the children to buy the shoes. It is reasonable to suppose that the main user of the product might be important in the initial stages, with perhaps joint decision making at the final purchase.

Other determinants might include such factors as whether both parents are earning. The double income families generally take decisions jointly because each has a financial stake in the outcome. Gender role orientation is clearly crucial to decision making. Husbands (and wives) with conservative views about gender roles will tend towards the assumption that most decisions about expenditure will be made by the husband. Even within this type of decision-making system, however, husbands will usually adjust their own views to take account of their wife's attitudes and needs.

The family is a flexible concept, and families go through life cycles. There have been various versions of the family life cycle, but most are based on the original work of Wells and Gubar. Following table shows the stages of the family life cycle.

TABLE 2.2: Family life cycle

Stage of life cycle	**Explanation**
Single/Bachelor stage	Single people like student, unemployed youth or professionals at their age tend to have low earnings, but also have low outgoings so have a high discretionary income. They tend to be more fashion and recreation orientated, spending on clothes, music, alcohol, eating out, holidays, leisure pursuits and hobbies. They may buy cars and items for their first residence away from home.
	Newlyweds without children are usually dual-income households (Double Income No Kids commonly known as DINK) and therefore usually well off. They still tend to spend on similar things to the singles, but also have the highest proportion of expenditure on household

Newly married couples	goods, consumer durables and appliances. Appear to be more susceptible to advertising.
Full nest I	When the first child arrives, one parent usually stops working outside the home, so family income drops sharply. The baby creates new needs, which alter expenditure patterns: furniture and furnishings for the baby, baby food, vitamins, toys, nappies and baby food. Family savings decline, and couples are usually dissatisfied with their financial position.
Full nest II	The youngest child is over 6, so often both parents will work outside the home. The employed spouse's income has risen due to career progression, and the family's total income recovers. Consumption patterns still heavily influenced by children: bicycles, drawing or swimming lessons, large-size packages of breakfast cereals, cleaning products, etc.
Full nest III	Family income improves, as the children get older. Both parents are likely to be working outside the home and both may have had some career progression; also, the children will be earning some of their own money from part-time jobs, etc. Family purchases might be a second car, replacement furniture, some luxury items and children's education.

Empty nest I	Children have grown up and left home. Couples are at the height of their careers and spending power, have low mortgages, very reduced living costs. Often go for luxury travel, restaurants and theatre, so they need fashionable clothing, jewellery, diets, spas, health clubs, cosmetics or hairdressing.
Empty nest II	Main breadwinner has retired, so some drop in income. Expenditure is more health orientated, buying appliances for sleep, over-the-counter (OTC drugs like Crocin, Disprin, Gellusil) remedies for indigestion. They often buy a smaller house or move to an apartment in suburbs.
Solitary survivor	If they still are in the workforce, widows and widowers enjoy a good income. They may spend more money on holidays, as well as the items mentioned in empty nest II.
Retired solitary survivor	Same general consumption pattern is evident as above, but on a smaller scale due to reduced income. They have special needs for love, affection and security, so may join local clubs for aged etc.

The family life cycle is a useful rule-of-thumb generalisation, but given the high divorce rate and the somewhat uncertain nature of career paths, it is unlikely that many families would pass through all the stages quite as neatly as the model suggests. The model was developed in 1965 and 1966 and should therefore be treated with a degree of caution.

2.5 Influence of children on buying decisions:

First-born children generate more economic impact than higher-order babies. First-born and only children have a higher achievement rate than their siblings, and since the birth rate is falling, there are more of them proportionally. More and more couples are choosing to have only one child and families larger than two children are becoming a rarity. Childlessness is also more common now than it was 30 years ago.

Children also have a role in applying pressure to their parents to make particular purchasing decisions. The level of 'pester power' generated can be overwhelming, and parents will frequently give in to the child's demands. This is substantiated by the spurt of cartoon channels like Cartoon Network, Pogo, Nick, Animax, Hungama or Splash, all of which depend on the advertisements of all possible products in which children have their influence over their parents. Although the number of children is steadily declining, their importance as consumers is not. Apart from the direct purchases of things that children need, they influence decision making to a marked extent. Children's development as consumers goes through five stages:

1. Observing
2. Making requests
3. Making selections
4. Making assisted purchases
5. Making independent purchases

Recent research has shown that pre-teens and young teens have a greater influence on family shopping choices than do the parents themselves, for these reasons :

i. Often they do the shopping anyway, because both parents are working and the children have the available time to go to the shops.

ii. They watch more TV, so are more influenced by advertising and more knowledgeable about products.

iii. They tend to be more attuned to consumer issues, and have the time to shop around tor.

b) Reference group:

A group is two or more persons who share a set of norms and whose relationship makes their behaviour interdependent. A reference group is a group of people with whom an individual associates. It is a group of people who strongly influence a person's attitudes values and behaviour directly or indirectly. Reference groups fall into many possible grouping, which are not necessarily to be exhaustive (i.e. non over-lapping). The various reference groups are:

i) Membership or contractual groups:

They are those groups to which the person belongs, and interacts. These groups have a direct influence on their member's behaviour.

ii) Primary or normative groups:

They refer to groups of friends, family members, neighbours co-workers etc whom we see most often. In this case, there is fairly continuous or regular, but informal interaction with cohesiveness and mutual participation, which result in similar beliefs and behaviour within the group.

iii) Secondary groups :

They include religious groups, professional groups etc, which are composed of people whom we see occasionally. These groups are less influential in shaping attitudes and controlling behaviour but can exert influence on behaviour within the purview of the subject of mutual interest. For example, you can be member of a philately or literary club where you can discuss on mutually interesting subjects.

iv) Aspiration group:

These are group to which a person would like to join as member. These groups can be very powerful in influencing behaviour because the individual will often adopt the behaviour of the aspirational group in the hopes of being accepted as a member. Sometimes the aspirational groups are better off financially, or will be more powerful; the desire join such groups is usually classed as ambition.

For example, a humble office worker may dream of one day having the designation to be present in the company boardroom. Advertising commonly uses images of aspirational groups, implying that the use of a particular product will move the individual a little closer to being a member of an aspirational group. Just consider Nokia 6230 ad campaign where an young man with Nokia mobile is shown to be capable to go the top position in the company, thus instigating you to use the same model in order to join the same aspirational group.

v) Dissociative or avoidance groups :

These are groups whose value an individual rejects and the individual does not want to be associated with. For example, a senior corporate executive does not want to be taken as a teenager. Hence, the individual will try to avoid certain products or behaviours rather than be taken for somebody from the dissociative group. In the just given example, the executive may not use cigarette, perfume or car, which are very much teenager-oriented. Like aspirational groups, the definition of a group as dissociative is purely subjective and it varies from one individual to the next.

vi) Formal groups:

These groups have a known list of members, very often recorded somewhere. An example might be a professional association, or a club. Usually the rules and structure of the group are laid down in writing. There are rules for membership and members' behaviour is constrained while they remain part of the group.

However, the constraints usually apply only to fairly limited areas of behaviour; for example, the association of Chartered Accountants (CA) or the Cost Accountants have laid down the codes of practice for their members in their professional dealings, but has no interest in what its members do as private citizens. Membership of such groups may confer special privileges, such as job advancement or use of club facilities, or may only lead to responsibilities in the furtherance of the group's aims.

vii) Informal groups:

These are less structured, and are typically based on friendship. An example would be an individual's circle of friends, which only exists for mutual moral support, company and sharing experiences. Although there can be even greater pressure to conform than would be the case to a formal group, there is nothing in writing.

Often informal groups expect a more rigorous standard of behaviour across a wider range of activities that would a formal group; such circles of friends are likely to develop rules of behaviour and traditions that are more binding than written rules.

viii) Automatic groups:

These are those groups, to which one belongs by virtue of age, gender, culture or education. These are sometimes also called category groups. Although at first sight it would appear that these groups would not exert much influence on the members' behaviour, because they are groups, which have not been joined voluntarily, it seems that people are influenced by group pressure to conform. For example, when buying clothes, older people are reluctant to look like a teenager and hence they normally do not buy jeans.

ix) Indirect groups:

In this case, the customers are not in direct contact with the influencers. For example, a film star like Shah Rukh Khan pitches for Santro car, it obviously has a deep influence over the blind fans.

x) Comparative groups:

The members of this group are those with whom you compare yourself. For example, you may compare yourself with your brother or sister (sibling rivalry) or the colleagues and try to emulate by possessing some unique products or brands like Modava watch or Christian Dior perfume.

xi) Contractual group:

The group with which we are in regular contacts like college friends, office colleagues.

c) Roles and status:

A person participates in many groups like family, clubs, and organisations. The person's position in each group can be defined in tern of role and status. A role consists of the activities that a person is expected to perform. Each role carries a status. People choose products that communicate their role and status in society. Marketers must be aware of the status symbol potential of products and brands.

3. Cultural factors:

Kotler observed that human behaviour is largely the result of a learning process and as such individuals grow up learning a set of values, perceptions, preferences and behaviour patterns as the result of socialisation both within the family and a series of other key institutions. From this we develop a set of values, which determine and drive behavioural patterns to a very large extent.

According to Schiffman and Kanuk, values include achievement, success, efficiency, progress, material comfort, practicality, individualism, freedom, humanitarianism, youthfulness and practicality. This broad set of values is then influenced by the subcultures like nationality groups, religious groups, racial groups and geographical areas, all of which exhibit degrees of difference in ethnic taste, cultural preferences, taboos, attitudes and lifestyle.

The influence of subcultures is subsequently affected by social stratification or social class, which acts as a determinant of behaviour. Social class is determined by a series of variables such as occupation, income, education and values rather than by a single variable. People within a particular social class are more similar than those from different social classes, but they can move from one social class to other in due time and circumstances.

Cultural factors consist of a) Culture, b) Sub culture and c) Social class.

a) Culture:

Culture is the most fundamental determinant of a person's want and behaviour. The growing child acquires a set of values, perception preferences and behaviours through his or her family and other key institutions. Culture influences considerably the pattern of consumption and the pattern of decision-making. Marketers have to explore the cultural forces and have to frame marketing strategies for each category of culture separately to push up the sales of their products or services. But culture is not permanent and changes gradually and such changes are progressively assimilated within society.

Culture is a set of beliefs and values that are shared by most people within a group. The groupings considered under culture are usually relatively large, but at least in theory a culture can be shared by a few people. Culture is passed on from one group member to another, and in particular is usually passed down from one generation to the next; it is learned, and is therefore both subjective and arbitrary.

For example, food is strongly linked to culture. While fish is regarded as a delicacy in Bengal, and the Bengalis boast of several hundred different varieties, in Gujarat. Rajastan or Tamil Naru, fish is regarded as mostly unacceptable food item. These differences in tastes are explained by the culture rather than by some random differences in taste between individuals; the behaviours are shared by people from a particular cultural background.

Language is also particularly culturally based. Even when a language is shared across cultures, there will be differences according to the local culture; differences between Hindi accents and choice of words of various places like Mumbai, Delhi or Bihar are clearly understandable.

While cultural generalities such as these are interesting and useful, it would be dangerous to make assumptions about individuals from other countries based on the kind of general findings in Hofstede's work. Individuals from within a culture differ more than do the cultures from each other: in other words, the most individualistic Indian is a great deal more individualistic than the most conformist American. Having said that, such generalisations are useful when approaching mass markets and are widely used when planning mass advertising campaigns such as TV commercials.

Culture can change over a period of time, although such changes tend to be slow, since culture is deeply built into people's behaviour. From a marketing viewpoint, therefore, it is probably much easier to work within a given culture than to try to change it.

b) Sub-Culture:

Each culture consists of smaller sub-cultures that provide more specific identification and socialisation for their members. Sub-culture refers to a set of beliefs shared by a subgroup of the main culture, which include nationalities, religions, racial groups and geographic regions. Many sub-Cultures make up important market segments and marketers have to design products and marketing programs tailored to their needs.

Although this subgroup will share most of the beliefs of the main culture, they share among themselves another set of beliefs, which may be at odds with those held by the main group. For example, Indians are normally seen as orthodox, conservative people, but rich, up-market youths do not hesitate to enjoy night parties with liquor and women. Another example is that, the urban educated or upper class exhibits more trace of individualism although Indian culture is mostly collective in nature.

c) Social class:

Consumer behaviour is determined by the social class to which they belong. The classification of socioeconomic groups is known as Socio-Economic Classification (SEC). Social class is relatively a permanent and ordered division in a society whose members share similar value, interest and behaviour. Social class is not determined by a single factor, such as income but it is measured as a combination of various factors, such as income, occupation, education, authority, power, property, ownership, life styles, consumption, pattern etc.

There are three different social classes in our society. They are upper class, middle class and lower class. These three social classes differ in their buying behaviour. Upper class consumers want high-class goods to maintain their status in the society. Middle class consumers purchase carefully and collect information to compare different producers in the same line and lower class consumers buy on impulse.

Again there could be education considerations. A rich but not so educated people will not normally buy a computer. We should consider another factor of social mobility where a person gets up in the social ladder (for example, poor can become middle class and middle class become rich or the children of uneducated family can attain higher education) or down in the social ladder (for example, rich can become poor or the children of a highly educated family may not continue study).

Therefore marketing managers are required to study carefully the relationship between social classes and their consumption pattern and take appropriate measures to appeal to the people of those social classes for whom their products are meant.

4. Economic Factors:

Consumer behaviour is influenced largely by economic factors. Economic factors that influence consumer behaviour are

a) Personal Income,

b) Family income,

c) Income expectations,

d) Savings,

e) Liquid assets of the Consumer,

f) Consumer credit,

g) Other economic factors.

a) Personal Income:

The personal income of a person is determinant of his buying behaviour. The gross personal income of a person consists of disposable income and discretionary income. The disposable personal income refers to the actual income (i.e. money balance) remaining at the disposal of a person after deducting taxes and compulsorily deductible items from the gross income. An increase in the disposable income leads to an increase in the expenditure on various items. A fall in the disposable income, on the other hand, leads to a fall in the expenditure on various items.

The discretionary personal income refers to the balance remaining after meeting basic necessaries of life. This income is available for the purchase of shopping goods, durable goods and luxuries. An increase in the discretionary income leads to an increase in the expenditure on shopping goods, luxuries etc. which improves the standard of living of a person.

b) Family income:

Family income refers to the aggregate income of all the members of a family.

Family income influences the buying behaviour of the family. The surplus family income, remaining after the expenditure on the basic needs of the family, is made available for buying shopping goods, durables and luxuries.

c) Income Expectations:

Income expectations are one of the important determinants of the buying behaviour of an individual. If he expects any increase in his income, he is tempted to spend more on shopping goods, durable goods and luxuries. On the other hand, if he expects any fall in his future income, he will curtail his expenditure on comforts and luxuries and restrict his expenditure to bare necessities.

d) avings:

Savings also influence the buying behaviour of an individual. A change in the amount of savings leads to a change in the expenditure of an individual. If a person decides to save more out of his present income, he will spend less on comforts and luxuries.

e) Liquid assets:

Liquid assets refer to those assets, which can be converted into cash quickly without any loss. Liquid assets include cash in hand, bank balance, marketable securities etc. If an individual has more liquid assets, he goes in for buying comforts and luxuries. On the other hand, if he has less liquid assets, he cannot spend more on buying comforts and luxuries.

f) Consumer credit:

Consumer credit refers to the credit facility available to the consumers desirous of purchasing durable comforts and luxuries. It is made available by the sellers, either directly or indirect ó through banks and other financial institutions. Hire purchase, installment purchase, direct bank loans etc are the ways by which credit is made available to the consumers.

Consumer credit influences consumer behaviour. If more consumer credit is available on liberal terms, expenditure on comforts and luxuries increases, as it induces consumers to purchase these goods, and raise their living standard.

g) Other economic factor:

Other economic factors like business cycles, inflation, etc. also influence the consumer behaviour.

5. Personal factor:

Personal factors also influence buyer behaviour. The important personal factors, which influence buyer behaviour, are a) Age, b) Occupation, c) Income and d) Life Style

a) Age:

Age of a person is one of the important personal factors influencing buyer behaviour. People buy different products at their different stages of cycle. Their taste, preference, etc also change with change in life cycle.

b) Occupation:

Occupation or profession of a person influences his buying behaviour. The life styles and buying considerations and decisions differ widely according to the nature of the occupation. For instance, the buying of a doctor can be easily differentiated from that of a lawyer, teacher, clerk businessman, landlord, etc. So, the marketing managers have to design different marketing strategies suit the buying motives of different occupational groups.

c) Income:

Income level of people is another factor which can exert influence in shaping the consumption pattern. Income is an important source of purchasing power. So, buying pattern of people differs with different levels of income.

d) Life Style:

Life style to a person's pattern or way of living as expressed in his activity, interests and opinions that portrays the "whole person" interacting with the environment. Marketing managers have to design different marketing strategies to suit the life styles of the consumers.

2.6 Stages of the Consumer Buying Decision Process

The buying decision process can be defined as the process that buyers get involved in when making a purchase decision. The process presented below is part of an area in marketing called Consumer behavior, this area is the most important factor that affects every type of marketing decision. As Regis McKenna said "Customers set up a hierarchy of values, wants, and needs based on empirical data, opinions, word-of-mouth references, and previous experiences with products and services. They use that information to make purchasing decisions."

According to Philip Kotler, the typical buying process involves five stages. The buying decision model has gone through lots of interpretation by scholars. Although the models vary, there is a common theme of five stages in the decision process.

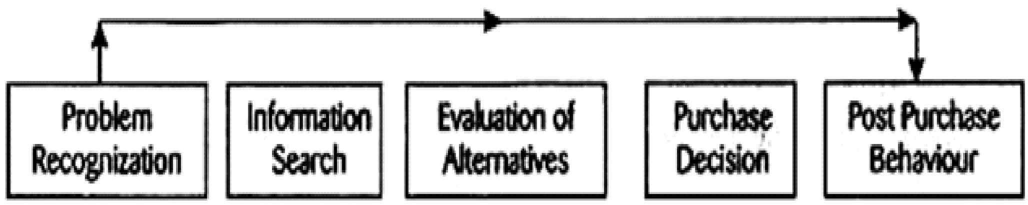


Figure 3: Consumer Buying Process

1 Problem Identification:

This step is also known as recognizing of unmet need. The need is a source or force of buying behaviour. Buying problem arises only when there is unmet need or problem is recognized. Need or problem impels an individual to act or to buy the product.

Buyer senses a difference between his actual state (physical and mental) and a desired state. The need can be triggered by internal or external stimuli. Internal stimuli include basic or normal needs – hunger, thirst, sex, or comfort; while external stimuli include external forces, for instance, when an individual watch a new brand car, he desires to buy it.

Marketer must identify the circumstances that trigger a particular need. He can collect information from a number of consumers regarding how stimuli spark an interest in products. Based on information, he can develop marketing strategies to trigger consumer interest.

2. Information Search:

Interested consumer will try to seek information. Now, he will read newspapers and magazines, watch television, visit showroom or dealer, contact salesman, discuss with friends and relatives, and try all the possible sources of information.

Mostly, the consumer can try one or more of following sources of information:

i. Personal Sources:

They may include family members, friends, package, colleagues, and relatives.

ii. Commercial Sources:

Advertising, salesmen, dealers, package, trade show, display, and exhibition are dominant commercial sources.

iii. ***Public Sources:***

Mass media (radio, TV, newspapers, magazines, cinema, etc.), consumer-rating agencies, etc., are main public sources.

iv. ***Experimental Sources:***

They include handling, examining, testing, or using the product. Selection of sources depends upon personal characteristics, types of products, and capacity and reliability of sources. Each information source performs different functions in influencing buying decision. By gathering information from relevant sources, the consumer can learn about different products and brands available in the market.

Note that consumer will not collect detail information on all the brands available in the market. He scrutinizes all the brands in sequence, like total (brands) set to awareness set to affordable set, and to choice set. Consumer collects information only on limited brands, say, choice set.

Marketer must try to get his brand into the prospects' awareness set and choice set. Moreover, the company should identify sources and their relative importance. Company must ask the consumers regarding types of sources they exercise. They can elicit valuable information about sources they normally use and their relative value. On that basis, effective communication can be prepared for the target market.

3. Evaluation of Alternatives:

In the former stage, the consumer has collected information about certain brands. Now, he undergoes evaluation of brands. He cannot buy all of them. Normally, he selects the best one, the brand that offers maximum satisfaction. Here, he evaluates competitive brands to judge which one is the best, the most attractive. Evaluation calls for evaluating various alternatives with certain choice criteria.

Following criteria are considered while evaluating alternatives:

i. Benefits offered by the brands

ii. Qualities, features or attributes, and performance

iii. Price changed by various brands

iv. History of brands

v. Popularity, image or reputation of brands

vi. Product-related services offered by the brands, such as after-sales services, warrantee, and free installation

vii. Availability of brands and dealer rating.

Different criteria are used for different products. For example, if a person wants to purchase a motorbike out of Enfield Bullet 350; TVS Victor, TVS Centra, Suzuki Ferro; Hero Honda Spender, Ambition, and CBZ; Kawasaki Bajaj Boxer, Pulsar and Caliber; LML Freedom, etc., he will consider following criteria:

i. Price

ii. Pick-up and performance

iii. Facilities and comfort

iv. Gear-transmission system

v. Get-up/appearance

vi. Speed per hour

vii. Average per liter petrol

viii. Maintenance costs

ix. Image, status and novelty

x. Safety

xi. Resale value

xii. Services, guarantee, warrantee, etc.

The brand that meets most of the above conditions reasonably is more likely to be preferred. Marketer should highlights superior features of his brand. Some companies also advertise comparative table to help consumers evaluate various brands. For example, Yamaha, Maruti, and Hyundai provide comparative table in newspapers to show how the bike/car is superior to other brands.

4. Purchase Decision:

This is the stage when the consumer prefers one, the most promising band, out of several brands. The former stage helps consumers evaluate various brands in the choice set. The brand that offers maximum benefits or satisfaction is preferred.

Simply, the most attractive brand, that can offer more benefits in relation to price paid, is selected by comparing one brand with others. Comparison shows superiority/inferiority of the brands.

Now, consumer makes up his mind to purchase the most preferred brand. However, three factors further affect whether buying intension result into actual purchase. More clearly, the consumer' decision to avoid, modify, or postpone a purchase decision is influenced by these factors.

The first factor is attitudes of others. The impact of other persons' attitudes depends on degree of their negative attitudes toward the consumer's preferred brand, and consumer's degree of compliance with other persons' wishes.

The second factor is unanticipated situational factors. Purchase intension may change due to certain unanticipated situational factors like price hike, loss of job, family income, major medical expenses, non-availability of the preferred brand, or such similar factors.

The third and the last factor is consumer's perceived risk. Degree of risk depends on price, attribute uncertainty, entry of a new superior product, and his self-confidence.

Sub-decisions in Purchase Decision:

Consumer's buying decision involves following five sub-decisions:

i. Brand Decision:

For example, CBZ (model) motorbike of Hero Honda.

ii. Vendor Decision:

For example, XYZ Hero Honda Showroom.

iii. Quantity Decision:

For example, one motorbike.

iv. Timing Decision:

For example, on 1st December, 2007.

v. Payment Decision:

For example, by cash.

5. Post-purchase Decisions:

Consumer buys the product with certain expectations. Though he decides very systematically, there is no guarantee of a complete satisfaction. There is always possibility of variation between the expected level of satisfaction and the actual satisfaction. His subsequent behaviour is influenced by degree of satisfaction/dissatisfaction.

Marketer must monitor the post-purchase experience of the buyers that includes:

a. Post-purchase Satisfaction

b. Post-purchase Action

c. Post-purchase Use and Disposal

Post-purchase Satisfaction:

Actual satisfaction may not be equal to the expected one. He may find some problems or defects in the product while using. It is the matter of interest for marketer to know whether consumer is highly satisfied, somewhat satisfied, or dissatisfied. Consumer's satisfaction is the function of the relationship between expected/perceived performance (expectations) and actual performance.

The larger the gap between expectations and performance, the greater the consumer's dissatisfaction will be. The consumer is satisfied when product meets or exceeds all the expectations and vice versa. If he is satisfied, he buys the product again, and talks favourably. In order to minimize the gap between expectations and performance, the seller must not exaggerate the product benefits; must make truthful claim of product's likely performance.

Post-purchase Action:

Obviously, level of the consumer's satisfaction with the product affects his subsequent behaviour/action. If he is satisfied reasonably, he purchases the product again, and talks favourably to family members, friends, relatives, and co-workers.

That is why marketer says: Our best advertisement is a satisfied consumer. Quite opposite to it, dissatisfied consumer responds differently. He may abandon product, complain to the company for compensation, resort to the court and warn other organisations, friends, relatives and co-workers to avoid product. The task of marketer consists of taking certain steps to minimize amount of consumer's post-purchase dissatisfaction.

Dissatisfaction can be reduced by:

1. Congratulating consumers for the right choice to justify their decision
2. Sending booklet to guide for effective use of the product
3. Inviting suggestions from consumers
4. Managing complaints by effective counselling and after-sales services
5. Informing about changes made in the product
6. Exchanging or returning amount, etc.

He must investigate where the product falls short. Close informal relations with consumers can yield valuable information. Remember that a dissatisfied consumer is more important than a satisfied one as his every problem regarding the product reveals a ready suggestion. Marketer must welcome complaints and tackle them carefully for the bright future.

Post-purchase Use and Disposal:

Marketer should also monitor how the consumers use and dispose the product. Such information can be a very good guideline for the marketer. Marketer can learn possible problems and opportunities relating with the product.

In normal situation, the consumer uses or disposes the product in followings ways:

1. He may not use the product immediately; store it for the future use.
2. Use the product fully immediately after purchase.
3. Resell or trade it.
4. Use the product differently than it is meant for. He may find new uses of the product.
5. Offer the product to others as a gift.
6. Throw the product away, considering as useless.

Marketer can change or modify marketing programme based on the study of how the product is used and disposed. In case, when consumers are much creative, it is important to investigate how the product is used or disposed.

Thus, buying process is a journey from problem recognition to reaction of buyers. The entire process is very meaningful to the seller. The process reflects most of factors affecting consumers. Marketer, therefore, must study the buying process from consumer's viewpoint. Company must take certain steps to support consumers in each stage to buy its product.

Buying motive

It is the urge or **motive** to satisfy a desire or need that makes people **buy** goods or services. Behind every **purchase** there is a **buying motive**. It refers to the thoughts, feelings, emotions and instincts, which arouse in the **buyers** a desire to **buy** an article. A motive is simply a reason for carrying out a particular behaviour and not an automatic response to a stimulus, whereas instincts are pre-programmed responses, which are inborn in the individual and involuntary. Thus hunger is an instinct whereas desire to purchase pizza is a buying motive. According to Prof. D. J. Duncan, "Buying Motives are those influences or considerations which provide the impulse to buy, induce action and determine choice in the purchase of goods and services." Buying motives are can be divided by the following way:

Product Buying Motives:

Product buying motives refer to those influences and reasons, which prompt (i.e. induce) a buyer to choose a particular product in preference to other products. They include the physical attraction of the product (i.e. the design, shape, dimension, size, colour, package, performance, price etc. of the product) or the psychological attraction of the product (i.e. the enhancement of the social prestige or status of the purchaser through its possession), desire to remove or reduce the danger or damage to life or body of the possessor, etc. In short, they refer to all those characteristics of a product, which induce a buyer to buy it in preference to other products.

Product buying motives may be sub-divided into two groups, viz., (1) emotional product buying motives and (2) rational product buying motives.

A. Promotional Product Buying Motives:

When a buyer decides to purchase a product without thinking over the matter logically and carefully (i.e., without much reasoning), she is said to have been influenced by emotional product buying motives. Emotional product buying motives include the following:

1. Pride or Prestige:

Pride is the most common and strongest emotional buying motive. Many buyers are proud of possessing some product (i.e., they feel that the possession of the product increases their social prestige or status). In fact, many products are sold by the sellers by appealing to the pride prestige of the buyers. For instance, diamond merchants sell their products by suggesting to the buyers that the possession of diamonds increases their prestige or social status.

2. **Emulation or Imitation:**

Emulation, i.e., the desire to imitate others, is one of the important emotional buying motives. For instance, a housewife may like to have a silk saree for the simple reason that all the neighbouring housewives have silk sarees.

3. **Affection:**

Affection or love for others is one of the stronger emotional buying motives influencing the purchasing decisions of the buyers. Many goods are purchased by the buyers because of their affection or love for others. For instance, a husband may buy a costly silk saree for his wife or a father buy a costly watch for his son or daughter out of his affection and love.

4. **Comfort or desire for comfort:**

Desire for comfort (i.e., comfortable living) is one of the important emotional buying motives. In fact, many products are bought comfort. For instance, fans, refrigerators, washing machines, cushion beds, etc. are bought by people because of their desire for comfort.

5. **Sex appeal or sexual attractions:**

Sex appeal is one of the important emotional buying motives of the buyers. Buyers buy and use certain things, as they want to be attractive to the members of the opposite sex. Men and women buy cosmetics, costly dresses, etc., because of this emotional motive, i.e., sex appeal.

6. **Ambition:**

Ambition is one of the emotional buying motives. Ambition refers to the desire to achieve a definite goal. It is because of this buying motive that, sometimes, customers buy certain things. For instance, it is the ambition that makes many people, who do not have the facilities to pursue their college education through regular colleges, pursue their education through correspondence courses.

7. Desire for distinctiveness or individuality:

Desire for distinctiveness, i.e., desire to be distinct from others, is one of the important emotional buying motives. Sometimes, customers buy certain things, because they want to be in possession of things, which are not possessed by others. Purchasing and wearing a particular type of dress by some people is because of their desire for distinctiveness or individuality.

8. Desire for recreation or pleasure:

Desire for recreation or pleasure is also one of the emotional buying motives. For instance, radios, musical instruments, etc. are bought by people because of their desire for recreation or pleasure.

9. Hunger and thirst:

Hunger and thirst are also one of the important emotional buying motives. Foodstuffs, drinks, etc. are bought by the people because of this motive.

10. Habit:

Habit is one of the emotional considerations influencing the purchasing decision of the customers. Many customers buy a particular thing because of habit, (i.e. because they are used to the consumption of the product). For instance, many people purchase cigarettes, liquors, etc. because of sheer habit.

B. Rational Product Buying Motives:

When a buyer decides to buy a certain thing after careful consideration (i.e. after thinking over the matter consciously and logically), s/he is said to have been influenced by rational product buying motives. Rational product buying motives include the following:

1. Safety or Security:

Desire for safety or security is an important rational buying motive influencing many purchases. For instance, iron safes or safety lockers are bought by the people because they want to safeguard their cash, jewelries etc., against theft. Similarly, vitamin tablets, tonics, medicines, etc., are bought by the people because of this motive, i.e. they want to safeguard their health and protect themselves against diseases.

2. Economy:

Economy, i.e. saving in operating costs, is one of the important rational buying motives. For instance, Hero Honda bikes are preferred by the people because of the economy or saving in the operating cost, i.e. petrol costs.

3. Relatively low price:

Relatively low price is one of the rational buying motives. Most of the buyers compare the prices of competing products and buy things, which are relatively cheaper.

4. Suitability:

Suitability of the products for the needs is one of the rational buying motives. Intelligent buyers consider the suitability of the products before buying them. For instance, a buyer, who has a small dining room, naturally, goes in for a small dining table that is suitable, i.e. that fits in well in the small dining room.

5. Utility or versatility:

Versatility or the utility of a product refers to that quality of the product, which makes it suitable for a variety of uses. Utility of the product is one of the important rational buying motives. People, often, purchase things that have utility, i.e. that can be put to varied uses.

6. **Durability of the product:**

Durability of the product is one of the most important rational buying motives. Many products are bought by the people only on the basis of their durability. For instance, buyers of wooden furniture go in for teak or rosewood table, though they are costlier, as they are more durable than ordinary wooden furniture.

7. **Convenience of the product:**

The convenience of the product (i.e. the convenience the product offers to the buyers) is one of the important rational product buying motives. Many products are bought by the people because they are more convenient to them. For instance, automatic watches, gas stoves, etc., are bought by the people because of the convenience provided by them.

Patronage Buying Motives:

Patronage buying motives refer to those considerations or reasons, which prompt a buyer to buy the product wanted by him from a particular shop in preference to other shops. In other words, they are those considerations or reasons, which make a buyer, patronise a particular shop in preference to other shops while buying a product.

Patronage buying motives also may be sub-divided into two groups viz. a) Emotional patronage buying motives and b) Rational patronage buying motives.

A. Emotional Patronage Buying Motives:

When a buyer patronises a shop (i.e. purchases the things required by him from a particular shop) without applying his mind or without reasoning, he is said to have been influenced by emotional patronage buying motives. Emotional patronage buying motives include the following:

1. **Appearance of the shop:**

   Appearance of the shop is one of the important emotional patronage buying motives. Some people make their purchases from a particular shop because of good or attractive appearance of the shop,

2. **Display of goods in the shop:**

   Attractive display of goods in the shop also makes the buyers patronise a particular shop.

3. **Recommendation of others:**

   Recommendation of others also constitutes one of the important emotional patronage buying motives. Some people purchase their requirements from a particular shop because that shop has been recommended to them by others, i.e., by their friends and relatives.

4. **Imitation:**

   Imitation also is one of the emotional patronage buying motives influencing the purchases of buyers. Some people make their purchases from a particular shop just because other people make their purchases from that shop.

5. **Prestige:**

   Prestige is one of the emotional patronage buying motives of the buyers. For instance, some people consider it a prestige to take coffee from a five-star hotel.

6. **Habit:**

Habit is also one of the important emotional patronage buying motives. Some people make their purchases from a particular shop for the simple reason that they have been habitually making their purchases from that shop.

B. Rational Patronage Buying Motives:

When a buyer patronises a shop after careful consideration (i.e. after much logical reasoning and careful thinking) he is said to have been influenced by rational patronage buying motives. Rational patronage buying motives include the following:

1. Convenience:

Convenient location proximity of a shop is one of the considerations influencing the purchases of many buyers from a particular shop. Many buyers, usually, buy their requirements from a near-by shop, as it is convenient to them to make their purchases.

Similarly, convenient working hours of the shop also influence the purchases of good many buyers. For instance, if a shop works for a longer period of time every day and even on Sundays, it will be very convenient to the buyers. As such, many buyers may make their purchases from such a shop.

2. Low price charged by the shop:

Price charged by the shop also influences the buyers to patronise a particular shop. If the price charged by a shop for a particular product is relatively cheaper, naturally, many people will make their purchases from that shop.

3. Credit facilities offered:

The credit facilities offered by a store also influence the buying of some people from a particular shop. People who do not have enough money to make cash purchases every time prefer to make their purchases from a shop which offers credit facilities.

4. Services offered:

The various sales and after-sale services, such as acceptance of orders through phone, home delivery of goods, repair service, etc., offered by a shop also induce the buyers to buy their requirements from that shop. Rational buyers are, often, influenced by the various services or facilities offered by the shop.

5. **Efficiency of salesmen:**

The efficiency of the salesmen employed by a shop also influences the people in patronising a particular shop. If the employees are efficient and are capable of helping the buyers in making their purchases, people naturally would flock to such a shop.

6. **Wide choice:**

Wide choice of goods offered by a shop is one of the rational considerations making the buyers patronise a particular shop. People generally prefer to make their purchases from a shop, which offers wide choice (i.e. wide varieties of goods).

7. **Treatment:**

The treatment meted out by a shop to the customers is one of the rational considerations influencing the buyers to patronise a particular shop. Usually, people would like to purchase their requirements from a shop where they get courteous treatment.

8. **Reputation of the shop:**

Reputation of the shop for honest dealings is also one of the rational patronage buying motives. Usually, people would like to make their purchases from a store having reputation for fair dealings.

2.7 Glossary

- **Consumer**: A consumer can be someone who will buy either goods or services or you can also specify the goods and services as economic services or products, or good or commodities.
- **Consumer Behaviour**: Consumer behaviour refers to buyers, who are purchasing for personal, family, or group use.

- **Liquid assets**: Liquid assets refer to those assets, which can be converted into cash quickly without any loss. Liquid assets include cash in hand, bank balance, marketable securities etc

- **Consumer credit**: It refers to the credit facility available to the consumers desirous of purchasing durable comforts and luxuries.

2.8 Self Assessment Questions

1. Explain in detail the factors influencing consumer behaviour.

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2. What are the models of Consumer Behaviour?

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2.9 Lesson End Exercise

1. What are the types of consumer buyer behaviour?

2. What are biogenic needs?

2.10 Suggested Readings/ Books Recommended

a) Peter D. Bennett (1988), “Dictionary of Marketing Tenns”, American Marketing Association, p. 54.

b) “A New Recipe for the Family Dinner,” Adweek, April 27. 1992, p. 46. 3.

c) Theodore Levitt (1960), “Marketing Myopia,” Harvard Business Review, pp. 45-66.

d) Shelby D. Hunt and John J. Burnett (1982), “The Macro-marketing Micro-marketing Dichotomy: A Taxonomical Model”, Journal of Marketing, Summer, pp.11-26.

e) Rayport and Sviokla (1995), Exploiting the virtual value chain, Harvard Business Review

f) Rayport and Sviokla (1994), “Managing in the marketplace”, Harvard Business Review. Pp. 141-150.

g) Kotler, P. “Principles of Marketing”

h) Kotler, P. “Marketing Management”

* Kotler, P. “Pri nciples of Marketing.”

* Kotler, P. “Marketing Management”.nnnnnnn

Unit III **Lesson 11-15**

Market Research

3.1 Introduction

Marketing is a restless, changing, and dynamic business activity. The role of marketing itself has changed dramatically due to various crisis—material and energy shortages, inflation, economic recessions, high unemployment, dying industries, dying companies, terrorism and war, and effects due to rapid technological changes in certain industries. Such changes, including the Internet, have forced today's marketing executive to becoming more market driven in their strategic decision-making, requiring a formalized means of acquiring accurate and timely information about customers, products and the market place and the overall environment. The means to help them do this is marketing research.

3.2 Objectives: After going through this unit, you will be able:

- To define marketing research
- To differentiate the types of research
- To explain the support marketing research provides to decision makers
- To discuss application of marketing research in business organizations
- To identify supply sources of marketing research services

3.3 What is research?

Research is a systematic and objective investigation of a subject or problem in order to discover relevant information or principles. It can be considered to be either primarily fundamental or applied in nature. Fundamental research, frequently called basic or pure research, seeks to extend the boundaries of knowledge in a given area with no necessary immediate application to existing problems, for example, the development of a research method that would be able to predict what people will be like x years in the future. In contrast, applied research, also known as decisional research, attempts to use existing knowledge to aid in the solution of some given problem or set of problems. Marketing research assists in the overall management of the marketing function. A marketing manager must prioritize the more important and pressing problems selected for solution, reach the best possible solution based on the information available, implement the solution, modify the solution when additional information so dictates, and establish policy to act as a ready-made solution for any recurrence of the problem. Marketing research often focuses on understanding the "Customer" (purchasers, consumers, influencers), the "Company" (product design, promotion, pricing, placement, service, sales), and can also be expanded toward the environment to include "Competitors" (and how their market offerings interact in the market environment).

3.4 Process of marketing research

How is marketing research actually conducted? What are the general steps in completing a research project? These questions are answered in the steps of the research process. While the steps are shown as a linear process, some of the steps may be performed simultaneously, such as selecting data collection techniques and sample design. There are other times when "later" decisions influence decisions that are made early in the research planning process. For example, desired analysis techniques often influence the selection of data collection techniques (e.g., measurement) and sample design.

It is important to carefully plan the research process and formally recognize the relationship between the stages. The researcher should write a formal plan for the project, including the background information and statement of objectives, which then becomes the master guide for implementing and controlling the research project. Each step in this research process will now be introduced.

STAGE 1: PROBLEM FORMULATION: In a very real sense, problem formulation is the heart of the research process. As such, it represents the single most important step to be performed. From the researcher's point of view, problem formulation means translating the management problem into a research problem. As previously discussed, in order to formulate an appropriate research problem, the researcher must understand the origin and nature of management's problem and then be able to rephrase it into meaningful terms from an analytical point of view. This involves timely and clear communication between manager and researcher. The end result of problem formulation is a statement of the management problem that is analytically meaningful and that often points the way to alternative solutions. An accurate problem formulation specifies the types of information needed to help solve the management problem. In short, quality thinking about a problem prior to data collection largely determines the quality of data collection, analysis and problem solving.

Closely related to problem formulation is the development of a working hypothesis, or an assertion about a state of nature. While hypotheses are crucial for basic research because they tell the researcher what to do, the concept of a hypothesis can also be useful in decisional research to direct the development of the research problem statement. In most cases, the marketing researcher will not explicitly state hypotheses for the research. Kerlinger and Lee (2000, Chapter 2) suggest that research problems and hypotheses meet the following criteria:

1. The problem statement expresses a relationship between two or more variables.
2. The problem is stated clearly and unambiguously in question form.
3. The problem statement implies possibilities of empirical testing. Where properties of good hypotheses include the following :
    1. The hypothesis is a statement about the relationship between two or more variables in declarative statement form.
    2. The hypothesis carries clear implications for testing the stated relationship (i.e., variables must be measurable or potentially measurable). How to Formulate the Research Problem Problem formulation is much easier when specific components of the research problem are defined:

1. **Specify the Research Objectives:** Objectives guide the researcher in developing good, useful research, and they help the client evaluate the completed project. Objectives range from the very general, such as profit maximization, to the highly specific, such as measuring market interest in a new product. It is rare that the objectives are well explained to the researcher. However, the researcher needs to take the initiative to develop a clear statement of objectives. Each study should have a very limited and manageable set of objectives that focus on the problem being solved. Two or three well targeted objectives is preferable to many that are ill conceived. Fewer the objectives make it easier to keep track of progress toward the objectives, to ensure that each is properly addressed, and to determine the best methodology. If there are too many objectives separate studies may be appropriate.

2. **The Environment or Context of the Problem:** Consider the problem of deciding whether to introduce a new consumer product. The marketing researcher must work closely with the client in transforming the client's problem into a workable research problem. The researcher's efforts should be oriented toward helping the manager decide whether any investigation is justified based on the potential value of the research findings versus their cost. The researcher must be aware of, and assist in, the identification of objectives, courses of action, and environmental variables, insofar as they affect the design of the research investigation. If the research is undertaken and if the resulting findings are to be utilized (i.e., have an influence on the user's decision making), the manager and researcher must have a productive and trusting relationship that is based on the researcher's ability to perform and deliver the research as promised.

3. **The Nature of the Problem**: Every research problem may be evaluated on a scale that ranges from very simple to very complex. The degree of

complexity depends on the number of variables that influence the problem. Understanding the nature of the problem helps a researcher ensure that the right problem is being investigated and that a marketing plan can be developed to solve the problem. A thorough preliminary investigation using focus groups of consumers, salespeople, managers, or others close to the problem may produce much needed insight.

4. **Alternative Courses of Action:** A course of action specifies a behavioral sequence that occurs over time, such as the adoption of a new package design, or the introduction of a new product. Such a program of action becomes a commitment, made in the present, to follow some behavioral pattern in the future. It is usually desirable to generate as many alternatives as possible during the problem formulation stage and state them in the form of research hypotheses to be examined. A hypothesis often implies a possible course of action with a prediction of the outcome if that course of action is followed. Once the nature of the problem has been agreed upon, the course of action must be specified. This involves:

    1. Determining which variables affect the solution to the problem

    2. Determining the degree to which each variable can be controlled

    3. Determining the functional relationships between the variables and which variables are critical to the solution of the problem. The following example shows the results of a failure to follow through with these aspects of the problem situation model.

5. **The Consequences of Alternative Courses of Action** A set of consequences always relate to courses of action and even to the occurrence of events not under the control of the manager. One of the manager's primary jobs is to anticipate and communicate the possible outcomes of various courses of action that may result from following the research.

6. **Degrees of Uncertainty** Most marketing problems are characterized by a situation of uncertainty as to which course of action is best. Years of experience may allow the decision-making manager to assign various "likelihoods of occurrence" to the various possible outcomes of specific courses of action. A carefully formulated problem and statement of research purpose is necessary for competent research. The statement of purpose involves a translation of the decision maker's problem into a research problem and the derivation of a study design from this problem formulation. The research problem provides relevant information concerning recognized (or newly generated) alternative solutions to aid in this choice.

STAGE 2: METHOD OF INQUIRY Market researchers look to the scientific method as the source of their investigative methods. Even though this method is not the only one used, it is the standard against which other investigative methods are measured. The scientific method makes great use of existing knowledge both as a starting point for investigation and as a check on the results of the investigations (i.e., a test of validity). Its most distinctive characteristic is its total lack of subjectivity. The scientific method has evolved objective and rigid procedures for verifying hypotheses or evaluating evidence. It is analytical in its processes and is investigator independent. Thus, the scientific method is for the most part logical and objective, and frequently makes extensive use of mathematical reasoning and complicated experiments.

The goal of a scientific methodologist, also called an objectivist, is to run a hypothesis test using publicly stated procedures that are investigator-independent. x Formulate a problem x Develop a hypothesis x Make predictions based on the hypothesis x Devise a test of the hypothesis x Conduct the test x Analyze the results Even though the terminology used is that associated with basic research, the process described is analogous to that of decision making. Although the steps are the same, there are differences in the way in which the steps are performed and in the underlying assumptions about behavior. For example, the essential difference between the objectivist and the subjectivist is the latter's allowance for use of subjective judgments both when collecting data and when analyzing data (Diesing, 1966). This objectivist-subjectivist distinction has very practical meaning, particularly when considering the use of outside research suppliers. There are commercial research firms that tend to specialize in one or the other method of inquiry. Objectivist-based research is often called quantitative research, whereas subjectivist-based research is often called qualitative research.

STAGE 3: RESEARCH METHOD Whether a particular method of inquiry is appropriate for a research problem depends in large part on the nature of the problem itself and the extent or level of existing knowledge. In addition to selecting a method of inquiry, the research planner must also select a research method. Two broad methodologies can be used to answer any research question– experimental research and non-experimental research. The major advantage of experimental research lies in the ability to control extraneous variables and manipulate one or more variables by the intervention of the investigator. In non-experimental research, there is no intervention beyond that needed for purposes of measurement.

STAGE 4: RESEARCH DESIGN Research design is defined as the specific methods and procedures for acquiring the information needed. It is a plan or organizational framework for doing the study and collecting the data. Research designs are unique to a methodology.

STAGE 5: DATA COLLECTION TECHNIQUES Research design begins to take on detailed focus as the researcher selects the particular techniques to be used in solving the problem formulated and in carrying out the method selected. A number of techniques available for collecting data can be used. Some techniques are unique to a method of inquiry. For example, many of the qualitative research techniques, such as projective techniques, are used only in subjectivist-type research. In general, data collection uses either communication or observation. Communication involves asking questions and receiving responses. This process can be done in person, by mail, by telephone, by e-mail, and over the Internet. In most instances this constitutes the broad research technique known as the survey. In contrast to this process, data may be obtained by observing present or past behavior. Regarding past behavior, data collection techniques include looking at secondary data such as company records, reviewing studies published by external sources, and examining physical traces such as erosion and accretion. In order to collect data from communication or observation there must be a means of recording responses or behavior. Thus, the process of measurement and the development of measurement instrument are closely connected to the decision of which data collection technique(s) should be used. The relationship is two-way. That is, the structure and content of the measurement instrument can depend on the data collection technique, and measurement considerations often influence technique selection.

STAGE 6: SAMPLE DESIGN Rarely will a marketing research project involve examining the entire population that is relevant to the problem. For the most part, practical considerations (e.g., absolute resources available, cost vs. value, etc.) dictate that one use a sample, or subset of the relevant population. In other instances the use of a sample is derived from consideration of the relevant systematic and variable errors that might arise in a project.

In designing the sample, the researcher must specify three things: 1. Where the sample is to be selected 2. The process of selection 3. The size of the sample The sample design must be consistent with the relevant population, which is usually specified in the problem-formulation stage of the research process. This allows the data obtained from the sample to be used in making inferences about the larger population. The process of sample selection may be done by probability or non-probability methods. In probability sampling every element in the population has a known nonzero probability (chance) of being selected for inclusion in a study. In contrast, a non-probability sample is one selected on the basis of the judgment of the investigator, convenience, or by some other means not involving the use of probabilities.

STAGE 7: DATA COLLECTION Data collection begins after the previous six stages of the research process are complete. Data collection, whether by communication or observation, requires the use of data collection personnel which then raises questions regarding managing these people. Because data collection can be costly, firms often utilize outside limited-service research suppliers, particularly when the extent of in-house research activity does not warrant the cost of having permanent data collection personnel. Also, project design may require specialized data collection, which might best be obtained from an outside supplier. The working relationship between the data collection agency (a so-called field service) and the research supplier or client is a major factor affecting the quality of fieldwork and data collection. A study of marketing research firms found that the major barriers to the communication of information from clients to research suppliers to field service firms were insufficient information supplied by the client, the research supplier as an intermediary between client and field service firm, and lack of client interest in data collection (Segal & Newberry, 1983). The major suggestion for improving communication is for clients to provide more information to both suppliers and field service firms. Another way to overcome communication barriers is for the field service to be consulted on such major issues as scheduling, costs, and purpose of the study. Finally, it was suggested that two-way communication with suppliers be established or strengthened. Although this study was conducted more than 20 years ago, these are enduring problems that exist today.

STAGE 8: ANALYSIS AND INTERPRETATION Data that are obtained and presented in the same form as originally collected are seldom useful to anyone. Data must be analyzed. The data must be edited, coded, and tabulated before performing formal analyses such as statistical tests. The types of analyses that can be properly performed depend upon the sampling procedures, measurement instruments, and data collection techniques used. Consequently, it is imperative that the techniques of analysis, associated descriptive or prescriptive recommendation types, and presentation formats be selected prior to data collection.

STAGE 9: THE RESEARCH REPORT The culmination of the research process is the research report. It includes a clear, accurate, and honest description of everything that has been done and the results, conclusions, and— whenever possible—recommendations for courses of action. Two critical attributes of the report are that it provides all the information readers need using language they understand (completeness) and that it contains selective information chosen by the researcher (conciseness). These attributes are often in conflict with each other. Two approaches can be taken to ensure that this conflict is not a problem. One approach involves preparing two reports: (1) a technical report that emphasizes the methods used and underlying assumptions, and presents the findings in a detailed manner; and (2) a popular report that minimizes technical details and emphasizes simplicity. The second approach is concerned with how the report is communicated. Because people vary a great deal in how they are affected by different forms of communication, the ideal reporting process should try to encompass all major forms. Thus, a written report, by itself, may be inadequate and only an invitation to inaction. There are simply a lot of people who, for various reasons, don't respond to the printed word. There are still more that, although they may respond, will often misunderstand the meaning of what is written. For these reasons, it is vitally necessary to get management to sit down with the research manager, or with the researcher and the outside research firm, in a face-to-face reporting situation.

3.5 Types of marketing research

- **Exploratory Research**

Exploratory research is used in cases where the marketer has little or no understanding about the research problem due to lack of proper information.

For example, a marketer has heard about social media marketing techniques which are employed by their competitors with great success but he is not familiar with using these for his products/services.

He needs to use exploratory market research to gain/discover insights about this situation. Thus when the goal of the marketer is to precisely formulate problems, clear concepts, gain insights, eliminate impractical ideas and form hypotheses then exploratory research is used.

Exploratory research follows and unstructured format and makes use of qualitative techniques, secondary research and experts opinions. For example, the marketer from the previous case can use books, syndicated research, case studies, focus groups, expert interviews and survey techniques to conduct exploratory research.

The results of exploratory research can't be used for marketing decisions in most cases at least not directly. Then the question arises why to do exploratory research in the first place? Well the answer is the core goal of exploratory research is to equip marketers with enough information to facilitate marketers plan a format research design correctly. For example by conducting exploratory research the marketer can find out that the competition is using popular social media channels like Facebook, Twitter, LinkedIn and YouTube to reach target consumers effectively and successfully engaging customers with the brand directly. Now with this information he can plan a formal research design to test his hypothesis.

- **Descriptive Research**

  Descriptive research is used to find accurate answers of questions like:

  - Who are users of my products / services?
  - How they are using my products / services?
  - What proportion of population uses my products / services?

- ❖ What is the future demand for my products / services?
- ❖ Who are all my competitors?

Thus descriptive research is used to explain, monitor and test hypotheses created by marketers to help them find accurate answers. Due to this reason descriptive research is rigid, well structure and well planned and uses quantitative techniques like questionnaires, structured interviews, data analysis etc.

For example, the marketer from previous case and use descriptive research to find out if he also starts using social media marketing techniques for promoting his products and services then:

- ❖ How many of his current customers will be attracted to them?
- ❖ How many new customers can be engaged using social media?
- ❖ How much time, effort and money will be involved in this activity?
- ❖ What will be the predicted return on investment (RoI)?
- ❖ Will he be able to attract competitor's customers?

- **Causal Research**

Causal research is used by marketers to find cause and effect relationship of variables. It is also sometimes referred as "If.. Then" method. In this type of research, the marketer tries to understand the effects of manipulating independent variable on other dependent variable.

Causal research uses field and laboratory experimentation techniques to achieve its goals. This research is used by marketers mainly to predict and test hypotheses.

Let's take some test cases where causal research can be used :

- ❖ What will happen to sale of my product if I change the packaging of the product?
- ❖ What will happen to sale of my product if I change the design of the product?
- ❖ What will happen to sale of my product if I change the advertising?

3.6 Importance of Market Research

Market research not only helps in identifying new business opportunities, but also helps in designing marketing campaigns that will directly target the interest of your potential consumers and help in increasing sales. Marketing research provides valuable information about the potential of a particular market segment, during a specific time, and within a particular age group.

Market research can help you keep a tab on your competitors

Marketing research is a good evaluation tool that can be of great use in comparative studies. You can track your company's progress as well as the growth of your competitors, by keeping an eye on your competitors. You can devise business strategies that would keep you ahead of your business rivals.

Market research can help you minimize loss in your business

With market research, you can reduce the chances of loss to a large extent. Before launching a product, you can identify potential problems and even determine the solutions. The research carried out after the launch of a new product can help you find loopholes and devise plans to counter that loss and increase the profits.

3.7 Scope of Marketing Research Function

This section will discuss the possible applications of marketing research in the corporate environment. Bulk of research is done to measure consumer wants and needs. Also, marketing research is carried out to assess the impact of past marketing actions. Some research is done to understand the competitive, technological, social, economic cultural, political or legal environments of the market. Another way of looking at the function of marketing research is to look at the particular decision area where research results are used. 1) Sales Analysis Much research is done in the following areas which are broadly referred as sales analysis, • Measurement of market potential/demand projection, Determination of market characteristics; Market share estimation; Studies of business trends. In fact, some of the more detailed studies to be carried out under the broad ambit of sales analysis could be as follows, The types of consumers that constitute the potential market The size and location of the market; The growth and. concentration of the market over certain period of time, The competitive picture for the product; The major strategies of leading competitors with respect to price, offerings distribution etc. The purchase habits of key market segments; What is the pattern of pre-purchase deliberations made by the consumers' ? Who are involved in the decision making? What are the roles of different members in the decision making? How does the product fit into the consumer' s life styles? (Operation if it is an industrial product); Do consumers prefer to buy some particular brands'? (i.e. Assess the degree of brand loyalty). The above list is not exhaustive. Here research is basically done with a view to know consumers' motivation, attitude, cognition and perceptions etc. Thus information wilI be collected in a manner so that they have some implications for various marketing decisions. II) Sales Methods and Policies Marketing research studies are also conducted with a view to evaluate the effectivness of present distribution system. Such studies are used in establishing or revising sales territories.. They are also helpful in establishment of sales quotas, design of territory boundary, compensation to sales force, physical distribution and distribution cost analysis etc. Marketing research is also done to assess the effectiveness of different promotional activities such as premiums, deals, coupons, sampling etc. III) Product Management Every marketer tries to formally or informally utilize information to manage the existing and new products. It examines market feedback about competitive product offerings. Also, some companies make use of marketing research to form market segments through choice of alternative bases. Companies also carry out different research studies to assess consumer feedback to new products and their likely potential. Of late, in India many consumer products have been launched after making rigorous amount of research. Moreover, researches have enabled to diagonise how consumers perceive various brands of a product. Such studies have enabled the companies to position their brands

Marketing Research: Meaning and Importance Marketing research studies have been conducted to monitor the performance of the test brand (in terms of trial and repeat purchase) launched in select shops in the market. Studies are popularly known as simulated test marketing (STM) models. Pricing studies, packaging research, design or physical characteristics, have also been sometimes conducted. IV) Advertising Research Media research: Three National Readership Sunveys (NRS) have so far been conducted in India. These studies have basically estimated the readership of leading newspapers. The last NRS has also assessed qualitatively, readers feedback on the editorial content. Moreover, some marketing research have evaluated the relative effectiveness of different media in specific product fields, and in context of achieving specific tasks such as creating brand awareness or a particular product benefit. Copy research: Advertising agencies have been regularly engaged in this activity where they test out alternative copy designs by obtaining the feedback from to consumers. Studies of advertisement effectiveness - Advertising agencies regularly make use of marketing research studies to assess and monitor effectiveness of different advertising compaigns. V) Corporate Research Large scale corporate image studies among different target publics - They involve an assessment of knowledge about company activities, association of company with sponsored activities and company perceptions on specific dimensions. These types of corporate image studies are done periodically to monitor any change in image over time among different publics. Social values research: Knowledge, attitude and practices on family planning, anti-dowry, smoking, drinking etc. Political studies: In recent times marketing studies have been conducted to ascertain the public opinion about the election results. Customer service studies: Many banks and large industrial houses have resorted to marketing research to know the consumers' changing need for service and possible grievances about existing operations. VI) Syndicated Research Several research agencies collect and tabulate marketing information on a continuing 'basis. Reports are sent periodically (Weekly, monthly or quarterly) to clients who are paid subscribers. Such services are found specially useful in t 'lie spheres of movement of consumer goods through retail outlets (ORG Retail Audit), incidence of disease and use of branded drugs (MARL-prescription audit), Television Program viewing (the Television Rating Points), Newspaper & Magazine readership (NRS - discussed earlier under media research), assessment of market potential of a city with population one lakh and above (Thompson Indices), study of nation's attitudes and psychographics (PSNAP and IMRB' slife style research on the cigarette market).

3.8 Data Collection Sources/ Instruments of Data Collection

Meaning of Data

Data can be defined as a collection of facts, figures or any other related material, which has the ability to serve as the information for the basic study and the analysis. It must be kept in mind that data can be either old in nature or it may be the current one.

For getting answers to any of the queries that are made data related to the questions or the queries is very much needed. Data acts as the back bone for the analysis, so it can be said that no question can be answered without the data.

Analysis of the data often leads to some of the inferences which are very commonly called as the information. The inference which is based on the guess work or on the opinions can never ever make a place in the research but the factors which play a critical role in the research generally include accuracy, suitability, reliability etc.

Sources of Data

The basic data has a direct affect on the answers to the various questions and hence the source of the data is very much important as it provides the necessary information. The various sources of the data can be summarized as follows –

1. ***Primary sources*** – These types of the sources refer to the first hand sources or the original sources at the hands of a researcher, which is not collected in the past. Collection of the primary data can be done with the help of the principle sources of the observation and also the surveys. Primary data in very simple and general language can be defined as the first hand information relating to any type of the research that has been gathered or collected by the researcher or by any of his assistant or an agent.

This type of the data helps in the original investigations and observations, which automatically further leads to the achievement of the various useful and meaningful results. A very important point to be kept in mind about these types of results obtained, which are based on the primary data are bound to be empirical in nature and also play a very critical and defining role in the research methodology.

If the primary data that has been collected and compiled is not bias in the nature acts as a tool of great utility value as then this type of the data becomes very much reliable, accurate and dependable in nature that ultimately helps a great deal in carrying out the various specified investigations. Once this primary data is used the original features or the characteristics of these data diminish resulting in the formation of the secondary data. Hence it can be said that the data which acts as primary data at one point of time is bound to become secondary data at some stage or time in the future.

Primary data collection methods

a. ***Observation*** – In general terms observation can be defined as the process involving the collection of the data by either viewing or listening or both. The best method in this category is to directly and personally observe something to get meaningful data this method is also called as the Direct Personal Observation. In this type of the observation the situation is observed by the researcher in order to collect data relevant to the research. If the observation is without any bias the data that is collected with the help of this type of method acts as the most reliable information.

Observation is also a very cheap method and then also is very effective in its nature of working this method is a very old one data collected in the past about the human race, the environment etc used this method only.

But a major drawback of this type of method is that with the help of observation one is not able to quantify the data and also one cannot reach to some concrete solutions on the basis of the data collected by this method. So it can be said that observation method should generally be used for carrying out hypothesis testing.

b. ***Questionnaire and Schedule*** – With the help of this type of method, data is collected by getting questionnaires completed by the various respondents. This method of questionnaire and schedule is generally employed in order to collect the primary data in a very systematic manner. A questionnaire can be defined as a schedule having a number of coherent questions related to the topic which is being studied. A questionnaire acts as a formulated series of the questions and helps in the collection of the information directly by the investigator himself. A schedule can be defined as the collection of the details in a tabulated form and can be sometimes identical to the questionnaire.

Types of Questionnaire –

1. Structured questionnaire –

- Consists of definite, concrete and pre ordinate questions.
- Has some additional questions as well, limited to those necessary for the classification of the inadequate answers.
- Is segmented in nature.
- Provides information under given titles and the sub titles.
- Helps in getting accurate response and apt information.
- Saves time and also the energy

2. Non Structured questionnaire –

- Is very simple in nature.
- Is non-segmented.
- Has no sub division.
- Can be used for very simple types of studies.

3. Codified questionnaire –

- Expected answers are given in the code numbers.
- Very easy for carrying out the processing.
- Very suitable and also very convenient for the informant.

4. *Un Codified questionnaire –*

- Very simple in nature.
- Consist of no codification.
- Codification may be sometimes made at the time of compilation but only if it is necessary.

c. ***Experimentation –*** Forms a very commonly used and very popular ingredient of the research process, being used in the physical sciences for a long time. An experiment is the process of studying the various aspects of the relationships between the independent and the dependent variables in a controlled situation. It acts as a test or a trial method in order to test a hypothesis in a laboratory.

d. ***Stimulation*** – Stimulation can be defined as the technique used for performing the various sampling experiments on the model of the systems. According to Abelson, stimulation is "the exercise of a flexible imitation of processes and outcomes for the purpose of clearing or explaining the underlying mechanisms involved."

Stimulation is the form of observational method acting as the theoretical model of the elements, relations and the processes.

This method is very widely used in the war strategies and the tact business problems etc. It is also used in the various economical problems, political problems, and behavioral problems and also in the social problems.

e ***Interview method*** – This method acts as a very important and a critical way to collect data involving a very planned and a very systematic conversation that takes place between the interviewer/ investigator and the respondent. By this one is able to get very suitable information related to a specific research problem.

By this method of data collection one can get a very suitable range of data having both demographic as well as the social characteristics or any one of them.

In today's world, most people like to talk rather than to write so this method is very much preferred compared to other methods of the data collection. By this method one can get a very deep and in depth view of the problem, hence helps in probing into the problem efficiently.

f. ***Projective Techniques*** – The various direct methods are generally based on some assumptions, for e.g. the direct methods like the personal interview, telephone interview etc pre suppose about a person that he is willing to provide some important information about his own behavior, beliefs, feelings etc.. But this is not the case in all the aspects.

There may be some persons who may not give any type of information about themselves or may not give their opinion in a true sense.

In such cases these techniques play a very vital role as these are not dependent on the subject's self insight.

2. Secondary sources – Data can be referred to be secondary in nature if the information provided by the data is not related to the purpose of the research project work i.e. secondary data accounts to the information for the various other purposes and not the purpose involved in the given research work. Secondary data is readily available and the researcher himself has no control over the shape of the data as it is given shape by the others. This type of data is based on the second – hand information i.e. the data that has been collected, compiled and presented in the past by some other company or group and is now being used in the various investigation procedures, this type of data is referred to as the secondary data.

Methods of the collection of the secondary data can be categorized as

a. Internal

- Involves data that a company is already having.
- This type of data is collected by the company in routine.
- This data is used by the company itself.
- Data collected by such method is always in tune and regard with the research operation's purpose.

b. External –

- Involves data collected by the individuals.
- Data collected acts as a very useful and a meaningful tool for the researcher in carrying out the various research operations.
- Further are of two types – personal sources and the public sources.

i. Personal Sources – These type of sources for the collection of the secondary data generally involve –

(a) Autobiographies

(b) Diaries

(c) Letters

(d) Memoirs

ii. Public Sources – These are further of two types –

A. Unpublished – Due to various reasons sometimes the data is not at all published and some examples of such sources can be reports of inquiry commissions, report of special inquiry etc.

B. Published – Such sources include the following –

(a) Books

(b) Journals

(c) Newspapers

(d) Reports of the government departments

(e) Reports of the autonomous institutes

Advantages/ Usage of the Secondary Data

1. Collection of such data is very economical.

2. Is available quickly.

3. Saves a lot of time.

4. Helps in verifying the primary data.

5. Leads to widening of the data base.

Disadvantages of the secondary data

1. There may be some times when this data is not able to provide the necessary information.

2. Data may not be accurate.

3. The data may not be latest.

4 .Data may not be reliable in nature.

5. Has a limited utility.

6. Such data based on the unpublished sources may not be obtained by everyone.

Online Data Sources

Computerised Database : Computerised databases consists of information that has been made available in computer readable forms for electronic distribution. In the 2000s the number of databases, as well as the vendors providing their services has grown phenomenally. Thus, a classification of computerised databass is helpful.

Computerised Database (Classification) : Computerised database may be classified as online internet or offiline. Online database consists of a central data bank, which is accessed with a computer via telecommunication network. Internet database can be accessed, searched and analysed on the internet. It is also possible to download data from the internet as store it is the computer or an auxiliary storage device. Offline databases make the information available on diskettes and CD-Rom disks. Thus offline databases can be accessed at the user's localization without the use of an external telecommunication network.

Info USA : Here, there & everywhere : Online, internet and offline databases may be further classification as bibliographic, numberic, full-text, directory or special purpose databases. Bibliography databases are composed of citations to articles is journals, magazines, newspaper, marketing research studies, technical reports government documents and the like.

Numeric databases contain numerical and statistical information such as survey and time-series data. Economic and Industry data land themselves to time series presentations, which are developed when the same variables are measured over time.

Full Test databases contain the complete text of the source documents comprising the database Vu/text information systems. In provides electronic full text delivery and search capabilities for a number of newspapers.

Directory databases provide information on individuals organisations and services. Economic information systems, Inc. through its databases EIS non-manufacturing establishemnts, provide information on locations, headquarters, name percentage of industry sales, industry classification and employment size.

Finally there ae special purpose database : For example the profit impact of market strategies (PIMS) database is an ongoing database of research and analysis on business strategy.

Questionnaire Preparation

The communication method, in effect, is the method of designing questionnaires with a view to collect the requisite information. The questionnaires can be classified into four main types -- (I) structured on-disguised, (ii) structured-disguised, (iii) non-structured-non-disguised, and (iv) non-structured disguised.

It may be mentioned here that some authors prefer to call the non-disguised as direct and the disguised as indirect questionnnaires.

A structured questionaire is a formal list of questions framed so as to get the facts. The interviewer asks the questions strictly in accordance with a pre-arranged order. If, for example, the marketing researcher is interested in knowing the amount of expenditure incurred on different types of clothing, i.e. cotton, woolen or synthetic by different households classified according to their income, he may frame a set of questions seeking this factual information. If the marketing researcher appoints some interviewers to collect information on his behalf, the interviewers are expected to adhere to the same order in asking questions as contained int eh questionnaire.

A structured questionnaire can be of two types, namely disguised and non-disguised. This classification is based on whether the object or purpose of the survey is revealed or undisclosed to the respondent. Thus, a structured-non-disguised questionnaire is one where the listing of questions is in a prearranged order and where the object of enquiry is revealed to the respondent. Most marketing reserach studies use this type of questionnaire. In the case of a structured-disguised questionnaire, the reseracher does not disclose the object of the survey. He feels that if the respondent comes to know the object of the survey, he may not be objective in giving the necessary information and, as such, its purpose may be defeated. He is, therefore, very particular not to divulge the purpose of the investigation.

It may be mentioned that in a large majority of cases, it is felt that the respondent should be taken into confidence and clearly told why the survey is being undertaken, so that he would realize its relevance and give the desired information accureately. Questionnaires of this type are known as structured and non-disguised questionnaires. It may be pointed out that most of the surveys for marketing research use this type of questionnaire.

A non-structured questionnaire is one in which the questions are not structrured and the other in which they are to be asked from the respondent is left entirely in the researchers. He asks the questions in the manner in which he deems fit in a particular situation. In fact, he may only have certian main points on which he may develop the questions at the time of the actual interview. As it will be seen, a non structure of questionaire is devoid of rigidity and allows considerable freedom to the researcher is choosing the order as well as the specific content of questions. Normally, unsituated questionaires are used in exploratory research when some respondent are contacted. It is only subsequently, on the basis of answers received, that a well-structural questionnaire is developed. This is because the interviewer has a better understanding of the problem on had only after the exploratory research. Questionnaires of this type can be split into two sub-types. Where the purpose of the enquiry is disclosed to the respondents, the questionaires are known as non-structured and non-diguised while in other cases, the questionnaires are classified as non-structured and diguised questionnaires.

Let us briefly discuss the relative strengths and weaknesses of the different types of questionnaires. THe structured non-disguised questionnaire has several advantages. Firstly, it facilitates the collection of information in a systematic and orderly manner as the questions have been formulated in advance. Secondly, since the questions asked by each interviewer happen to be identical and are asked in the same order, the information is generally not vitiated o account of the varying chracteristics of the different interviewers. Third, a structured questionnaire calls for a straightforward and simple approach on the part of interviewers. As such, even less qualified interviewers can be deployed in canvassing such a questionnaire. Fourth, such a questionnaire makes it far easier to edit, tabulate and interpret the data it contains. Finally, a structed questionnaire can be conveniently pre-tested so that suitable modifications can be made in the phrascology of questions or in their sequence or both.

As against these advantages of a structured questionnaire, it suffers from a major limitation. This arises when the respondent is asked questions concerning personal or motivational aspects. Despite this weakness, the structured non disguised questionnaire is most frequently used in marketing research, as was mentioned earlier.

An unstructured questionnaire is most suitable when motivational factors are involved. The interviewer is free to ask probing questions to get at the key motivational factor or factors. Questionnaires of this type are normally used in depth interveiws - a subject to which we shall revert later in the book. Such questionnaires facilitate the conducting of interviews in an informal manner. They also lend flexibility to the whole process of interviewing. A point worth emphasizing is that in the case of unstructured questionnaires, the role of the interviewer becomes far more important as compared to the one when a structured questionnaire is used. In view of this, more capable interviewers are required to handle them, which raises the cost of the survey. Also, the interviewer needs more time per interview if is unstructured. This also enhances the overall cost of the field survey. Finally, the researcher face problems while editing and tabulating an unstructured questionnaire.

Having discussed the relative strengths and weaknesses of the structured and un structured questionnaires, we now turn to the designing of structured questionnaires.

Questioning Techniques :

1. **Designing A Questionnaire :** Designing a questionnaire is not as simple a job as it looks at first sight. A marketing researcher intending to collect primary data has to be extremely careful in deciding what information is to be collected, how many questions are to be formulated, what should be their sequence, what should be the wording of each question, and what should be the layout of the questionnaire. All these aspects need considerable time and effort of the marketing researcher. If he is able to develop a questionnaire suitable for his field investigation, he will find that his task of collecting the data has become much easier than otherwise.

2. **Type of Information to be collected :** Whie attempting to design a questionnaire, the marketing researcher has to first ask himself what type of information he needs from the survey. He should seriously consider this question as it will have considerable repercussion on the usefulness of the survey. For, if he omits to collect information on some relevant and vital aspects of his survey, his search study is unlikely to be useful. At the same ti,e if he collects information on some issues not directly relevant to his study, he not only raises he total cost of the survey but also increases the time factor. This being the case, the survey will take much more time than is really necessary. It will also lead to greater inaccuracy as the respondent will have to answer many more questions than are strictly necessary and he will, therefore, nto be sufficiently careful in giving the exact answer. In either case the marketing researcher will be the loser. To avoid this situation, he should give serious throught to the specific

information to be sought. It will considerably facilitate him if he looks ahead to the analysis stage so that he could enlighen himself on the type of tabulation as also the statistical methods that are to be used.

Crisp has very lucidly explained the different types of information which are generally sought in marketing research. The information could be one or more of the following types : (i) facts (ii) quasi facts (iii) awarness, or penetration of information (iv) opinions (v) attitudes (vi) future action plans and (vii) reasons.

Factual information is perhaps sought most frequently in marketing research, For example, the question - do you own a car ? Is intended to seek such factual information. In addition, sometimes information collected belongs to the second category, namely, quasi facts. This implies that the information received from respondents is not factually corrected thoug it may appear to be so. Thus, a question in continuation of the earlier one about the ownership of a car, could be - if yes, when did you buy the car ? Here, the respondent may not remember on the spur of the moment, the year when he bought the car. Apart from this, the inaccuracy may originate on account of the desire on the part of the respondent to leave a favourable impression on the interviewer. Thus, for example, if a respondent is asked - Do you eat fruit every day ? he may say 'yes' even when he does not simply because he wants to impress upon the interviewer that he belongs to a well - to - do family and can afford to spend money on fruit on a daily basis.

Regarding factual information, the interviewer has to ensure that the information sought is available with the respondent and that he is willing to part with it. Questioning respondents about the distant past is not good as they will not be able to give an accurate answer. Another point worth noting is that the interviewer should ensure that the respondent has understood his question correctly and that he in turn has understood the respondent's answer correctly. This will avoid miscommunication.

The third category of information sought relates to awareness. Sometimes, the marketing researcher is interested to know whether the respondent is aware of the existence of a certain product or brand. Such information is particularly sought by a firm soon after it has launched an advertising campaign, to enable it to know if advertising ha contributed to the awareness of the respondent. Besides, information determining the increase in penetration could be sought in a marketing research. For example, the firm may take up a second study subsequently, more or less on the same lines as its first study, to ascertain how much increase in the penetration has taken palce between the two dates.

Information is often sought on the opinon of the respondent. He is specifically asked what view he holds on a particular subject. And he is free to opine. Simiarly, information on the respondent's attitude on one or more subjects or things is sought. The distinction between 'attitude' and 'opinion' is not very clear "A commonly drawn distinction has been to view an 'attitude' as a predisposition to act in a certain way and an 'opinion' as a verbalization of the attitude. "A commonly drawn distinction has been to view an 'attitude' as a predisposition to act in a certain way and an 'opinion' as a verbalization of the attitude. " However, the distinction between the two terms gets blurred when the terms are used to predict what the respondent will do. In view of this,k some authors have used the terms 'attitude' and 'opinion interchangeably.

The question on opinion poses some difficulties for the researcher. To begin with, when an answer to an opinion question is received from the respondent, the researcher is not sure whether the respondent is well informed about the subject on which his opinion has been soght. A respondent can give any opinion without knowing the subject at all. This is obviously a great diadvantage and it is difficult for the researcher to verify. Another difficulty is to ascertain the intensity of an opinion, though this can be taken care of by suitably phrasing the specific question. We shall revert to this a libalbe. Another difficulty is that as opinions are many sided, the same respondent will give different answer based on different aspects such as social legal, moral, economic, etc. It will not be eivdent to the researcher which view point the respondent has taken. Attitudes are very important as they give an indication of the past, or the likely furture behaviour of the respondents. Studies on consumer behaviour are possibel only when information on attitude is adequately available.

Occasionally, the marketing researcher wants to know what are the immediate plans of the respondent in regard to a certain thing. For example, he may be asked whether he plans to buy a car during the next six months. Such information is normaly a statement of intention of the respondent. One does not know whether it will be implemented or not. Any information collected under this category has to be used with great caution otherwise one is likely in arrive at wrong conclusions.

Finally, the marketing researcher at times wants to know the reason for a particular choice or action of the respondent. For example, the respondent owning a car may be asked why he bought that particular make. He is expected to give one or more reasons in support of his choice. Here too, ther is an apprehension that the respondent may not come out with genuine reasons.

It must be emphasized again that the marketing researcher should be clean about the nature of the information to be collected. The above classification of the requisite information will facilitate him to phrasing the questions in the right form.

3. Types of questions

The second important aspect in the designing of a questionnaire is to be decide which types of question are to be used. Questions can be classified in various ways. One way of classification is as follows :

- Open-ended questions.
- Dichotomous questions.
- Multiple-choice questions.

An open-ended or simply 'open' or 'free answer' question gives the respondent complete freedom to decide the form, length and detail of the answer. Open questions are preferred when the researcher is interested in knowing what is uppermost in the mind of the respondent. However, open questions pose certain problems. At the time of the actual interview, it becomes difficult for the interviewer to note down the respondent's answer verbatim. If the interviewer has to take down the answer all by himself without any mechanical aid, he is quite likely to miss some vital information contained in the respondent's answer. Further, if several interviewers are conducting interviews and each one is recording the answers to opinion questions according to his understanding, and in his own way, then there is likely to be an element of bias in the recorded answers. Another difficulty in respect of open questions is that it is extremely difficult to compress lengthy answers in a meaningful manner. Such answers may be good qualitatively but their quantification becomes extremely difficult, if not impossible. The dichotomous question has only two answers in the form 'yes' or 'no', 'true' or 'false', 'use' or ' do not use', etc.

It may be pointed out that dichotomous questions are most convenient or least bothersome to respondents, who have simply to indicate their choice from the two possible answers. As such, these questions require the minimum possible time of the respondents. Also, answsers to such questions are easy to edit, tabulate and interpret.

In the case of multiple-choice questions, the respondent is offered two or more choices. The marketing researcher exhausts all the possible choices and the respondent has to indicate which one is applicable in his case.

Obviously, the respondent is likely to take more time to answer a multiple choice question as compared to a dichotomous one. Also, more time is required in the editing, tabulation and interpretation of data.

4. Phrasing of the questions

The next issue in the preparation of a questionnaire is how to phrase the questions. The way in which a question is drafted is very important are slightly suggestive wording would elicit a very different answer from the respondent Consider, for example, the following question;

Don't you think that this is a sub-standard product ?

A question of this type would prompt respondents to answer in the affirmative. Many of them, who do not have a definite opinion about the product, are likely to agree that it is of sub-standard quality, However, if the above question is worded a little differently, the answer is likely to be different. Suppose this question is put as follows :

Do you think that this is a sub-standard product ?

A question of this type is not a suggestive question. It is a straight forward question and respondents are not likely to be prompted to say 'yes' as was the case in the earlier question.

In order to ensure the appropriate phrasing questions, one should be particular about the following factors :

1. Difficult words should be avoided as far as possible. Likewise, technical or special terms which an average respondent may not understand, should be excluded.

2. Vague words such as 'many', 'often', 'generally', 'on the whole' and 'reasonably', should not be used.

3. Lengthy questions should be avoided. Too much verbosity makes questions lengthy, and is likely to confuse the respondent.

4. One should avoid combining two questions into one. For example, the question - which of the following modes of transport is cheaper and more convenient ? (i) Train (ii) Bus it is quite likely that according to the respondent both the attributes, namely cheapness and convenience may not be applicable to either of the two modes of transport. One may e cheaper while the other may be more convenient.

5. Questions lacking specificity should be avoided or modified suitably so that they become more precise. For example, the question -- Are you satisfied with your job ? -- is not sufficiently specific because it does not provide the necessary frame of reference to the respondent. One may be satisifed, say, from the viewpoint of emoluments but one may not be satisfied with the type or nature of one's work. These are two distinct aspects which perhaps cannot be taken care of by one question.

5. Order of questions

Another aspect that should receive the attention of the researcher is the sequence or order of questions to be contained in a questionnaire. Since, in the beginning, the reearcher has to establish some rapport with the respondent, it is necessary that questions asked at the beginning are simple and thereby helpful in establishing the rapport. Difficult questions or those on sensitive issues should be relegated t the end of the questionnaire. Further, questions of a general type shold be asked in the beginning while those which are specialized, needing some in-depth information from the respondents, should be left to the end.

However, care should be taken to sustain the interest of the respondent until the last so that he is able to answer specialized questions in a normal manner without fatigue and indifference. If the questionnaire is very lengthy, two or three sets of the same can be printed where the order of questions can be changed by a scheme of rotation for the sampled units. In such a case, some respondents would answer the sepcialized questions towards the middle of the questionnaire instead of towards its end.

6. How many questions to be asked ?

The researcher has also to decide how many questions are to be asked. We may add that the number of questions is not so important as the actual length of the questionnaire. We have just mentioned above that the researcher has to, sustain the interest of the respondent until the last moment so that the interview can be completed successfully and the requisite information obtained. Too lengthy a questonnaire would obviously be a disadvantage and the response to it may be quite poor.

While deciding on the number of questions or the length of the questionnaire, the researcher should put himself in the respondent's shoes and imagine how he would react to that questionnaire. He can calculate the probable time that might be required by the respondent in answreing the entire questionnaire. He can also canvass the questionaire amongst some of his friends and acquaintances. Their opinion and reaction will be very helpful to him in fianlly deciding how lengthy the questionnaire should be. This is, in a way, pre-testing of the questionnaire which will be discussed towards the close of this chapter.

7. Layout of the questionnaire

Finally, the researcher or someone on his behalf has to decide about the layout of the questionnaire. This implies that the document should be set in such a way that it leaves a favorable impression in the mind of the respondent. It should be netaly printed and the indivdual pages should not have too many questions so as to appear crowded. Proper spacing between the questions and wihtin a question shuold be provided for. The more important wordings, to whch the researcher would like to draw the attention of the respondent, should be set in bold types of underlined. If it is really a lengthy questionnaire, special care should be taken to reduce its size by providing two columns in a page and by using finer types. But, this can be done up toa certain point for too fine a print may cause inconvenience to the respondent. The questionnaire should have 'easy looks' which means that it should be short and printed o superior quality paper so that writing with pen or pencil is smooth.

8. Mail Questionnaire

So far the discussion was confined to the designing of questionnaires to be filled in by personal interviews. In fact, the type of questionnaire to be designed depends on the type of survey. Broadly, there are three types of survey namely personal, mail and telephone. As far as the telephone survey is concerned, it is not commonly used in India. As such, the personal interview and mail survey are the only two methods. Since a mail survey needs a questionnaire which should have some additional characteristics, it is necessary to look into this aspect in some detail. First, we should know the advantages and limitations of a mail surrey.

8.1 Advantages

1. It is much easier to approach a large number of respondents spread all over the country through post.

2. A mail questionnaire will not have any distribution bias as it will not show any particular preference or dislike for a certain neighborhoods, household or individual. This, however, is not the case with the personal interview as it is likely to be affected by the personal preferenes or dislikes of the individual interviewer.

3. Likewise, a mail questionnaire is free from any interviewer's bias and errors which may undermine the reliability and validity of the results emerging from the survey.

4. Where the question asked is such that it cannot be answered immediately and needs some thinking on the part of the respondent, it is the mail questionnaire which will be most appropriate. A respondent can think over the question leisurely at home before giving his answer. The quality of answers is, therefore, likely to be superior to that obtained in the personal interview.

5. Since a large number of respondents can be approached all over the country through mail in a short period, a mail questionnaire saves a lot of time in collecting the desired information.

6. There is a good deal of saving in the total cost of a mail survey as cost of travelling, boarding and lodging of interviewers is not to be incurred. This enables the organizers of the survey to complete the investigation within a limited budget.

7. In case of mail questionnaires, there is no difficulty in having central supervision and control over the survey operations over a large region. This, however, is not the case when a large number of interviewers are appointed to cover different territories. As they have to be instructed, supervised and checked, these tasks cannot be managed from one centre alone.

8. Mail questionnaires also avoid the bias arising from any inhibitions in answering questions. In particular, when questions are of a

personal nature, the respondents may hesitate to answer them in the presence of an interviewer. This type of inhibition will not be there if the mail survey is undertaken.

9. Finally, mail questionnaires will not have the problem of non-contacts in the strict sense as might be the case in personal interviews when the interviewer finds that the respondent, being away from home, is not available.

8.2 Limitations

The mail questionnaire suffers from some major limitations which are mentioned below :

1. It is not suitable when questions are difficult and complicated. In such a case, the help of interviewers is required to offer some introductory explanation to the respondent. Further, in all such surveys where the main object is to get the respondent talking or to undertake deep probing, mail questionnaires are completely unsuitable.

2. When the researcher is interested in the spontaneous answers of the respondent or his own answers uninfluenced by others who may influence his thinking, the mail questionnaire is inappropriate.

3. In case of mail questionnaires, it is not possible to verify whether the respondent himself for herself has filled in the questionnaire. If a questionnaire is addressed to a housewife concerning the expenditure on durable items in the family, it is she who is supposed to answer it. However, she may ask her husband or someone else in the family to fill in the questionnaire on her behalf. It should be evident that such answers may not be correct. Further, they may not reflect the opinion of the particular respondent whose opinion was sought.

4. The researcher has to accept the ansewrs as they are provided in the mail questionnaire. In case there is any incosistency or ambiguity in the answers, it will be difficult for the researcher to make use of such a questionnaire. He cannot further probe into the same to get some additional information or to remove the inconsistency or ambiguity.

5. The respondnet, in case of a mail questionnaire, may go through his answers after he has filled in the entire questionnaire and may make certain modification in his original answers as a result of which these answers cannot be regarded as independent.

6. A mail questionnaire does not allow the researcher to supplement the information by his personal observatrions. That will be possible only when the questionnaire is can vassed by him personally.

7. Finally, a mail questionnaire normally has a relatively poor response compared to a questionnaire canvassed personally. In the latter case, even if the respondent is initially reluctant to answer the questionnaire, the interviewer can explain the purpose of the survey and point out its relevance to the respondent who may then agree to answer the questionnaire.

Additional considerations for the preparation of a mail questionnaire

As the interviewer is just not available for any explanation or clarification that a respondent is likely to need, it becomes necessary to prepare a mail questionnaire with greater care and more thought. It would, therefore, be worthwhile to look into additional factors that can significantly improve the quality of a mail questionnaire.

1. Mail questionnaire should be shorter than the questionnaires to be used personaly otherwise the response rate would be affected adversely.

2. The wording should be extremely simple so as to avoid any misunderstanding.

3. In case a lengthy mail questionnaire has to be used, it may be desirable to send an advance letter, seeking the cooperation of the respondent. This may be followed by the questionnaire. Such a practice will prepare the respondent mentally to receive a lengthy questionnaire and a reasonably high response rate cna be maintained.

4. Wherevr necessary, suitable explanations should be provided so that respondents understand the questions in the proper perspective and in the manner in which the reseacher intended.

5. A covering letter must invariably be enclosed with the mail questionnaire. The covering letter should explain the purpose and importance of the survey and solicit the cooperation of the respondent. It should be emphasized in a covering letter that the information to be given by the respondent will be kept strictly convidential and that his identity will not be disclosed.

6. A mail questionnaire should also be accompained by a pre-addressed and stamped envelope to facilitate the respondent to return the same as soon as it is filled in without incurring any expenditure himself.

PRE-TESTING THE QUESTIONNAIRE

Once the questionnaire is prepared it should be pre-tested. Pre-testing of the questionnaire implies that it is tried out on a few respondents and their reaction to the questionnaire is observed. It helps the researcher decide whether any changes in the question-content or the wording of questions are called for. If so, specific changes that are desirable can also be ascertained and incorporated in the questionnaire. This would improve it and if it is a mail questionnaire, it would perhaps increase the response rate as well.

The other benefit of pre-testing the questionnaire is that the researcher can know the suitability of the instructions given to the interviewers as also their capability. In case certain changes are required, the same can be introduced. Interviewers will also have an opportunity to familizrize themselves with the problems they might face in the collection of data. This apart, pre-testing may indicate whether a particular sample design is feasible or some other sample design, which may be more appropriate, should be selected. Sometimes, pre-testing of a questionnaire is undertaken to find out the suitability of data for particular needs. For this purpose, the researcher may have to tabulate the data collected in the pilot survey or pre-testing) and prepare dummy tables. With the help of these tables, one can eamine whether such data would be appropriate and adequate for the objectives of the survey. In the light of this investigation, the questionnaire can be revised to elicit additional information.

In the appendices to this chapter, two specimen quesationnaire are given. The first one relates to the passenger survey conducted by the Quick Airlines Corporation. The second oe was used for a National Readership Survey in 1997.

The questionnaire on the passenger survey (Appendix 1) was designed specifically to collect data from passengers who availed themselves of the services of the Quick Airlines Corporation durig the two weeks when the survey was on. It will be seen that the first four questions give the passenger identification data. The next four questions relate to the flight details including the date and number of the flight. Subsequent questions aim at collecting information on the views of passengers on the quality of service provided by the Quick Airlines Corporation. Some of the questions are dichotomous, resulting in only two responses, yes or no, while others provide five options on a scale such as excellent (5) to very poor (1) in regard to a particular service. There are onloy three open-ended questions int he entire questionnaire. The last question invites suggestions from the passengers for improvement of the quality of service rendered by the Corporation. It will also be noticed that this questionnaire is extremely simple and it would not take much time of the respondents in providing the information sought.

As was mentioned earlier, the second questionnaire is on the National Readership Survey 1997. This survey was conducted by the National Readership Studies Council (NRSC), Mumbai. In fact, two questionnaires were used in the National Readership Survey - one for collecting information from individuals and the other from households. A persual of this questionnaire will show that it is extermely comphensive and complicated in contrast to the first questionnaire on the passenger survey.

The respondent's classification data are shown in the beginning just after the information sought for office use. The classification data too are quite comprehensive, seeking information on sex, age, education, working status, occupation and marital status of the respondent. Several of these questions have two or more sub-questions within them. Questions are asked on the languages read and understood by respondents, their reading habits - what particular periodicals they generally read the frequency of reading as also which newspapers they read. Questions are also asked on television viewing, listening radio programmes and on visting cinema theatres, halls / video parlors, etc.

It will also be seen that the questionnaire contains at some places specific instructions for interviewers, advising them to proceed in a particular manner to elicit information from the respondents. Since the questionnaire is extremely comprehensive, it should provide appropriate instructions to the interviewers to enable them to complete their task quite satisfactorily. It may also be mentioned that the use of such questionnaires in any survey puts enormous responsibility not only on the interviewers but also on organizers. The latter have to be very vigilant and look into every minute detail or else the survey will fail to provide adequate and accurate information.

CHOICE OF SURVEY METHOD

As there are four methods by which data can be collected in a survey, it may be worthwhile to know their relative strengths and weaknesses. The methods in question are personal survey, mail survey, telephone survey and computer survey. However, as computers in interviewing respondents are not comonly used as yet in India, the comparison will be confined to the three methods.

It is evident from this table that none of these methods is perfect and free from all the limitations. A method may be good or excellent in case of a few criteria, but in respect of other criteria its rating may below. The marketing researcher has to exercise great care in choosing the method on the basis of a couple of criteria or considerations which he thinks are important in the survey. For example, when a large quantity of information needs to be collected through a survey, both telepone and mail survey methods will be inappropriate. The choice should obviously be in favour of personal survey. In contrast, if a short survey is to be conducted in a limited time, telephone survey should have the preference. Ther is, of course, an inherent limitation of telephone survey in India, as telephones are not yet very common in cities, not to mention of rural areas.

- **Online Survey**

For the researcher condidering the use of electronic surveys, there is a rapidly growing body of literature addressing design issues and providing laundry lists of costs and benefits associated with electronic survey techniques. Perhaps the three most common reasons for choosing an e-survey over traditional paper-and-pencil approaches are (1) decreased costs, (2) faster response times, and (3) increased response rates.

An electronic survey is defined as one in which a computer plays a major role in both the delivery of a survey to potential respondents and the collection of survey data from actual respondents. We use the term mixed-mode surveys to describe surveys that offer alternative response formats (e.g. e-mail solicitation with an option to print and return a paper and pencil survey.)

A Typology of E- Surveys

One can categorize the collection of survey data via computers into three main categories based upon the type of technology relied upon to distribute the survey and collect the data : (1) poit of contact; (2) e-mail-based; and (3) and Web-based. Disk by mail was once a common method, but it is used less so now.

Point-of-contact involves having the respondent fill out an e-survey on a computer provided by the researcher, either on-site or in a laboratory setting (synodinos, Papacostas, & Okimoto, 1994), for organization members who do not use computers in their jobs (Rosenfeld, Booth-Kewley, Edwards, & Thomas, 1996). Point of contact surveys have also been popular among researchers wishing to have tight control over the context of the study (ie. lab based).

The second electronic data collection technique is the e-mail based survey. E-mail-based surveys are generally defined as survey instruments that are delivered through electronic mail applications over the Internet or corporate intranets (Kiesler & Sproull, 1986; Sproull, 1986). E-mail-based surveys are generally seen as being delivered more cheapy and faster than traditional paperand-pencil surveys; however, they still require the researcher to manually code the data into a database after receiveing completed surveys. Researchers have extensively used e-mail surveys within corportaions and online user groups (Corman, 1990; Kiesler & Sproull, 1986; Mehta & Sivadas, 1995; Sproull, 1986; Thach, 19950).

The fianl form of electronic survey, and the technique currently receiving the most interest from resrachers (e.g. Stanton, 1998; Zhang, 2000), is the Web-based survey. They are generally defined as those survey instruments that physically reside on a network server (connected to either an organization's intranet or the Internet), and that can be accessed only through a Webbroweser (Green, 1995, Stanton, 1998). Because a Web-based survey is actually created through the use of a coding language, the potential exists for the survey to change based upon previously answered questions (e.g. providing a different set of questions based on reported tenure in the organization).

In addition, these surveys can use animation, voice and video to enhance the user's experience. For example, one study provided a sidebar of events that occurred in the year of the respondent's self-reported birth date to assist the respondent with recall as well as to maintain motivation to respond to the survey (Witte, Amoroso, and Howard, 2000). Finally, Web based surveys are often connected directly to a database where all completed survey data is categorized and stored for later analysis (Lazer and Preece, 1999; Schmidt, 1997). Web-based surveys can be either sampled or self-selected. The sampled category describes respondents who were chosen using some sampling method (i.e. randomly selected from larger population), notified of the chance to participate, and directed to teh survey's Web site. In contrast, the self-selected category includes those respondents that happen across the survey in the course of their normal browsing (e.g., seach results, Web advertisement, etc.) and are not proactively solicited by the researcher.

Emerging Issues

The issues of rehability, validity and sampling and genralizability are similar to those encountered when using a traditional pencil - and paper survey. The presence of technology does provide addtional issues that must be considered in order to effectively collect survey data electronically, namely security / access, privacy, and ethics. With security, a reseacher must be able to restrict access to only those people solicited to participate. Prior research has summarized the privacy issues associated with Internet survey research; the ethical dilmmas in how data is captured electronically and how those procedures are communicated to the resondent.

Steps in Questionnaire Design: It is important that the questions are unloaded, to avoid any researcher bias. It is also important that the information collected must be believable and unbiased. Just as researcher bias has to be avoided, respondent bias must also be avoided. Further, there must be a flow in a questionnaire. For example, ¯How many children do you have? and then asking ¯your marital status is improper. The question on marital status should logically precede the one of the number of children. A questionnaire should be pre-tested before final printing. The pre-testing should be for the following :

a) Are the questions clear to the respondents?

B) Is the researcher getting answers to the questions? Or does the respondent understand questions in the same way as the researcher does?

c) are there any terms or words requiring explanation?

d) are there any sensitive ¯spots or ¯questions which respondents would feel uncomfortable with and would not want to respond to? Typically, these could be questions relating to respondent's income, age, or personal particulars. To avoid such drawbacks, put these questions with multiple choices in different ranges. Also, with regard to income, it is best to ask annual family income as it is less threatening.

e) What is the time that an average respondent is taking to complete the questionnaire? It is important to remember long questionnaires lead to fatigue and also puts off the respondent. Non-response or inappropriate response is very common in a long questionnaire. So the key is in avoiding respondent fatigue by having a short questionnaire.

f) does the customer feel interested in the research project? Is his/her interest sustained while responding to the questionnaire?

g) is there a logical flow among the questions?

h) are the investigators able to explain the purpose and questions, if required?

Thus through questionnaires, the data are collected and analysed with the help of the statistical tools and then the interpretations are reported.

3.9 Summary

This chapter has introduced the research process planning from the perspective of valuing research on the basis of how well it has been done (the management of total error). Planning a research project includes:

Problem formulation

Method of inquiry

Research method x Research design

Selection of data collection techniques

Sample design x Data collection

Analysis and interpretation of data x Research reports The differences in client requirements give rise to different requirements in research projects. The value versus cost orientation is an outgrowth of these differences. In this chapter we explained how managers use marketing research to help decision-making. Marketing research provides the description and explanation required in order to predict and evaluate market opportunities. There are several groups who "do" marketing research but the basic reason for their research is the same—to solve a problem. Whether implicit or explicit, the best method for decision making is the problem-solving model. Information should be accurate, current, sufficient, available and, most important, relevant to be meaningful to organizations. There can be many types of dialogue and challenges between manager and researcher. The dialogue can encompass objectives, courses of action, and environmental variables affecting decision outcomes. And there are ethical issues in marketing research. Although there are many concerns among researchers and others, they can be summarized as deceptive/fraudulent practices, invasion of privacy, and lack of consideration for subjects/respondents. Ethical dilemmas arise because of the relationships that exist between a researcher and stakeholders in the research process. Professional codes of conduct of marketing research were presented, which are indicative of an industry that is trying to “clean up its own act.

3.10 Glossary

Market research :- The action or actively of gathering information about consumers needs and preferences.

Data :- A set of values of qualitative or quantitatives variables.

Primary data :- It is original research that is obtained from first hand investigation.

Secondary data :- Data that was collected by someone other than Primary Users.

3.11 Self assessment questions

1. What is market research?

   ____

   ____

2. what are the various types of market research?

   ____

   ____

3.12 Lesson end exercise

1. Mention the sources of primary source of information?

3.13 Suggested readings

a) Peter D. Bennett (1988), "Dictionary of Marketing Tenns", American Marketing Association, p. 54.

b) "A New Recipe for the Family Dinner," Adweek, April 27. 1992, p. 46. 3.

c) Theodore Levitt (1960), "Marketing Myopia," Harvard Business Review, pp. 45-66.

d) Shelby D. Hunt and John J. Burnett (1982), "The Macro-marketing Micro-marketing Dichotomy: A Taxonomical Model", Journal of Marketing, Summer, pp.11-26.

e) Rayport and Sviokla (1995), Exploiting the virtual value chain, Harvard Business Review

f) Rayport and Sviokla (1994), "Managing in the marketplace", Harvard Business Review. Pp. 141-150.

g) Kotler, P. "Principles of Marketing"

h) Kotler, P. "Marketing Management"

* Kotler, P. "Pri nciples of Marketing."

* Kotler, P. "Marketing Management".nnnnnnn

UNIT IV **Lesson No. 16-20**

PRODUCT AND PRICING DECISIONS

Structure

4.1 Concept of Product

In order to be effective at selling or marketing,. it is necessary to have a proper perspective of the meaning of a product, or how it should be viewed from a marketing perspective. The term ‘product’ is widely used to refer a market offering of any kind. In its broadest sense this may be anything from the physical to the abstract – an idea or a moral issue. Generally, however, most products are made up of a combination of physical elements and services. This is true in services marketing, where the service offering can include tangible features, such as food in a restaurant, or be a ‘pure’ service, intangible in nature.

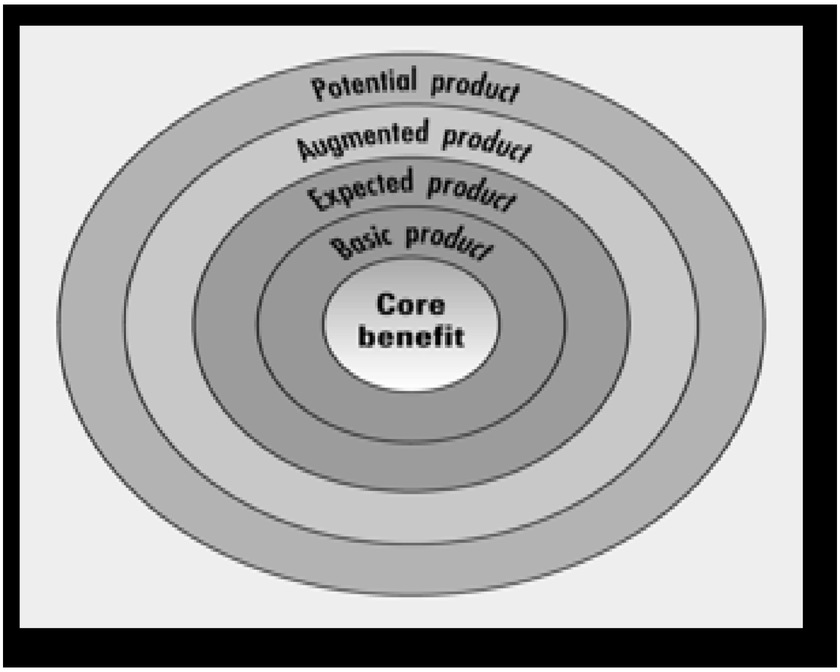
A service product refers to an activity or activities that a marketer offers to perform, which results in satisfaction of a need or want of predetermined target customers. It is the offering of a firm in the form of activities that satisfies needs such as hair styling done by a barber.

Consumers will buy only what suits them. As customers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter, and ticket for the U.S.A and many other such items in our daily life.

As we understand, our decision to buy an item is based not only on its tangible attributes but also on psychological attributes such as services, brand, package, warranty, image, and etc. discussions about the marketing of goods apply to services as well. Services have special characteristics that make them different than products.

According to Alderson, W., “Product is a bundle of utilities consisting of various product features and accompanying services” according to Schwarte, D.J., “A product is something a firm markets that ill satisfy a personal want or fill a business or commercial need”.

At the time of product planning, the marketer has to think about FIVE types of benefits.



From Generic to Potential Product

Most of you would be aware that a product has a personality of several components-like the physical products, the brand name, the package, the label etc. all of us know that most of the products are undergoing a constant change and the marketing man has been constantly engaged in enriching his product offer. In his attempt to score over competition, he has been bringing about refinement on his basic product offer, but managing the product was becoming more and more difficult.

Hence the product travelled various levels:

§ The Core Product

§ The Generic product

§ The branded Product

§ The Differentiated product

§ The customised product

§ The augmented product

§ The potential product

The **Core** benefits: what does the product mean to the customer? For example, bread offers core benefit of *reducing hunger*.

The **Generic product** is the unbranded and undifferentiated commodity. *Examples are: like rice, bread, flour or cloth.*

The **Branded Product** - The branded product gets an identity through a 'name'. Modern bread, Harvest is branded products.

The differentiated product - The differentiated product enjoys a distinction from other similar products/brands in the market. The differential claimed may be 'real', with a real distinction on ingredient, quality, utility, or service, or it may be 'psychological' brought about through subtle sales appeals. *Close-up tooth paste offers freshness and bold intimate social interactions among youth, whereas its rival Colgate offers prevention of tooth decay with freshness.*

The customized product - Customer specific requirements are taken into account while developing the product. Commonly practiced in the industrial product marketing, where the manufacturer and the user are in direct contact and the product gets customized to the requirements of the customer.

> *A ready made garment represents customization for a group of people; when you buy one, you ask for alterations to suit your shape and size. On the other hand, if you give cloth to the tailor for stitching, the garment is customized to you.*

The augmented product

The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product, which are neither suggested by the customer nor expected by them. The marketer on his own augments the product, by adding an extra facility or an extra feature to the product.

Refrigerators are augmented with extra shelves, more shelf space, and double doors.

The potential product

The potential product is tomorrow's product carrying with it all the improvements and finesse possible under the given technological economic and competitive condition. There are no limits to the 'potential product'. Only the technological and economic resources of the firm set the limit.

Robot-managed houses, artificial hearts, flying cars, space travel jets, etc., represent potential products.

Types of Products

Generally products are classified into two types, namely

1. Consumer Products and
2. Industrial Products.

Consumer Products or Goods

Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can be divided into

1. Convenience Goods;
2. Shopping Goods,

3. Durables or Durable Goods, and

4. Non-durables or Non-durable Goods.

Convenience Goods

These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, toiletries, cigarettes, etc. Often convenience goods are bought impulsively or spontaneously. For example, when a person goes shopping around and sees a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis.

Shopping Goods

These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, emphasis on quality, price, fashion, style, etc. are of great importance. A common example, in the Indian context, would be the purchase of sarees by ladies. Generally, ladies go looking around from shop to shop before they make their final selection. Hence, the expression 'shopping' goods. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.

Durable Goods

These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection.

In case of certain types of durables, after sales service is very essential. If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to do so. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual user of machine.

Non-durable Goods

These are goods which get depleted on consumption. For example a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

Services

Services are specially mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners etc. need marketing.

Industrial Products

These are products which are sold primarily for use in manufacturing other goods or for rendering some service. These include items like machinery, components and raw materials which form the bulk of industrial goods. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling. Raw materials on the other hand require a certain amount of technical knowhow on the part of the seller. The same would apply to component parts also.

Machinery is also sold generally through the sales force, particularly if it is of the heavy type. It is obvious that the latter cannot be stocked in retail outlets. The type of product determines the type of marketing mix which has to be adopted.

Industrial goods also include supplies and services. Supplies may be like lubricant and oil or typing paper in connection with the office. Supplies are similar to convenience goods. They are purchased with very little effort and repurchased once the consumer is satisfied. They are also marketed through retail outlets. Industrial services include maintenance and repairs. For example, persons having typewriters naturally want them to be looked after on a regular basis generally by the same (regular) maintenance person who is normally an outsider. Similarly, after purchasing a computer, service is necessary. These services are often provided by small producers or by the manufacturer of the original equipment itself.

4.2 Objectives

After studying this chapter students should be able to understand:

- Explain concept of product.
- What is product life cycle?
- What is meant by new product development?
- Explain Concept of price and Pricing objective
- What are various Factors influencing pricing decisions
- Explain price setting methods
- Pricing policies and strategies

4.3 Product Life Cycle

Many products generally have a characteristic known as perishable distinctiveness'. This means that a products, which is distinct when new, degenerate over the year into a common commodity. The process by which the distinctiveness gradually disappears as the product merges with other competitive degeneration. The cycle begins with the invention of a new product and is often followed by patent projection and further development to make it salable. This is usually followed by a rapid expansion in its sales as the products grains market acceptance. Then competitors enter the field with imitation and rival product and the distinctiveness of the new products. While some products fail immediately on birth or a little later, other may live long enough BPL's picture in pictures TV was eliminated and the introduction stage itself. This lesson focuses exclusively on the PLC of various products and its implications for managers in detail.

The Concept

The innovation of a new product and its degeneration into common products is termed as the life cycle of products is termed as the life cycle of products. A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, progressive organisations try to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits.

4.3.1 Stages and strategies in product life cycle

There are five distinct stages in the life of products as shown below:

a. Introduction

Research or engineering skill leads to product development. The product is put on the market; awareness and acceptance are minimal. There are high promotional costs.

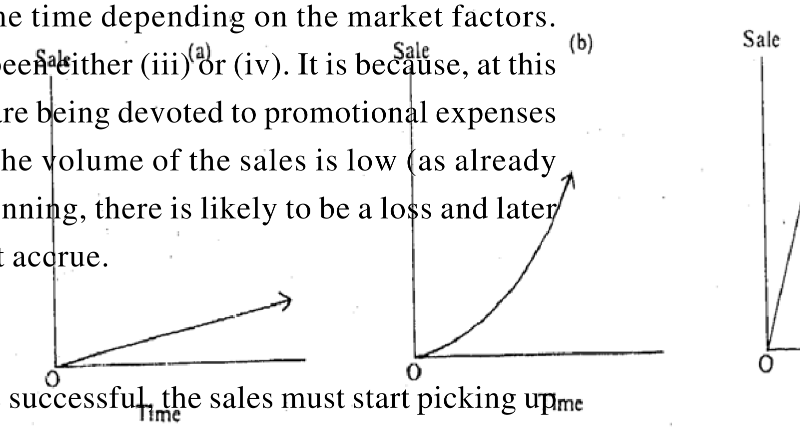
When mobile phones came into market, the technology is new and prices were high. There was skepticism about the use of the product. Heavy promotion helped to increase sales.

Let us start thinking from the very beginning about what happens when a new product is introduced in the market.

Figure I give three optimistic alternatives as to the likely sales trend. If the product is well-designed, the sales would not increase slowly but would shoot up after some time as in (b). Rarely would there be a case where they would shoot up as in (c). Poorly designed product may experience a slow take off as shown in (a). Thus (b) represents a suitable sales trend for a new product. This stage is called the 'introduction' or 'innovation' stage in the life cycle of a product.

Since the product has been just introduced and it is natural to expect that it will take some time before the sales pick up. There are some prerequisites for that too. The product must be brought to the notice of the customer. It must be available at the distribution outlets and all this takes some time. Therefore, a likely picture of the sales trend in this stage would be (b) as given in Figure I.

Figure I: Sales Trend - Introductory Stage



In the introductory stage, there is likely to be no profits or more likely a loss. This loss may continue for some time depending on the market factors. Thus, the correct answer could have been either (iii) or (iv). It is because, at this stage, considerable amount of funds are being devoted to promotional expenses with a view to generate sales while the volume of the sales is low (as already seen in the Figure I). Thus in the beginning, there is likely to be a loss and later on, as the sales grow, the profit might accrue.

b. Growth

In case the product launched is successful, the sales must start picking up or rise more rapidly. The next stage is then reached which is known as the 'growth stage'. Here the sales would climb up fast and profit picture will also improve considerably. This is because the cost of distribution and promotion is now spread over a larger volume of sales. As the volume of production is increased, the manufacturing cost per unit tends to decline. Thus, from the point of view of product strategy, this is a very critical stage.

In case of mobile phones the players like BSNL, Airtel, Idea, Hutch and others found growth in sales due to consumer awareness and fall in the tariffs. The prices of handsets manufactured by Nokia, Samsung, Motorola and others also came down with increase in demand.

c. Maturity

Sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain unaware of the product or who have taken no action. Also, the last of the unsuccessful competing brands will probably withdraw from the market. For this reason, sales are likely to continue to rise while the customers for the withdrawn brands are mopped up by the survivors. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

It is too optimistic to think that sales will keep shooting up. At this stage, it is more likely that the competitors become more active. In case your product is a novel one, by now competition would have come out with a similar product in the market to compete with yours. Therefore, the sales are likely to be pushed downwards by the competitors while your promotional efforts would have to be increased to try and sustain the sales. Thus the sales reach a plateau. This is called the 'maturity stage' or 'saturation'. At this point it is difficult to push sales up. With regard to the 'profit' picture, the profits are likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition. Unless of course, you have the largest market share with your product and it needs no extra push in the market.

As technology progressed, ordinary mobiles may be out of market. Those with extra features like camera, internet facility and music player will become basic products.

d. Decline stage

Thereafter the sales are likely to decline and the product could reach the 'obsolescence' stage. Steps should be taken to prevent this obsolescence and avoid the decline. This decline that generally follows could be due to several reasons such as consumer changes and tastes, improvement in technology and introduction of better substitutes. This is the stage where the profits drop rapidly and ultimately the last stage emerges. Retaining such a profit after this stage may be risky, and certainly not profitable to the organisation.

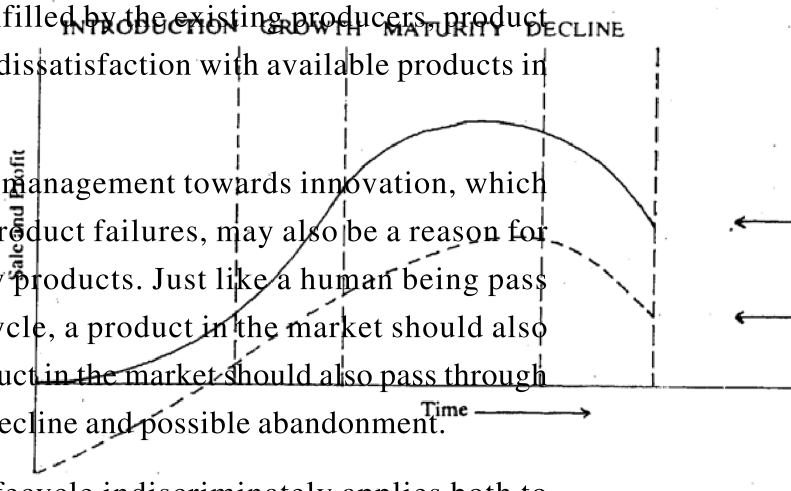
The following table shows the product life cycle and its different stages and the various characteristics, which they reflect, in the varying stages:

PCL Elements	Introduction	Growth	Maturity	Decline
Characteristics				
1. Sales	Low	Fast Growth	Slow Growth	Declining
2. Profits	Negligible	Peak Level	Declining	Low
3. Cash inflow	Negative	Moderate	High	Low
4. Competitors	Few	Growing	Many	Declining
5. Customers	Innovative	Mass Market Laggards	Mass Market	

Source: Peter Dayle, "The Realities of the product life cycle", Quarterly Review of marketing, summer 1976.

Figure II shows the 'product life cycle' and the different stages.

Figure II: The Product Life Cycle



Pattern of Growth – A Life Cycle Analysis for New Products

Even then the existence of initiative products/services and the emphasis of management on such products cannot be ignored. This may be due to the recognized marketing gap hitherto unfilled by the existing producers, product deficiencies and identified consumer dissatisfaction with available products in the market.

The super cautious attitude of management towards innovation, which may be due to fear and high cost of product failures, may also be a reason for increased emphasis on imitative new products. Just like a human being pass through different stages of the life cycle, a product in the market should also different stages of the life cycle a product in the market should also pass through different stages from introduction to decline and possible abandonment.

The concept of the product lifecycle indiscriminately applies both to innovative and imitative products. The noted stages of a products life cycle include introduction, growth, maturity and saturation, decline and possible abandonment.

He challenges and characteristics for innovative product imitative new product in their respective product life cycle stages are analyzed here.

Marketing Mix at Different Stages

Let us now discuss the 4Ps of marketing strategy in relation to these different stages. Before we do that, we would like you to apply your mind and give suggestions about what should be emphasised in connection with the 4 Ps at different stages.

Let us discuss the marketing mix strategies at different stages in the product life cycle

At the **introductory stage,** we have to increase and thus spend a lot on physical distribution and promotion. This is because we have to create, an awareness and acceptance of our product. We must also increase its availability. Very often in India, it is noticed that a product is advertised but is not available at the distribution outlets. This is a waste of promotional expenses. We must make optimum use of the available resources of the organisation. Thus distribution should be arranged before the product is launched.

In any case, in these two areas substantial amounts would have to be spent. We have to also counter the reluctance of customers to change their established patterns and make them purchase our product, particularly if it is of a novel nature. As against this, if it is a novel one, people may even buy it out of sheer ‘curiosity’.

Next in the **growth stage** when the sales shoot up and we are satisfied with the profit generated by the product, competitors will now enter the market and perhaps offer new product features. Therefore, we may have to think of improving our product so that we do not reach the ultimate ‘decline’ stage too quickly. The promotional expenditure is maintained at the same level or is raised slightly in order to meet competition.

We now come to the next stage called the **maturity stage.** This stage generally lasts longer than the other stages and poses problems for the management in maintaining the sales level. Actually, there is a slow down in the growth rate of the sales in case of such matured products. The decline can be arrested by improvements in the product and promotion. We should, however, at this time seriously think in terms of a new product, mix, that is, the elimination or redesign of the current product within the near future.

Finally, the **decline stage** catches up. The decline' may be slow or rapid. It may be due to better substitute products, better competition, technological advances with which we have not kept up and several other reasons. Such a product now proves expensive for the organisation. One must, therefore, be willing to consider the elimination of such marginal or unprofitable products. Eventually, the last weapon is to reduce the price. This is dangerous because this is a very time when extra promotional effort is required to be put in to prop up the product's sales. Reducing the price may soon land the company in a loss situation.

The strategies for meeting these challenges, at each stage of the life cycle for the respective products are also discussed.

Different Strategies

Innovative and imitative products require different kinds of marketing strategies. Right from the embryonic stage of product development, these differences in dealing with innovative and imitative new products are noticeable. For instance, a new brand of soap, toothpaste, scooter or car is an imitative new product; on the other hand, a flying car or scooter is an innovative product. Imitative new products have to overcome the existing competition to establish them in the market. But in the case of innovative products prospective and not the present competition is a challenge.

a. Introduction and Growth Stage

The introduction stage of the product life cycle is the entry of the product in the market. Generally, in the earlier days of introduction, because of the product is known and its positive characteristics are less known to the consumer, sales or less. Even though there is increase in sales, it is at a slow place. The ease of introducing a product depends on the degree of its novelty, improvements over the existing products, distinctiveness and a host of other factors.

Innovative products can be introduced in the market with relative competitive ease because there is no competition to be broken. This is much easier if the product has with a highly technical or utilitarian aspect. But for imitative products it is difficult even to enter the market under competitive conditions.

No doubt, the degree of this difficulty is much influenced by the extent of market satisfaction number of existing rival products and the marketing and product advantage they offer to the customer.

Generally, the prospective consumers for a newly introduced product are already selective in his nature. Therefore new imitative products should have some step-up features and marginal improvements so as to divert the attention, affiliation and loyalty of the consumer from the already existing alternative brands in the market.

But in the case of innovative or really new products, convincing the consumer about the product's marketing advantage or utility is enough to find a place in market. However, the initial positioning of the products should be on sound lines with a long run competitive perspective, so as to be less vulnerable to the competitor's strategies.

The introduction stage of any product is generally charactersied by low sales volume, limited distribution and high costs of promotion. These may be common to a great extent for innovative and imitative products.

But with respect to promotion strategy, for truly innovative products the main objective is primary demand creations, whereas it is secondary demand for imitative products.

In other words, due to the real newness of the product appeal to the consumer rather than bran appeal as in the case of imitative products. On the other hand, where the existing products dominate the market, imitative products as new entrants should try to snatch away the market of other products and thus establish their share of the market.

The success of innovative products in the introducing phase depends largely on the promotional efforts and their positioning. But the success of imitative products is conditioned by the extend of competition, the existing competitors, strength and quality of their products, offered to the consumers through promotion and the life stage of the exiting products.

The duration of the introduction stage for innovation is generally less, provided the products are effectively and extensively promoted.

Moreover, the number of possible product failures is also less with respect to an innovative product. Because the direct competitive forces are absent the internal marketing effort and efficiency is the major deciding factor for the product's success. On the other hand, the imitative products often fail because of the competition and counter market strategies by the existing competitors.

Therefore, imitative products, which enter the growth stage should try to counter the marketing efforts of the marketers and at the same time develop a good image and a competitive edge by capitalizing the weakness of the existing products. The intensity of competition will also differ in this stage for innovative and imitative products should plan for product improvement or finding new uses for the product.

Thus the marketer can maintain his competitive edge and retain his distinction and market share. The duration of this stage of product life cycle may also vary in both cases. Imitative products, unless they are highly distinctive, of better quality and exceptionally appealing to the consumers, have a short span of growth stage. On the other hand, ceteris paribus, innovative products are likely to stay in the growth stage for a longer period because they take considerable time for the imitators to come up with their own versions of innovative products.

b. Maturity and Saturation Stages

Once the product passes through the growth or market acceptance sage in due course, it enters the maturity stage followed by saturation. The former is characterized by increase in sales but at a low rate and the alter by stagnation in sales. The maturity stage in a product's life cycle is characterized by increasing sales and profit, but the rate of increase is less than that in the growth stage.

This reduced growth rate is certainly due to imminent competition in the market. Here one should not forget that innovative products face competition from new and improved imitative market entrants from time to time, whereas imitative products have to content with existing products.

When the question of guarding against the phenomena of maturity and saturation stages arises a clear forecast of the setting in of these phases is essentially required. Otherwise, designing of effective marketing strategies to prevent the early setting in of maturity and saturation is not possible. Sometimes, if the products sales are close to the break-even levels, losses become inevitable especially in the saturation stage.

Moreover, there may be a drop-out of the products at this stage if actual sales fall below the break-even levels. In order to prevent such as eventuality, strategies such as product improvements, price reductions, effective advertising and sales promotion activities should be intensified. When compared to imitative products, innovative products generally experience a longer span of maturity and saturation stages.

This may be due to the early life cycle or the introduction stage of competing products and consequent less competition; or the competing and newly emerging imitations of the innovative products may have a low level of consumer acceptance. Moreover, innovative products may have a scope to adopt improvements through planned obsolescence when their imitations try to emerge a strong product in the market.

The strategy of systematic and timely planned untouched, potential segments of the markets and a number of other such strategies are quite significant to prevent the early entry of the product in to the decline stage. Especially, innovative products should not go for planned obsolescence before the entry of vital competitors with their own imitative versions. And growth so as to reserve it for maturity and saturation to revitalize the life cycle curve.

Just like any human being enters into the life cycle phase of inevitable physical deterioration and death, products also do enter into the stage of decline and possible abandonment. How fast a product approaches this stage is dependent on the marketing environment, market forces, product characteristics, and competitive strengths of the product and extent of product differentiation.

As the new products enter the market, from time to time, virtually all the products enter the market, from time to time, virtually all the products are certainly caught in the clutches of obsolescence.

When the competing products establish their firm footing and consolidate their position in the market, the earlier entrants to the market fall prey to the clutches of decline. If a product, either innovative or imitative, stays in the saturation stage competitors try to aggravate their promotional effort to establish their superiority and push the innovative product to decline and consequently to the wall. How far a product can withstand the threat of the decline and curse of obsolescence depends on the managerial efficiency, efficiency of the marketing management and product strategies.

This stage of any product's life poses challenges to the management. In this stage, the competitive strategies of promotion, re-pricing and repositioning are warranted to inject a new lease of life to the product. No one should be left unturned to revitalize the product lifecycle. For a successful revitalization, every effort to maintain the morale and loyalty of middlemen to carry out the product on their shelves as against those competitors is highly significant.

Strategic Considerations in the PLC Concept

a. Competition

At the introductory stage, competition is given no important the growth stage, it is given a little important while at the maturity stage, there are many in the market slowly, however, the number of competitors or rivals gets reduced with the declining stage.

b. Over all Strategic Focus

At the first stage, emphasis is laid on market establishment. At the growth stage, market penetration and persuasion of mass market are emphasis. Creation of brand loyally and brand preferences is focused at the maturity stage. At the decline stage, the strategy aims at overall preparation for renewal.

c. ***Profit***

At the introductory stage, profit is negligible but all the growth stage, they reach the peak levels as a result of growing demand. At the maturity stage, they decline due to the increasing competition. At the last stage, the declining volume pushes costs up and eliminates profits.

d. ***Distribution Strategies***

At the introduction stage, distribution is selective. However growth and maturity stages, it is intensive. At the decline stage, it becomes selective and hence low-end strategies are used.

e. ***Advertising Strategies***

At the introduction stage, advertising strategies aim at the needs of early adopters; at the growth stage. An attempt is made to make the mass market aware of brand benefits. At maturity stage, advertising is used as a vehicle for differentiating among otherwise similar brands. At the last stage, however it emphasizes, on low price of the product and minimum advertising expenditure.

Product Line Decisions

A Product or Product Item

The 'Product Item' refers to a specific product or brand like Pears or Liril soap. There are companies with only one product and there are others having several products for various reasons, may be higher market share or higher profits or both or any other reasons.

Product Line

It is a part of the product strategy to determine whether an organisation will have a single product or more than one product. A 'Product Line is an expression used to describe a group of closely related products. Examples of these would include the Usha line of fans or the Lakme line of cosmetics.

In case of product line, very often a product manager or a product line manager is appointed to look after a particular product line. Generally, he tries to enlarge his product line because he wants a higher market share, or growth in volume of sales resulting in more profit. The latter aspect must always be remembered, and the product line manager should be willing to eliminate any product which is found to be unprofitable, or nor required to complete the line of products offered.

Product line decisions have to be taken about how long or short the line should be. The basic considerations being the capacity of the organisation in terms of availability of production facilities, finance and the profitability of the items in the product line.

A line of product is often meant to meet various segments of customers.

Consider the soap line of Hindustan Lever, as an example. '**LIFEBUOY**' is described as the soap that washes away dirt and is aimed at the lower income level.

For the middle priced market, this company offers LUX soap advertised as the beauty soap of film stars. Recently, as you must have noted, it was relaunched with a new perfume and a smart new look. For the 'premium market', Hindustan Lever offers 'PEARS'. Primarily positioned for upper class the soap is supposed to take care of tender skin. An interesting point in this illustration is that each product item is marketed under different brand names, because a brand preferred by lower social classes will not be bought by higher classes.

Product Mix Strategy

The expression 'product mix' is used to refer to a set of all the products offered for r sale by a particular company. The 'Product Mix Strategy', includes all product lines and product items offered by a company. An organisation has various options to improve its product mix. It can add new products in a particular product line, or add new product lines, thus widening its product mix. This brings us to the more important question of product diversification.

4.4 New product development

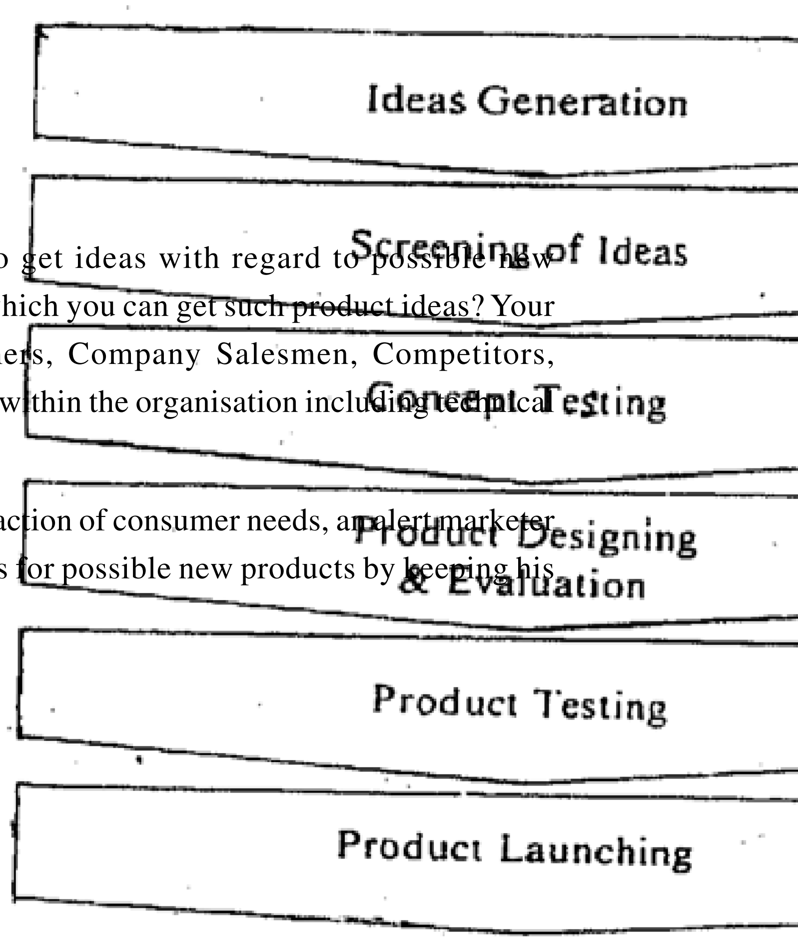
As you must have realised by now, it is very important to have a strategy for developing new products. Many products fail and in order to keep expanding company sales, we must have new products. Some products of Hindustan Lever have failed, but still they remain leading manufacturers because they have continuously added to their lines and added product lines to their product mix. Their 'HIMA' peas introduced in the 60's flopped, because, in the words of the Chairman of Hindustan Lever, 'India is not yet ready for convenience foods, neatly done up in packages.' The product 'concept' requires testing before one goes into product designing and it is very necessary to have an adequate strategy for developing new products and introducing them.

4.4.1 Process of new product development

Several stages must be defined.

Figure III gives the stages in new product development. These will now be discussed in detail.

Figure III: Stages in New product Development



Generation of New Product Ideas

The first step obviously is to get ideas with regard to possible new products. Think of the sources from which you can get such product ideas? Your answer shown; have been: Customers, Company Salesmen, Competitors, Company Executives, and Employees within the organisation including technical people.

As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new products by keeping his eyes and ear open and more particularly the mind to perceive even needs which are so far unexpressed. For example, in case of refrigerators, some one conceived the idea of having a 'two-door' refrigerator, another conceived the idea of the ball point which obviated the need for constantly filling fountain pens. Thus, new ideas can come from customer needs or problems requiring solution.

Company salesmen are in an excellent position to help. This is because they are in constant touch with the market, that is, both consumers and competitors. Watching competitors and what they introduce can also be useful for new ideas. Finally company executives and even the lower staff can be brought in for discussions.

The Interesting method here is what is known as **brain storming.** This is basically done to have a flow of ideas-good and bad. A number of people, say executives of the organisation, are called together and asked a question for new ideas or ideas for new products. They are asked to mention it without evaluation. None is criticised. The answers are recorded on a tape recorder so that the flow is not interrupted. Thereafter, the answers generated are evaluated as will be explained in the next stage.

Evaluation or Screening of the Ideas

So far, from the first stage, we have received a number of ideas-good and bad. We have now to screen and evaluate them to reduce their number to what is likely to be useful. This is known as the 'evaluation' or 'screening' of ideas stage in this process. Poor ideas must be dropped immediately because unnecessary cost has to be incurred to process them further. The ideas must be consistent with the company's philosophy; objectives and strategies and be in terms of the resources available in the organisation. In general the ideas are screened in terms of

1. Possible Profitability

2. Good Market Potential (Market size)

3. Availability of Production Facility

4. Availability of Raw Materials for such a product, if selected

5. Availability of Finance

6. Availability of Managerial Ability

7. Uniqueness of Product

Product Concept Development and Evaluation

Particularly when the product idea is rather revolutionary, the concept itself must be tested. For example, people talk about ‘battery driven cars’ to save on petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced. As already indicated, Hindustan Lever failed with their Hima peas and Fast Foods. This was a failure of concept testing. The mention of the failure of Hindustan Lever is not to run down the performance of this excellent company but to emphasise that good companies introduce a number of products some of which may fail.

The introduction by Parle’s of the **‘Big Bite’** (the hamburger) did fail in some of the regions in Indian market. Was this due to wrong concept? The answer is probably in the negative. The failure was because the customer got `soggy’ hamburgers at the retail end. Thus there was lack of `quality control’ at the level of the retail outlets which did not supply freshly cooked hamburgers. So you can see that even if the concept is accepted, a failure can take place in other areas resulting in the ultimate failure of the product itself. This did not deter the company from going further. Parles’ introduced **Frooti** and **Appy** which are fruit based soft beverages. These are offered in tetrapacks. Thus there is an innovation. The question of whether tetrapacks, as packaging material, will succeed in India or not is a question of concept testing of the package.

Product Designing and Evaluation

If the product idea or the concept passes the test, we then proceed to the engineering or the production or the R&D stage. So far what we had was only a description or an idea. Now this has to be converted into a product. Prototypes are developed and tested. The .est can be done under laboratory or field conditions. At this stage of product development, the technical problems, if any, must be solved. This is because the product must not suffer from complaints regarding quality in use. Even a small defect might shorten the life cycle of the product as well as spoil the company's image.

Product Testing Stage

Apart from mechanical performance, customer acceptance is essential. In fact, the following can be stated as **requirements for the new product,** after it is designed:

1) satisfactory performance

2). customer acceptance

3). economical production

4). adequate distribution

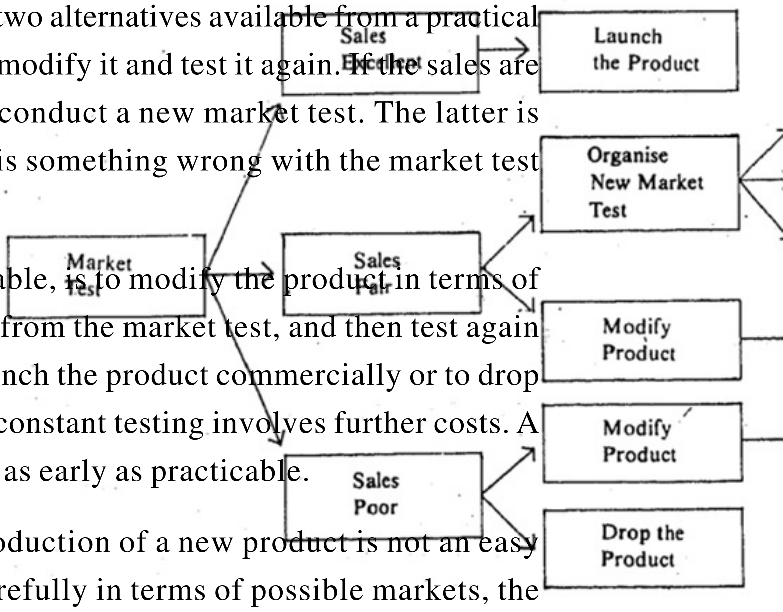
5). adequate servicing arrangements where required, and

6). effective packaging and branding.

A market test should, therefore, be conducted before launching the new product. This will help us find out whether the product can be launched successfully on a commercial scale or not.

Launching the New Product

The test marketing may show up something as depicted in Figure IV



It may show that the sales are 'excellent', in which case, our decision is easy and we can proceed to launch the product. As against this, if it shows that the sales are 'poor', there are generally two alternatives available from a practical viewpoint. We can drop the product or modify it and test it again. If the sales are 'fair', we may modify the product or conduct a new market test. The latter is done when we feel that perhaps there is something wrong with the market test just completed.

An alternative, generally available, is to modify the product in terms of the feedback which has been received from the market test, and then test again before the final decision is taken to launch the product commercially or to drop it. One must, however, remember that constant testing involves further costs. A decision must, therefore, be arrived at as early as practicable.

Hence we can say that the introduction of a new product is not an easy decision. It has to be weighed very carefully in terms of possible markets, the costs involved and the potential profits. The question of timing, sometimes, is also relevant. Should the company be the first one to offer a new 'novel' product in the market? In case of small companies, if they do so, they are at a distinct advantage. However, large companies can afford to wait. For example, Philips entered the Stereo Hi-Fi system market relatively later. However, they were able to introduce an attractively priced product, and quickly gained product acceptance because of their long-standing reputation in the market.

4.4.2 Basic requirements for new product development

Developing a new product is a daunting task. If the product happens to be new to the market or new to the world, then developing a new product is even more challenging. There are no fool proof methods. Having worked in Silicon Valley with start-ups & highly successful companies, I can give a few pointers towards successful new product development.

The first step in successful product development is requirements gathering. Requirements' gathering is a complex task with various sub tasks and levels – which is usually accomplished through several iterations. New products typically have their roots in an idea. The idea is then developed into a product concept. Once a product concept is developed, the next stage is: Define the product requirements.

First let us define what is a new product?

A new product in context to this article means "new to the world" type products – i.e., such a product is being introduced for the first time: First time for the company or first time to the market. Examples of such new products include:

- o Google Chrome:- A new type of browser – and the first one for Google.
- o SMART Car

- World Mate Mobile software
- iTunes:- iTunes was first of its kind in music store/distribution system.
- Motorola's Iridium
- 3M's Post It
- Blackberry Pager
- Cast Iron Integrated Appliances

New product Requirement Gathering

Requirements for a new-to-the-world product will always be vague. Therefore the best strategy is to capture the requirements – however vague they are in a document. New product requirement gathering starts with identifying needs of various stakeholders:

- Customers & Users
- Promoters
- Developers

Customer & Users

The need for a new product comes mainly due to the shortcomings in the existing products. As a result, current products in the market are unable to meet the customer needs. So the first step is to identify the customer needs. For a new-to-the-world product, we need to capture the perceived customer needs.

Perceived Customer needs

Identifying customer needs for a new product is often tough - In most cases, many customers are able to express their frustrations with the current products in the market & identify the shortcomings in the current products, but customers cannot express their needs for a new product. Therefore one must be prudent enough to derive the customer needs.

There is a well established method to capture the perceived needs of the customer – called as Product Opportunity Gap (POG) analysis. POG analysis can be used very effectively to discover the latent needs, the current shortcomings in the existing products and future needs of the customer. For example, let us take an example of developing a personal video/MP3 player. The customer needs for a personal video player are:

1. Large screen size – but small enough to carry around in a pocket.
2. Battery life to last at least for 10-12 hours.
3. Removable battery for replacement
4. External battery charger & internal battery charger – i.e., user should be able to charge the battery while the battery is inside the device.
5. Universal power adaptor – should work on both 110V & 220 V systems.
6. Easy/intuitive user interface.
7. Ergonomic design for comfortable handling. Anti-Slip hand holding areas.
8. Splash proof & water resistance
9. Connect to PC via USB & WiFi, connect to TV via HDMI or S-video
10. USB host interface so that user can connect other data storage devices.
11. Ability to read data from other data storage devices (Pen drives, portable hard drives, video cameras, etc.)
12. Connect to headsets via Bluetooth.

13. FM player, MPEG3, & MPEG4 decoder i.e., multi format audio/video decoder

14. Digital Video Recorder – ability to record TV programs.

15. Rugged construction so that the product does not get damaged when accidentally dropped.

16. Stylish design with interchangeable colored cases & Hip carrying case

These are some of the basic requirements for any type of personal video players. Data storage technologies can then become additional requirements can be used to create different types of products:

1. DVD player or Blue-Ray player

2. 100-300GB Hard drives to store movies, music & photos

3. 32GB or 64 GB, extendable up to 256 GB Flash memory via memory cards.

Intended Operating Environment

A product will operate in some operating environment. Often times, this operating environment is pre-existing and can be well defined. The intended operating environment must be well documented in the product requirement document – so that the developers should well understand and if required the operating environment can be reproduced in the development labs.

Understanding the user environment is crucial for the success of the new product. All persons involved in developing the new product should be able understand the user operating cases and use cases. This helps in developing products that meet the user requirements.

Operating environment factors include: Places (home, office, travelling etc); User conditions such as: Dusty environment, Hot weather, cold weather, high humidity etc; User knowledge or cultural bias etc.For example take the case of the personal video player. The operating conditions include:

- o Usage at home (bedrooms mostly), office & mostly while travelling – in cars, trains & flight
- o Should operate in extreme weather conditions from 40oC to -5 oC, should be able to operate in dusty, humid environment
- o Users may not be computer savvy
- o Users may not be very comfortable with English language
- o Power supply conditions may vary greatly – ability to work with dirty power.
- o Users are usually teenagers.

Customer Use cases

How does a customer use the product? What are the different uses for the product?

It is very important to document all the possible customer use cases, so that developers can understand how the product is being used. When a new product is being developed, it may not be possible to capture all the possible use cases – extra effort must be taken to document as many use cases as possible.

Users often times use the product in ways that was not originally intended by the manufacturer. But such use cases cannot be documented before the product is developed. This implies that use cases must be documented continuously even after the product has been released in the market.

Promoter's requirement

When a new product is being developed, promoters play a major role in driving the product requirements. Promoters – aka investors or managers are the real brains behind the new product. Promoters provide the direction, vision and the business rationale for the new product. The common requirements which are typically driven by promoters are:

- o Technology Platform
- o Business models
- o Business use cases

Technology Platform

Promoters often decide on the technology platform – often times without consultation with the potential customers. This is often done on gut instincts. Many a times promoters have deep understanding of the market and that gives them the requisite knowledge to choose appropriate technology platform for the product.

What is technology platform?

The meaning of Technology platform varies widely with the industry – but it all refers to the foundation technology on which the product will be built on. For example: In case of software, it could imply the operating system (Windows, Unix, Linux etc.); In case of automobiles it could imply the engine technology (Diesel or gasoline or Natural Gas or electric or hybrid); In case of cell phones it could mean the operating standard (GSM or CDMA or 3G) etc.

Promoters are the best persons to decide on the broad framework of underlying technologies that will be used to develop the product.

Business Models

Every product or a service in the market has a business model in which the business sells the product/service. It is the promoter's job to define the business model for the new product. The business model decisions include:

manufacturing location/partners, distribution systems, pricing, margins, licensing etc.

Business models play an important role in defining the final product. The business model for a new product has to be determined before the product development starts – and refined over time. As the business models change, the product features/specifications also change. During this process, it is the role of the product manager to closely orchestrate the business model needs to the developers and the vice-versa.

Business models must then be translated into product requirements and these requirements should be orchestrated to the developers. Developers in turn can provide feed back to the promoters and help them fine tune the business models.

To understand this, take the case of iPod & iTunes. Apple built a business model around personal audio/video players, where users can manage music/video in their iPods by using iTunes store to download music via a local copy of iTunes on the computer. This complete business model was the key factor that ensured the success of iPod, while other MP3 players failed to build a sustaining business mode to support the product.

Business Use cases

Business use case is an extension of business models. In case of commercial/industrial products, the product will have a buyer, which is the firm, who is different from the user. The Business use cases include factors such as operating costs, total cost of economy, ease of maintenance, serviceability, customer support, release management etc

For example, Microsoft bundles its Office suite in many different ways – based on licensing. A basic license will consist only of Excel, Word, PowerPoint, & Outlook. While enterprise license will have lot more: Visio, MS FrontPage, MS project, MS Notes etc. This differential product bundling is an example of business use case. Similarly, GM & Ford offer their cars with different pricing and services bundle for car rental companies.

Developers Product

Developers are the engineers & technicians who actually develop the product. Developers can give valuable inputs to product requirements – mainly in terms of what is technically feasible and with inputs on how to make a particular feature better. The role of developers in requirement gathering can be broadly classified as:

- Project constraints
- Product improvements

Project Constraints

Every product development project has its set of constraints. These constraints in turn limit what is feasible – which in turn defines the final product. Developer's inputs are very valuable in developing new products – mainly because new product ideas are often very lofty, which is very high in promise but not based on reality. The developers can then give the project a healthy dose of reality.

Promoters and customers often start out with a very high ambition and often demand a product so advanced that the current engineering technology would be able to deliver it. Therefore the product requirement must be toned down to match with the reality of today's technologies.

The typical constraints that bound any product development projects are:

- Resource constraints
- Technology constraints
- Time-cost-quality constraints

The project constraints limit what is feasible with the given set of resources. On one hand constraints act as a limiting function, but on the other hand constraints also act as impetuous for innovation. Developers are smart to figure out ways to go around the constraints and innovate. Product managers must encourage such innovative thinking to prompt developers to innovate while giving the constraints.

Product Improvements

Product Developers are typically engineers & technicians who have several years of experience in developing similar products. With experience, they would have learnt ways and means to improve on any product. So given a set of product requirements, they will certainly have ideas to improve the product in ways that was never thought before. These improvements will be small incremental ideas – which makes the product better or cheaper to manufacture or easier to use. It is therefore mandatory for the product manager to gather these ideas from the developers.

Product improvement ideas/suggestions will be coming all through the development phase. It may be tempting to have all these ideas to be incorporated into the product design; however such a move will have an adverse impact on the project schedule. The best solution is to capture these product improvement ideas in the product requirement document before the start of the project, and ideas generated during product development must be viewed on its merit and project impact to decide if that idea can be incorporated into the current development version, or should it be deferred to the next version. To accomplish this, product management must start with a plan for the follow-on product to the first version – even when the first generation product is in development.

Form a feedback loop

New-to-the-world products do not always meet the customer requirements in the first release. The new product may meet some of the customer needs – but the solution will often have its fair share of short comings. It is therefore very prudent to plan for multiple revision of the product. A general rule of thumb is that a new product will take at least three versions before it becomes stable and widely accepted in the market. New Product development projects will have negative NPV during the initial few releases of the product and this must be factored into the product development financial planning.

So the best way to improve the product is to release the product into the market – for the target set of customers, take their feed back and then develop the next generation/version of the product. During this cycle, experience from the customers, promoters and developers must be captured as feed back to the product and convert it into product requirements and then incorporated into the next version of the product.

Once customers start using the product, it is very essential that customer experiences are observed and documented by promoters, developers & product management. Documenting the customer experience is a form of customer feedback – but it defers in the basic fact that the customer does not give the inputs, instead the customer is observed while he/she is using the product and that observations is documented. This practice is called Customer Anthropology.

Customer feedback, customer studies, promoter feedback, and developer feedback should all be channelled into a new product requirement document. This closed loop orchestration must be repeated several times to achieve mass customer acceptance.

Closing Thoughts

Product requirements initially start out as a vague set of ideas which needs to be filtered down in to a set of instructions that can be implemented by developers/technicians – to realize a product. New product development is an iterative process – where at the end of each iteration, a working product is produced. The product released at end of each iteration will not be perfect and will need further refinement & improvements which has to be done in the subsequent development cycles.

Promoters and developers must be aware that new product development will take at least three iterations to get to the targeted set of customers. Product managers and project managers must plan accordingly for multiple iterations – and see to it that the product is enhanced progressively through the iterations.

4.5 Concept of price

Price is an important element of the marketing mix. It can be used as a strategic marketing variable to meet competition. It is also a direct source of revenue for the firm. It must not only cover the costs but leave some margin to generate profit for the firm. However, price should not be so high as to frighten the customers. Price is also an element which is highly perceptible to customers and significantly affects their decisions to buy a product. In general, price directly determines the quantity to be sold. That is why electric fans are sold at lower prices and hotels reduce their tariffs during off season periods to attract customers.

4.5.1 Pricing Objectives

Pricing can be defined as the process of determining an appropriate price for the product, or it is an act of setting price for the product. Pricing involves a number of decisions related to setting price of product. Pricing policies are aimed at achieving various objectives. Company has several objectives to be achieved by the sound pricing policies and strategies. Pricing decisions are based on the objectives to be achieved. Objectives are related to sales volume, profitability, market shares, or competition. Objectives of pricing can be classified in five groups as shown in figure 1.

1. Profits-related Objectives:

Profit has remained a dominant objective of business activities.

Company's pricing policies and strategies are aimed at following profits-related objectives:

i. Maximum Current Profit:

One of the objectives of pricing is to maximize current profits. This objective is aimed at making as much money as possible. Company tries to set its price in a way that more current profits can be earned. However, company cannot set its price beyond the limit. But, it concentrates on maximum profits.

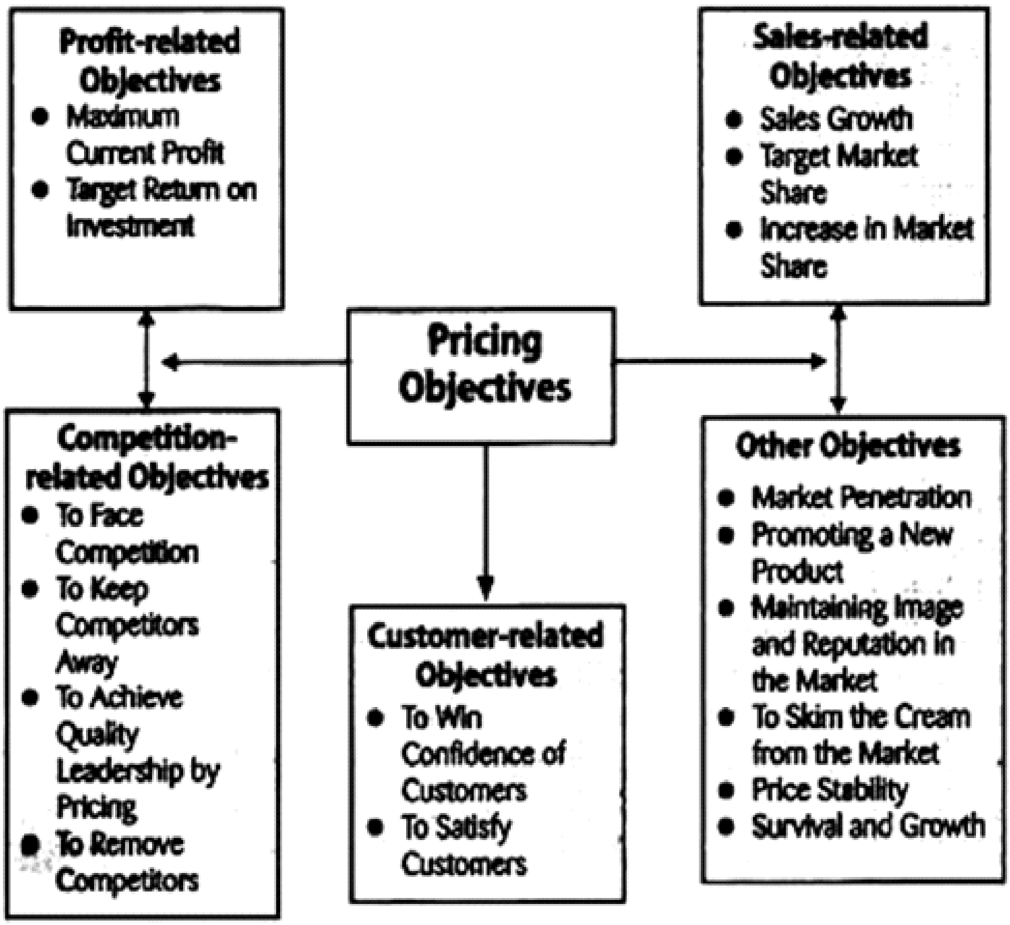


Figure 1: Pricing Objectives

ii. Target Return on Investment:

Most companies want to earn reasonable rate of return on investment.

Target return may be:

(1) fixed percentage of sales,

(2) Return on investment, or

(3) A fixed rupee amount.

Company sets its pricing policies and strategies in a way that sales revenue ultimately yields average return on total investment. For example, company decides to earn 20% return on total investment of 3 crore rupees. It must set price of product in a way that it can earn 60 lakh rupees.

2. Sales-related Objectives:

The main sales-related objectives of pricing may include:

i. Sales Growth:

Company's objective is to increase sales volume. It sets its price in such a way that more and more sales can be achieved. It is assumed that sales growth has direct positive impact on the profits. So, pricing decisions are taken in way that sales volume can be raised. Setting price, altering in price, and modifying pricing policies are targeted to improve sales.

ii. Target Market Share:

A company aims its pricing policies at achieving or maintaining the target market share. Pricing decisions are taken in such a manner that enables the company to achieve targeted market share. Market share is a specific volume of sales determined in light of total sales in an industry. For example, company may try to achieve 25% market shares in the relevant industry.

iii. Increase in Market Share:

Sometimes, price and pricing are taken as the tool to increase its market share. When company assumes that its market share is below than expected, it can raise it by appropriate pricing; pricing is aimed at improving market share.

3. Competition-related Objectives:

Competition is a powerful factor affecting marketing performance. Every company tries to react to the competitors by appropriate business strategies.

With reference to price, following competition-related objectives may be priorized:

i. To Face Competition:

Pricing is primarily concerns with facing competition. Today's market is characterized by the severe competition. Company sets and modifies its pricing policies so as to respond the competitors strongly. Many companies use price as a powerful means to react to level and intensity of competition.

ii. To Keep Competitors Away:

To prevent the entry of competitors can be one of the main objectives of pricing. The phase 'prevention is better than cure' is equally applicable here. If competitors are kept away, no need to fight with them. To achieve the objective, a company keeps its price as low as possible to minimize profit attractiveness of products. In some cases, a company reacts offensively to prevent entry of competitors by selling product even at a loss.

iii. To Achieve Quality Leadership by Pricing:

Pricing is also aimed at achieving the quality leadership. The quality leadership is the image in mind of buyers that high price is related to high quality product. In order to create a positive image that company's product is standard or superior than offered by the close competitors; the company designs its pricing policies accordingly.

iv. To Remove Competitors from the Market:

The pricing policies and practices are directed to remove the competitors away from the market. This can be done by forgoing the current profits – by keeping price as low as possible – in order to maximize the future profits by charging a high price after removing competitors from the market. Price competition can remove weak competitors.

4. Customer-related Objectives:

Customers are in center of every marketing decision.

Company wants to achieve following objectives by the suitable pricing policies and practices:

i. To Win Confidence of Customers:

Customers are the target to serve. Company sets and practices its pricing policies to win the confidence of the target market. Company, by appropriate pricing policies, can establish, maintain or even strengthen the confidence of customers that price charged for the product is reasonable one. Customers are made feel that they are not being cheated.

ii. To Satisfy Customers:

To satisfy customers is the prime objective of the entire range of marketing efforts. And, pricing is no exception. Company sets, adjusts, and readjusts its pricing to satisfy its target customers. In short, a company should design pricing in such a way that results into maximum consumer satisfaction.

5. Other Objectives:

Over and above the objectives discussed so far, there are certain objectives that company wants to achieve by pricing.

They are as under:

i. Market Penetration:

This objective concerns with entering the deep into the market to attract maximum number of customers. This objective calls for charging the lowest possible price to win price-sensitive buyers.

ii. Promoting a New Product:

To promote a new product successfully, the company sets low price for its products in the initial stage to encourage for trial and repeat buying. The sound pricing can help the company introduce a new product successfully.

iii. Maintaining Image and Reputation in the Market:

Company's effective pricing policies have positive impact on its image and reputation in the market. Company, by charging reasonable price, stabilizing price, or keeping fixed price can create a good image and reputation in the mind of the target customers.

iv. To Skim the Cream from the Market:

This objective concerns with skimming maximum profit in initial stage of product life cycle. Because a product is new, offering new and superior advantages, the company can charge relatively high price. Some segments will buy product even at a premium price.

v. Price Stability:

Company with stable price is ranked high in the market. Company formulates pricing policies and strategies to eliminate seasonal and cyclical fluctuations. Stability in price has a good impression on the buyers. Frequent changes in pricing affect adversely the prestige of company.

vi. Survival and Growth:

Finally, pricing is aimed at survival and growth of company's business activities and operations. It is a fundamental pricing objective. Pricing policies are set in a way that company's existence is not threatened.

Determinants of Pricing

Pricing decisions are usually determined by cost, demand and. competition. We shall discuss each of these factors separately. We take demand first.

Demand

The popular 'Law of Demand' states that "higher the price; lower the demand, and vice versa, other things remaining the same''. In season, due to plentiful supplies of certain, agricultural products, the prices are low and because of low prices, the demand for them increases substantially. You can test the validity of this law yourself in your daily life. There is an inverse relationship between price and quantity demanded. If price rises, demand falls and if the price falls, the demand goes up. Of course, the law of demand assumes that there should be no change in the other factors influencing demand except price. If any one or more of the other factors, for instance, income, the price of the substitutes, tastes and perferences of the consumers, advertising, expenditures, etc. vary, the demand may rise in spite of a rise in price, or alternatively, the demand may fall in spite of a fall in price. However, there are important exceptions to the law of demand.

There are some goods which are purchased mainly for their 'snob appeal'. When prices of such goods rise, their snob appeal increases and they are purchased in larger quantities. On the other hand, as the price of such goods falls, their snob appeal and, therefore, their demand falls. Diamonds provide a good example.

In the speculative market, a rise in prices is frequently followed by larger purchases and a fall in prices by smaller purchases. This is especially applicable to purchases of industrial raw materials.

More important than the law of demand is the elasticity of demand. While the law of demand tells us the direction of change in demand, elasticity of demand tells us the extent of change in demand. Elasticity of demand refers to the response of demand to a change in price.

It is necessary for the marketer to know what would be the reaction of the consumers to the change he wishes to make in the price. Let us take some examples. Smokers are usually so addicted to smoking that they will not give up smoking even if prices of cigarettes increase. So also the demand for salt or for that matter of wheat is not likely to go down even if the prices increase. Another example of inelastic demand is the demand for technical journals, which are sold mainly to libraries. On the other hand, a reduction in the price of television will bring in more than proportionate increase in demand. Some of the factors determining the price-elasticity of demand are the nature of the commodity, whether it is a necessity or luxury, extent of use, range of substitutes, urgency of demand and frequency of purchase of the product.

The concept of elasticity of demand becomes crucial when a marketer is thinking of lowering his price to increase the demand for his product and to get a larger market share. If the increase in sales is more than proportionate to the decline in price, his total sale proceeds and his profits might be higher. If the increase in sales is less than proportionate, his total sales proceeds will decline and his profits will definitely be less. Thus knowledge of the elasticity of demand for his products will help a marketer to determine whether and to what extent he can cut the prices or pass on the increase in costs to the consumer.

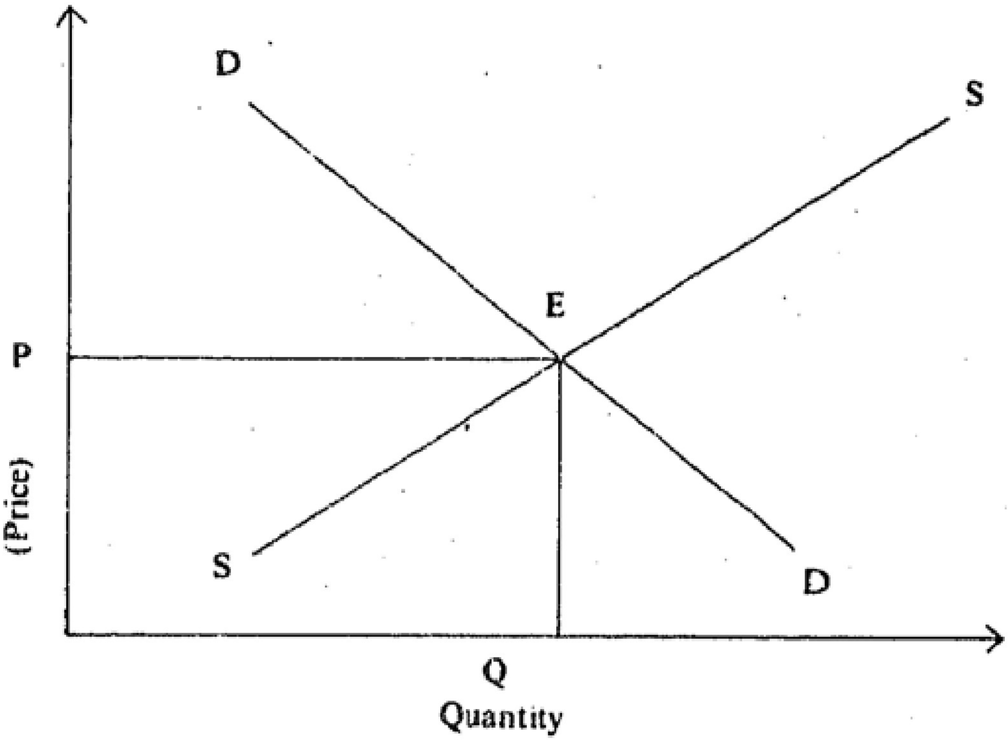
It may also be noted that the price elasticity of demand for a certain commodity and the price elasticity of demand for a certain brand of that commodity may be radically different. For example, while the demand for cigarettes as such, may be highly inelastic, the price elasticity of demand for Four Square or Charrhs' may be highly elastic. The reasons for this are weak brand loyalty and the availability, of substitutes.

Competition

The degree of control over prices which the sellers may exercise varies widely with the competitive situation in which they operate. Sellers operating under conditions of pure competition do not have any control over the prices they receive. A monopolist, on the other hand, may fix prices according to his discretion. Sellers operating under imperfect competition may have some pricing discretion. The marketer, therefore, needs to know the degree of pricing discretion enjoyed by him. Let us take up each of these cases individually.

Perfect competition is said to exist when (i) there are a large number of buyers and sellers, (ii) each purchasing and selling such a small quantity that their withdrawal from the market will not affect the total demand and supply, (iii) the products sold by sellers are homogeneous in nature.

Figure 1: Pricing under perfect competition



DD = Demand Curve
SS = Supply Curve
E = Point of Equilibrium

Prices under perfect competition are determined by the forces of supply and demand. Prices will be fixed at a point where supply and demand are at an equilibrium. This is illustrated in the following figure:

In pure competition, all that the individual seller can do is to accept the price prevailing in the market, i.e. he is in the position of a Price Taker. If he wants to charge a higher price, buyers will purchase from other sellers. And he need not charge less since he can sell his small supply at the going market price, Under monopoly, a single producer has complete control of the entire supply of a certain product. Railways and telephones are examples of monopoly. The main features of monopoly are (i) there is only one seller of a particular good or service and (ii) rivalry from the producers of substitutes is so remote that it is almost insignificant. As a result, the monopolist is in a position to set the price himself. Thus, he is in the position of a Price Setter.

However, even in the case of monopoly, there are limits to the extent to which he can increase his prices. Much depends on the elasticity of demand for the product. This, in turn, depends on the extent of availability of substitutes for the product. And in most cases, there is rather an infinite series of closely competing substitutes. Even railways and telephones organisations must take into account potential competition by alternative services-railways may be substituted by motor transport and telephone calls by telegrams. The closer the substitute and greater the elasticity of the demand for a monopolist's product, the less he can raise his price without frightening away his customers. High price of oil has led to development of alternative sources of energy.

Monopolies are constantly tending the break down due to the following reasons:

(i) Shifts in consumer demand, (ii) Continuous process of innovations and technological developments leading to development of substitutes, (iii) Lack of stimulus to efficiency provided by competition, (iv) Entry of new competitors, and (v) Intervention by governments.

Oligopoly is a market situation characterised by a few sellers, each having an appreciable share in the total output of the commodity. Examples of oligopoly are provided by the automobiles, cement, tyre, infant food, dry batteries, tractor, cigarettes, aluminium and razor blades industries. In each-of these industries, each seller knows his competitors **individually in each market.**

Each oligopolist realises that any change in his price and advertising policy may lead rivals to change their policies. Hence, an individual firm must consider the possible reactions of the other firms to its own policies. The smaller the number of firms, the more interdependent are their policies. In such cases, there is a strong tendency towards close collaboration in policy determination both in regard to production and prices. Thus, oligopolist follow the philosophy of 'live and let live'. Two examples of this may be mentioned here. In response to tenders invited by the Director General of Civil Supplies and Disposals, the three principal manufacturers of storage batteries, viz. Chloride India, Standard Batteries and AMCO Batteries, quoted almost identical prices.

Oligopolistic industries are usually characterised by what is known as price leadership-a situation where firms fix their prices in a manner dependent upon the price charged by one of the firms in the industry, called the **price leader.** The price leader has lower costs and adequate financial resources, a substantial share of the market and a reputation for sound pricing decisions. Price leaders with the strongest position in the market may often increase their prices with the hope that competitors will follow suit. Price followers may delay raising their prices in the hope of snatching a part of the market share away from the leader.

Monopolistic competition is a market situation, in which there are many sellers of a particular product, but the product of each seller is in some way differentiated in the minds of consumers from the product of every other seller. None of the sellers is in a position to control a major part of the total supply of the commodity but every seller so differentiates his portion of the supply from the portions sold by others, that buyers **hesitate** to shift their purchases from his product to that of another in response to price differences. At times, one manufacturer may differentiate his own products.

For example, a blade manufacturer in India manufactures more than 25 brands of blades. This differentiation of product by each manufacturer by giving it a brand name gives him some amount. of monopoly if he is able to create a goodwill for his product and he may be able to charge higher prices thereof to some extent. Still, his product will have to compete with similar products of other manufacturers which put a limit on his pricing discretion. If he charges too high a price, consumers may shift their loyalty to other competing suppliers. You can find it out yourself by going to the market, as a large number of consumer goods like toothpastes, soaps, cigarettes; radios, etc. are subject to a large degree of product differentiation as a means of attracting customer.

As long as a consumer has an impression that a particular product brand is different and superior to others, he will be willing to pay more for that brand than for any other brand of the same commodity. The differences real or illusory, may be built up in his mind by (a) recommendations by friends, (b) advertising, and (c) his own experience and observation. The producer gains and retains his customers by (a) competitive advertising and sales promotion, (b) the use of brand names quite as much as by (c) price competition.

Product differentiation is more typical of the present day economic system, than either pure competition or monopoly. And, in most cases, an individual firm has to face monopolistic competition. It tries to maintain its position and promote its sales by either (i) Changing its price and **indulging** in price competition, or (ii) intensifying the differentiation of its product, and/or (iii) increasing its advertisement and sales promotion efforts.

Role of Costs in Pricing

There is a popular belief that costs determine price. It is because the cost data constitute the fundamental element in the price setting process. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices, apart from costs, a number of other factors have to he taken into consideration. Demand is of equal, and, in some cases, of greater importance than costs. An increase in cost may appear to justify an increase in prices yet the demand situation may not permit such an increase. On the other hand, an increase in demand may make increase in prices possible, even without any increase in costs.

Very often, price determines the cost that may be incurred. The product is tailored to the requirements of the potential consumers and their capacity to pay for it. The radio manufacturers in India realised that if they have to capture the mass market prevailing in India, they have to price it at low level which could be done only by reducing costs-reducing the number of wave-bands in the radio. And now a single wave radio is available at around Rs. 100. Given the price, we arrive at the cost working backwards from the price consumers can afford to pay. Over a period, cost and quality are adjusted to the given price.

If costs were to determine prices, why do so many companies report losses? There are marked differences in costs as between one producer and another. Yet the facts remains that the prices are quite close for a somewhat similar product. This is, if anything, is best evidence of that costs are not the determining factor in pricing.

Price decisions cannot be based merely on cost. It is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price. The management has to assume some desire price and volume relationship for determining costs. That is why costs play even a less important role in case of new products as compared to existing products. It is not possible to determine costs without having an idea of what volumes or numbers can be sold. But, since there is no experience of volumes, costs and prices, one starts with the going market price for similar products.

All this discussion does not purport to show that costs should be ignored altogether while setting prices. Costs have to be taken into consideration. In fact, in the long-run, if costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis is that cost is not the only factor in setting prices.

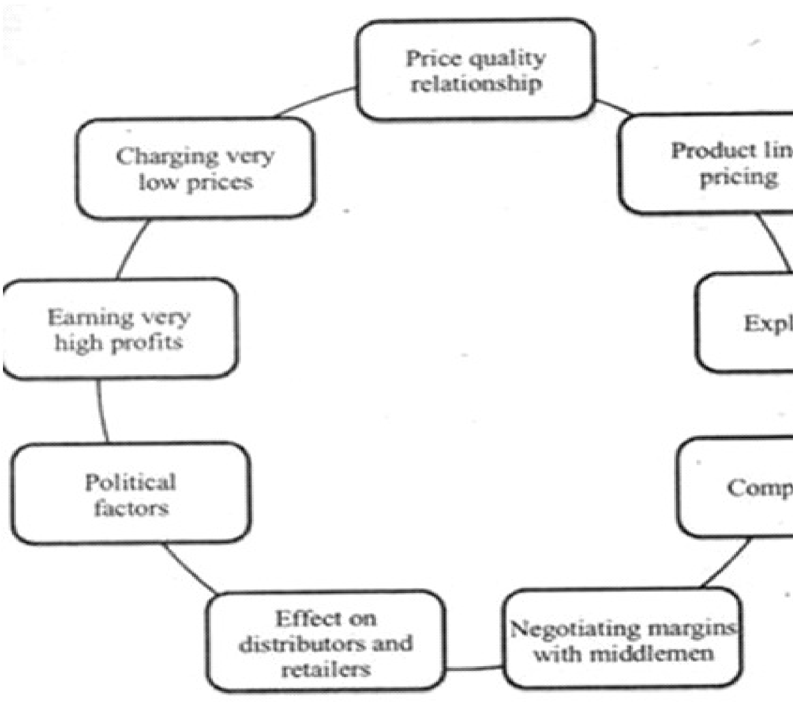
Cost must be regarded only as an indicator of the price which ought to be set after taking into consideration the demand, the competitive situation, and other factors.

Costs determine the profit consequences of the various pricing alternatives. Cost calculations may also help in determining whether the product whose price is determined by its demand is to be included in the product line or not.

4.5.2Factors Influencing Pricing Decisions

Some of the major factors influencing pricing decisions of a company are as follows:

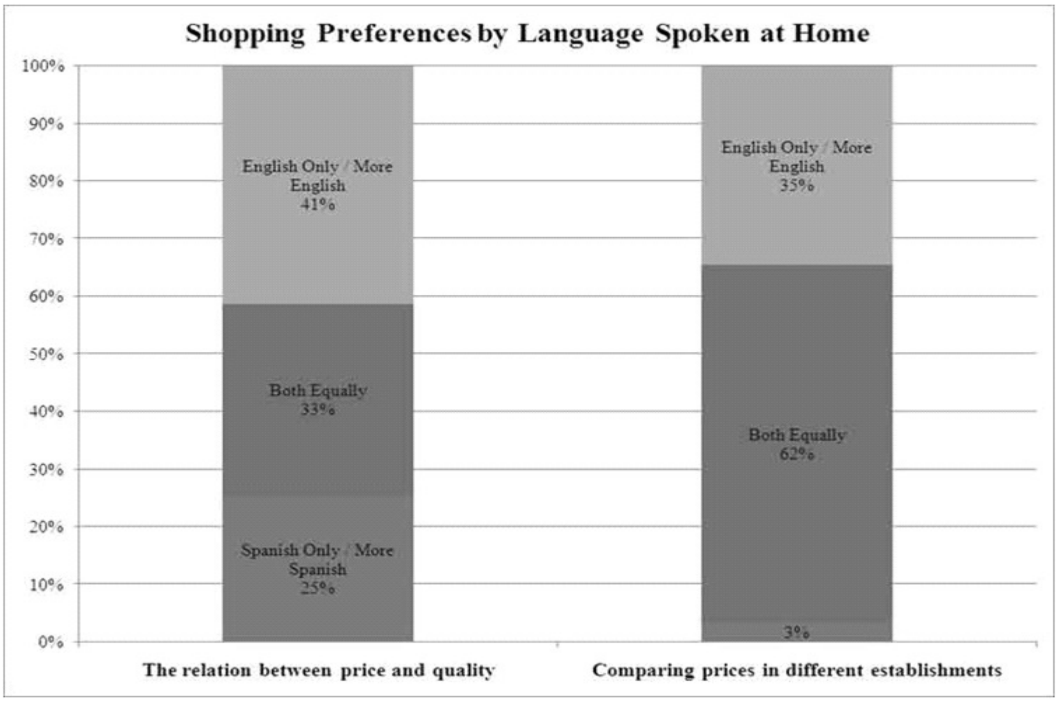
A company's price level sends signals about the quality of its products to the customer. A customer always compares the company's prices with those of its competitors. The competitors also keep an eye on the price levels of a company.



Factors Influencing Pricing Decisions

1. **Price-quality relationship:**

Customers use price as an indicator of quality, particularly for products where objective measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products.



If a product is priced higher, the instinctive judgment of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.

2. **Product line pricing:**

A company extends its product line rather than reduce price of its existing brand, when a competitor launches a low price brand that threatens to eat into its market share. It launches a low price fighter brand to compete with low price competitor brands.

The company is able to protect the image of its premium brand, which continues to be sold at a higher price. At a later stage, it produces a range of brands at different price points, which serve segments of varying price sensitivities.

And when a customer shows the inclination to trade up, it persuades him to buy one of its own premium brands. Similarly, if a customer of one of its premium brands wants to trade down, it encourages him to buy one of its value brands.

But, it is not easy to maintain a portfolio of brands in the same product category. The company needs to endow each of its brands with an independent personality, and identify it with a segment.

A company's brands should not be floating around, willing to grab any customer that they can, but they should be specifically targeted at segments—customers of the target segment should like the brand, but customers of other segments should not like it enough to buy it.

3. **Explicability:**

The company should be able to justify the price it is charging, especially if it is on the higher side. Consumer product companies have to send cues to the customers about the high quality and the superiority of the product.

A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the customers can objectively evaluate and should ensure superior performance of those features.

In industrial markets, the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged.

A customer may reject a price that does not seem to reflect the cost of producing the product. Sometimes it may have to be explained that premium price was needed to cover R&D expenditure, the benefits of which the customer is going to enjoy.

4. Competition:

A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantages that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share.

One or more competitors can decide to match the cut, thwarting the ambitions of the company to gamer market share. But all competitors are not same and their approaches and reactions to pricing moves of the company are different.

The company has to take care while defining competition. The first level of competitors offers technically similar products. There is direct competition between brands which define their businesses and customers in similar way.

Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions.

Competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors.

The second level of competition is dissimilar products serving the same need in a similar way. Such competitors' initial belief is that they are not being affected by the pricing moves of the company.

But once it sinks in that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors.

The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. But once convinced that they are being affected adversely, swift retaliation should be expected.

The retaliation of third level is difficult to comprehend as their business premises and cost structures are very different from the company in question. Companies offering e-mail service are competitors at the third level of the telephone company. A company must take into account all three levels of competition.

5. Negotiating margins:

A customer may expect its supplier to reduce price, and in such situations the price that the customer pays is different from the list price. Such discounts are pervasive in business markets, and take the form of order-size discounts, competitive discounts, fast payment discounts, annual volume bonus and promotions allowance.

Negotiating margins should be built, which allow price to fall from list price levels but still permit profitable transactions. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.

6. **Effect on distributors and retailers:**

When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them sometimes list prices will be high because middlemen want higher margins. But some retailers can afford to sell below the list price to customers. They run low-cost operations and can manage with lower margins. They pass on some part of their own margins to customers.

7. **Political factors:**

Where price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.

4.5.3 Price setting methods

After discussing the various considerations affecting pricing policies, it would be useful to discuss the alternative pricing methods most commonly used. These methods are:

- o Cost-plus or Full-cost pricing
- o Pricing for a rate of return, also called target pricing Marginal cost pricing
- o Going rate pricing, and
- o Customary prices.

The first three methods are cost-oriented as the prices are determined on the basis of costs. The last two methods are competition-oriented as the prices here are set on the basis of what competitors are charging.

1. Cost-plus or Full-cost Pricing

This is most common method used in pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and a predetermined percentage for profit. The percentage differs strikingly among industries, among members-firms and even among products of the same firm. This may reflect differences in competitive intensity, differences in cost base and differences in the rate of turnover and risk. In fact, it denotes some vague notion of a **just profit.**

What determines the normal profit? Ordinarily margins charged are highly sensitive to the market situation. They may, however, tend to be inflexible in the following cases : (i) they may become merely a matter of common practice, (ii) mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members, (iii) profits sanctioned under price control as the maximum profit margins remain the same even after the price control is discontinued. These margins are considered ethical as well as reasonable. Its inadequacies are:

1. It ignores demand-there is no necessary relationship between cost and what people will pay for a product.
2. It fails to reflect the forces of competition adequately. Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
3. Any method of allocating overheads is arbitrary and may be unrealistic. Insofar as different prices would give rise to different sales volumes, unit costs are a function of price, and therefore, cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.

4. It may be based on a concept of cost which may not be relevant for the pricing decision.

Explanation for the widespread use of Full-cost Pricing

A clear explanation cannot be given for the widespread use of full-cost pricing, as firms vary greatly in size, product characteristics and product range, and face varying degrees of competition in markets for their products. However, the following points may explain its popularity:

1. Prices based on full-cost look factual and precise and may be more defensible on moral grounds than prices established by other means.

2. Firms preferring stability, use full-cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where costs of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision-making.

3. In practice, firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move away from full-cost pricing.

4. Fixed costs must be covered in the long-run and firms feel insecure that if they are not covered in the long-run either.

5. A major uncertainty in setting a price is the unknown reaction of rivals to that price when products and production processes are similar, cost-plus pricing may offer source of competitive stability by setting a price that is more likely to yield acceptable profit to most other members of the industry also.

6. Management tends to know more about products costs than other factors which are relevant to pricing.

7. Cost-plus pricing is especially useful in the following cases:

a) Public utilities such as electricity supply, transport, where the

b) Objective is to provide basic amenities to society at a price which even the poorest can afford.

c) Product tailoring, i.e. determining the product design when the

d) Selling price is predetermined. The selling price may be determined by government, as in case of certain drugs, cement, fertilisers. By working back from this price, the product design and the permissible cost is decided upon. This approach takes into account the market realities by looking from the viewpoint of the buyer in terms of what he wants and what he will pay.

e) Pricing products that are designed to the specification of a single

f) Buyer as applicable in case of a turn key project. The basis of pricing is estimated cost plus gross margin that the firm could have got by using facilities otherwise.

g) Monophony buying-where the buyers know a great deal about

h) Suppliers' costs as in case of automobile buying, components from its ancillary units. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company, say, the automobile manufacturer, would incur if it made the product itself.

In India, cost-plus method is widely used. There are two special reasons which could explain its wide use in India.

1 The prevalence of sellers' market in India makes it possible for the manufacturers to pass on the increases in costs to the consumers.

2 Costs plus a reasonable margin of profit are taken into consideration for the purposes of price fixation in the price-controlled industries in India. Thus, this method has the tacit approval of the Government.

3 To conclude, cost-plus is a pricing convention relying on arbitrary costs and arbitrary mark-ups. It is adopted because it is simpler to apply.

2. Pricing for a Rate of Return

An important problem that a firm might have to face is one of adjusting the prices to changes in costs. For this purpose the popular policies that are often followed are as under:

1. Revise prices to maintain a constant percentage mark-up over costs.

2. Revise prices to maintain profits as a constant percentage of total sales

3. Revise prices to maintain a constant return on invested capital.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz., it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost which may not be relevant to the pricing decision at hand and overplays the precision of allocated fixed costs and capital employed.

3. Marginal Cost Pricing

Both under full-cost pricing and the rate-of-return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and **prices are determined on the basis of marginal cost.** The firm uses only those costs that are directly attributable to the output of a specific product.

With marginal cost pricing, the firm seeks to fix its prices so as to maximise its total contribution to fixed costs and profit. Unless the manufacturer's products are in direct competition with each other, this objective is achieved by considering each product in isolation and fixing its price at a level which is calculated to maximise its total contribution.

Advantages

1. With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed over-head structure. The firm's prices will only be rendered uncompetitive by higher variable costs, and these are controllable in the short-run while certain fixed costs are not.

2. Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices.

3. Marginal cost pricing is more useful for pricing over the life-cycle of a product, which requires short-run marginal cost and separable fixed cost data relevant to each particular state of the cycle, not long-run full-cost data.

   Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modern business:

   a. The prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs absurd. The total costs of separate products can never be estimated satisfactorily, and the optimal relationships between costs and prices will vary substantially both among different products and between different markets

b. In many businesses, the dominant force is innovation combined with constant scientific and technological development, and the long-run situation is often highly unpredictable. There is a series of short-runs of production and one must aim at maximising contribution in each short-run. When rapid developments are taking place, fixed costs and demand conditions may change from one short-run to another, and only by maximising contribution in each short-run will profit be maximised in the long-run.

Limitations

1. The encouragement to take on business which makes only a small contribution may be so strong that when an opportunity for higher contribution business arises, such business may have to be foregone because of inadequate free capacity, unless there is an expansion in organisation and facilities with the attendant increase in fixed costs.

2. In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices leading to cut-throat competition. With the existence of idle capacity and the pressure of fixed costs, firms may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed.

   In spite of its advantage, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decision relating to special orders.

4. Going-rate Pricing

Instead of the cost, the emphasis here is **on the market.** The firm adjusts it own price policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. Many cases of this type are situations of price leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy.

It must be noted that 'going-rate pricing' is not quite the same as accepting a price impersonally set by a near perfect market. Rather it would seem that the **firm has some** power to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the policy of others.

5. Customary Pricing

Prices of certain goods become more or less fixed, not by deliberate action on the sellers' part but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity. Only when the costs change significantly the customary prices of these goods are changed.

Customary prices may be maintained even when products are changed. For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors leading to a price war so also on the consumers who may think that the quality of the new model is inferior. Perhaps, going along with the old price is the easiest thing to do. Whatever be the reasons, the maintenance of existing prices as long as possible is a factor in the pricing of many products.

It a change in customary prices is intended, the pricing executive must study the pricing policies and practices of competing firms and the behaviour and emotional make-up of his opposite number in those firms. Another possible way out, especially when an upward move is sought, is to test the new prices in a limited market to determine the consumer reaction.

Objectives of Pricing Policy

Before a marketer fixes a price, he should keep in mind certain basic considerations. The price policy he adopts is closely related to his other policies, like production programme, advertising policy and selling methods. For example, it may be necessary to reduce the price to offset the probable loss of sales from a lower advertising budget or to enable fuller utilisation of plant capacity more quickly. Aggressive sales campaign may be necessary to meet the advent of a new competitor. Your price should not be so high that it attracts others to compete with you. A low price policy may result in such a high volume of sales and low unit costs that profits are maximised even at low prices.

"My policy is to reduce the price, extend the operations and improve the article. You will note that the reduction of price comes first. I have never considered any costs as fixed. Therefore, I first reduce the price to a point where I believe more sales will result. The new price forces the costs down.. (by forcing) everybody in the plant to the highest point of efficiency," Henry Ford quoted in Phillip and Duncan, Marketing, 3rd Edition, 1956, p. 696.

If a marketing manager is to make effective pricing decisions, he should be clear about the firm's long-term marketing objectives for the entire range of products and services. If the firm is interested in increased market share, it would have to resort to penetration pricing. If it is interested in short-term profitability, it may have a higher price even at the expense of sales volume and market share. The following table gives a summary view of some marketing objectives and their pricing implications:

Marketing Area	Marketing Objective	Pricing Implication
Product	Improved Quality Acceptance	Higher cost=Price increase or lower profit.
Advertising and Promotion	Stronger Support	Increased Advertising and publicity budget = Price increase or lower profit.
Distribution	Additional Selling Points	Possibly higher distribution costs (margin increase)
Consumers/ Users	Greater Acceptance	Increased Advertising and publicity effort, possibly higher distribution cost = higher price or less profit.

Source: 2. J.J. Ward (Editor), The Export Marketing Management, International Trade Centre, Geneva 1985, P-284.

Consumer Psychology and Pricing

Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. Some important characteristics of consumer behaviour as revealed by research and experience are detailed below:

1. From the point of view of the consumer, prices are quantitative and precise whereas product quality, product image, customer service, promotion and similar factors are qualitative and ambiguous. It is easier to speculate about what consumers would do if prices rose by 5 per cent than if the quality improved by 5 per cent.

2. Price constitutes a barrier to demand when it is too low just as much as when it is too high. Above a particular price, the article is regarded as too expensive and, below another price, as constituting a risk of not giving

adequate value. If the price is too low, consumers will tend to think that a product is of inferior quality.

Balsara, manufacturers of **'Odonil'** and **'Promise'** realised that pricing a product too low could adversely affect its sales by creating a credibility problem. Consequently, they began to price their products with higher unit margins, to make higher advertising outlays to emphasise product attributes rather than the price and provide more attractive margins to dealers to push up their products. (Business India, April 28-May 11, 1980, P-35).

3. Price inevitably enters into the consumer's assessment of quality. There are two reasons for this:

   a) It needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test), and

   b) Customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of a high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value of extra prestige. It is very difficult to convince people that something cheap is of good quality and that something expensive is of poor quality. It may be easier to prove that an expensive product is of superior quality than to prove that a cheap product is of good quality.

   This is especially true of durable consumer goods which are very often differentiated, at least psychologically, through branding, packaging and advertising. In such cases, the sale of certain goods could be stimulated more effectively through higher rather than lower prices for two reasons: (i) the higher price increases the snob appeal of the goods and, (ii) the higher price creates confidence in the customer that he is getting good quality.

To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. This price quality association is well established.

4. With an improvement in incomes, the average consumer becomes, quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come when a rise in price results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.

5. Consumers may be persuaded to pay more for heavily advertised goods. A firm's size, its financial success, and even its age are often perceived by consumers as measures of quality. Well known firms very often assert that by virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms but definitely not much more.

6. In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e., the consumer has an appropriate knowledge of market prices, was not fundamentally wrong.

   The following types of consumers are most likely to perceive price as an indicator of quality: persons trying to achieve status, occasional consumer who is not knowledgeable in a product area, e.g., purchase of a camera, and the buyer who is impressed by the importance of quality, but has difficulty in identifying it.

   An experimental study in India showed that more than 60 per cent of the respondents revised their ratings of readymade shirts after knowing their prices indicating thereby that price information does have a significant effect on quality perception.

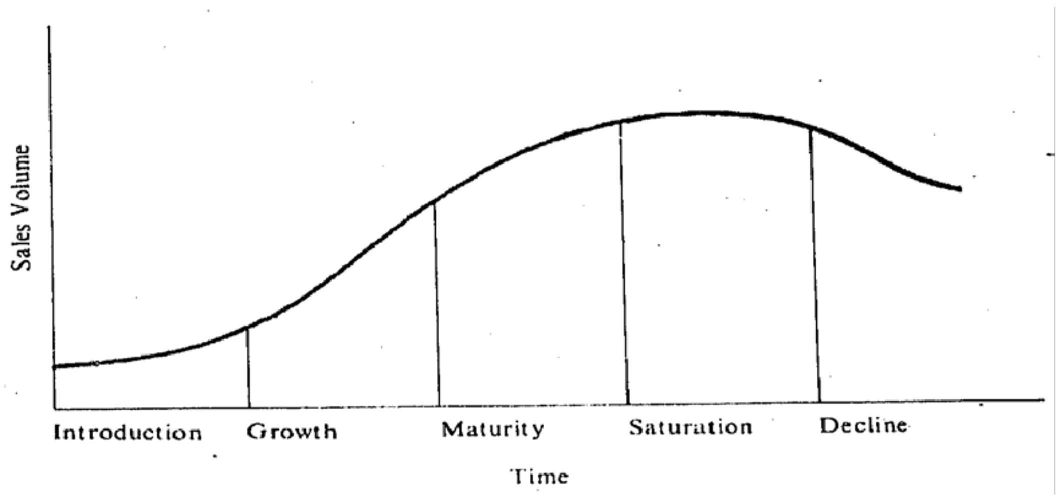
   To conclude, higher prices that increase consumer readiness to buy may sound uneconomic, but may not be unrealistic. The price-quality concept has equal relevance to new product pricing. The lesson from this discussion is that the producer has considerable flexibility in pricing his products, provided he can create a psychological image of quality.

Pricing Over the Life-Cycle of a Product

Many products generally have a characteristic known as 'perishable distinctiveness'. This means that a product which is distinct when new, degenerates over the years into a common commodity. The process by which the distinctiveness gradually disappears as the product merges with other competitive products has been rightly termed by Joel Dean as "the cycle of competitive degeneration". The cycle begins with the invention of a new product, and is often followed by patent protection, and further development to make it saleable. This is usually followed by a rapid expansion in its sales as the product gains market acceptance. Then competitors enter the field with imitation and rival products and the distinctiveness of the new product starts diminishing. The speed of degeneration differs from product to product. The innovation of a new product and its degeneration into a common product is termed as the life-cycle of a product.

There are five distinct stages in the life-cycle of a product as shown in Figure II.

Figure II: Life-cycle of a Product



1 **Introduction:** Research or engineering skill leads to product development. The product is put on the market; awareness and acceptance are minimal. There are high promotional costs. Volume of sales is low and there may be heavy losses.

2 **Growth:** The product begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution, and word-of-mouth influence. High and sharply rising profits may be witnessed. But, to sustain growth, consumer satisfaction must be ensured at this stage.

3 **Maturity:** Sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain unaware of the product or who have taken no action. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

4 **Saturation:** Sales reach and remain on a plateau marked by the level of replacement demand. There is little additional demand to be stimulated.

5 **Decline:** Sales begin to diminish absolutely as the customers begin to tire of the product and the product is gradually edged out by better products or substitutes.

It may be noted that **products may begin in new-cycle or revert to an early stage** as a result of

a) the discovery of new uses,

b) the appearance of new users, and

c) introduction of new features

As the distinctiveness of the products fades, the pricing discretion enjoyed by their producers gradually declines. This is what happened in the case of many products like ball point pens, transistors, radios, etc. Throughout the cycle, changes take place in price and promotional elasticity of demand as also in the production and distribution costs of the product. Pricing policy, therefore, must be adjusted over the various phases of the cycle. Let us know the pricing policy in the pioneering stage and the maturity stage of a product.

Pricing a new product

The basic question is whether to charge a **high skimming (initial) price o**r a **low penetration price.**

If a skimming price is adopted, the initial price is very high. The policy may be held for varying periods of time, indefinitely if the product enjoys valid and defensible patent protection. But usually, it is not longer than the time necessary for competitors to study the product's usefulness, to decide what to do about it, and to prepare for making it, a period ranging from a few weeks to as much as two years. After this period, the price is apt to drop precipitately and over a period of a few years to approach the usual or customary margin above cost that is common in the industry.

In case of penetration pricing, the initial price of the new product is apt to be somewhere near what may be expected to be the usual or customary level once competitors enter the field, generally only slightly above the level. If the initial price is properly fixed, only minor adjustment would have to be made if and when competition develops.

A) **A high initial price** (skimming price), together with heavy promotional expenditure, may be used to launch a new product if conditions are appropriate.

For example: Demand is likely to be less price elastic in the early stages than later, since high prices are unlikely to deter pioneering consumers. A new product being a novelty commands a better price. Again, at least in the early stages, the product has so few **close rivals that** cross elasticity **of demand are low.**

a) If the life of product promises to be a short one, a high initial price helps in getting as much of it and as fast as possible.

b) Such a policy can provide the basis for dividing the market into segments of differing elasticity's. Hard bound edition of a book is usually followed by a paperback.

c) A high initial price may be useful if a high degree of production skill is needed to make the product so that it is difficult and time-consuming for competitors to enter on an economical basis.

It is a safe policy where elasticity is not known and the product not yet accepted. High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital. The benefits of reduction in product costs due to larger volume and technological developments can be passed onto consumers by a gradual reduction in prices. Penicillin and streptomycin were introduced at a high initial price but are now very reasonably priced. Internationally, the first ball point pen produced in 1945 at a cost of 80 cents, sold at $ 12.50. Now they are available at less than 50 cents. So is the case with most electronic components.

B) **A low penetration** price: In certain conditions, it can be successful in expanding the market rapidly thereby obtaining larger sales volume and lower unit costs. It is appropriate where:

a) Sales respond quickly and strongly to low prices;

b) There are substantial cost savings from volume production;

c) The product is acceptable to the mass of consumers;

d) There is no strong patent protection; and

e) There is a threat of potential competition so that a big share of the market must be captured quickly.

The objective of low penetration price is to raise barriers against the entry of prospective competitors.

Change in Price

A) **Reduction in prices:** A reduction price may be made to achieve the following objectives:

1. Prices may be reduced to offset a possible loss of sales resulting from a lower advertising budget.

2. When a firm is expanding its capacity, temporary price cut may help the new plant to reach capacity operation more quickly.

3. Lower prices may help the firm to broaden the market for its products.

4. Prices may have to be reduced to meet competitive pressures from domestic or foreign companies producing the same product or substitute products.

5. Prices may be reduced drastically to prevent the entry of potential competitors.

6. Technological developments may lead to reduce costs and manufacturers may wish to pass on the benefit to the consumers.

Shrirain Chemicals have often reduced their prices as a result of advanced promotion techniques and better utilisation of installed capacity. DCM Data Products dramatically reduced the prices of their calculators in September, 1976 because of economies of scale.

Price reductions in individual drugs have always been a normal feature of the operations of the drugs industry both in India and abroad. Competition among drug manufacturers is becoming an increasingly important factor leading to voluntary price reductions wherever cost reduction of greater', efficiency has made them possible.

Whether a reduction in price would help a firm to increase sales depends upon how the consumers react to the reduction. As has been pointed out earlier, consumers rely on prices as an indicator of quality. Reduction in price may give rise to an apprehension that quality has gone down. And a reduction in price may decrease sales unless special steps are taken to prove that the quality is maintained.

B) **Increase in prices:** Very often a company might face a situation where costs may have increased, and it might wonder whether to increase prices or not. The decision would depend on how demand would be affected by such an increase in prices. In fact, prices are usually increased where the market demand is strong and the business is having a boom. Prices are normally never increased during periods of depression and falling incomes. Thus while it may be true that costs may be rising at the time prices are increased, it is the rising demand that makes it possible to pass on the increase in costs to customers without any adverse effect on sales.

4.5.3 Pricing policies and strategies

Pricing is one of the four elements of the marketing mix, along with product, place and promotion. Pricing strategy is important for companies who wish to achieve success by finding the price point where they can maximize sales and profits. Companies may use a variety of pricing strategies, depending on their own unique marketing goals and objectives.

Managers should start setting prices during the development stage as part of strategic pricing to avoid launching products or services that cannot sustain profitable prices in the market. This approach to pricing enables companies to either fit costs to prices or scrap products or services that cannot be generated cost-effectively. Through systematic pricing policies and strategies, companies can reap greater profits and increase or defend their market shares. Setting prices is one of the principal tasks of marketing and finance managers in that the price of a product or service often plays a significant role in that product's or service's success, not to mention in a company's profitability. Generally, pricing policy refers how a company sets the prices of its products and services based on costs, value, demand, and competition. Pricing strategy, on the other hand, refers to how a company uses pricing to achieve its strategic goals, such as offering lower prices to increase sales volume or higher prices to decrease backlog. Despite some degree of difference, pricing policy and strategy tend to overlap, and the different policies and strategies are not necessarily mutually exclusive.

After establishing the bases for their prices, managers can begin developing pricing strategies by determining company pricing goals, such as increasing short-term and long-term profits, stabilizing prices, increasing cash flow, and warding off competition. Managers also must take into account current market conditions when developing pricing strategies to ensure that the prices they choose fit market conditions. In addition, effective pricing strategy involves considering customers, costs, competition, and different market segments.

Pricing strategy entails more than reacting to market conditions, such as reducing pricing because competitors have reduced their prices. Instead, it encompasses more thorough planning and consideration of customers, competitors, and company goals. Furthermore, pricing strategies tend to vary depending on whether a company is a new entrant into a market or an established firm. New entrants sometimes offer products at low cost to attract market share, while incumbents' reactions vary. Incumbents that fear the new entrant will challenge the incumbents' customer base may match prices or go even lower than the new entrant to protect its market share. If incumbents do not view the new entrant as a serious threat, incumbents may simply resort to increased advertising aimed at enhancing customer loyalty, but have no change in price in efforts to keep the new entrant from stealing away customers.

The following sections explain various ways companies develop pricing policy and strategy. First, cost-based pricing is considered. This is followed by the second topic of value-based pricing. Third, demand-based pricing is addressed followed by competition-based pricing. After this, several strategies for new and established pricing strategies are explained.

Cost-Based Pricing

The traditional pricing policy can be summarized by the formula:

Cost + Fixed profit percentage = Selling price.

Cost-based pricing involves the determination of all fixed and variable costs associated with a product or service. After the total costs attributable to the product or service have been determined, managers add a desired profit margin to each unit such as a 5 or 10 percent markup. The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to achieve a targeted level of profit.

By itself, this method is simple and straightforward, requiring only that managers study financial and accounting records to determine prices. This pricing approach does not involve examining the market or considering the competition and other factors that might have an impact on pricing. Cost-oriented pricing also is popular because it is an age-old practice that uses internal information that managers can obtain easily. In addition, a company can defend its prices based on costs, and demonstrate that its prices cover costs plus a markup for profit.

However, critics contend that the cost-oriented strategy fails to provide a company with an effective pricing policy. One problem with the cost-plus strategy is that determining a unit's cost before its price is difficult in many industries because unit costs may vary depending on volume. As a result, many business analysts have criticized this method, arguing that it is no longer appropriate for modern market conditions. Cost-based pricing generally leads to high prices in weak markets and low prices in strong markets, thereby impeding profitability because these prices are the exact opposites of what strategic prices would be if market conditions were taken into consideration.

While managers must consider costs when developing a pricing policy and strategy, costs alone should not determine prices. Many managers of industrial goods and service companies sell their products and services at incremental cost, and make their substantial profits from their best customers and from short-notice deliveries. When considering costs, managers should ask what costs they can afford to pay, taking into account the prices the market allows, and still allow for a profit on the sale. In addition, managers must consider production costs in order to determine what goods to produce and in what amounts. Nevertheless, pricing generally involves determining what prices customers can afford before determining what amount of products to produce. By bearing in mind the prices they can charge and the costs they can afford to pay, managers can determine whether their costs enable them to compete in the low-cost market, where customers are concerned primarily with price, or whether they must compete in the premium-price market, in which customers are primarily concerned with quality and features.

Value-Based Pricing

Value pricers adhere to the thinking that the optimal selling price is a reflection of a product or service's perceived value by customers, not just the company's costs to produce or provide a product or service. The value of a product or service is derived from customer needs, preferences, expectations, and financial resources as well as from competitors' offerings. Consequently, this approach calls for managers to query customers and research the market to determine how much they value a product or service. In addition, managers must compare their products or services with those of their competitors to identify their value advantages and disadvantages.

Yet, value-based pricing is not just creating customer satisfaction or making sales because customer satisfaction may be achieved through discounting alone, a pricing strategy that could also lead to greater sales. However, discounting may not necessarily lead to profitability. Value pricing involves setting prices to increase profitability by tapping into more of a product or service's value attributes. This approach to pricing also depends heavily on strong advertising, especially for new products or services, in order to communicate the value of products or services to customers and to motivate customers to pay more if necessary for the value provided by these products or services.

Demand-Based Pricing

Managers adopting demand-based pricing policies are, like value pricers, not fully concerned with costs. Instead, they concentrate on the behaviour and characteristics of customers and the quality and characteristics of their products or services. Demand-oriented pricing focuses on the level of demand for a product or service, not on the cost of materials, labor, and so forth.

According to this pricing policy, managers try to determine the amount of products or services they can sell at different prices. Managers need demand schedules in order to determine prices based on demand. Using demand schedules, managers can figure out which production and sales levels would be the most profitable. To determine the most profitable production and sales levels, managers examine production and marketing costs estimates at different sales levels. The prices are determined by considering the cost estimates at different sales levels and expected revenues from sales volumes associated with projected prices.

The success of this strategy depends on the reliability of demand estimates. Hence, the crucial obstacle managers' face with this approach is accurately gauging demand, which requires extensive knowledge of the manifold market factors that may have an impact on the number of products sold. Two common options managers have for obtaining accurate estimates are enlisting the help from either sales representatives or market experts. Managers frequently ask sales representatives to estimate increases or decreases in demand stemming from specific increases or decreases in a product or service's price, since sales representatives generally are attuned to market trends and customer demands. Alternatively, managers can seek the assistance of experts such as market researchers or consultants to provide estimates of sales levels at various unit prices.

Competition-Based Pricing

With a competition-based pricing policy, a company sets its prices by determining what other companies competing in the market charge. A company begins developing competition-based prices by identifying its present competitors. Next, a company assesses its own product or service. After this step, a company sets it prices higher than, lower than, or on par with the competitors based on the advantages and disadvantages of a company's product or service as well as on the expected response by competitors to the set price. This last consideration-the response of competitors-is an important part of competition-based pricing, especially in markets with only a few competitors. In such a market, if one competitor lowers its price, the others will most likely lower theirs as well.

This pricing policy allows companies to set prices quickly with relatively little effort, since it does not require as accurate market data as the demand pricing. Competitive pricing also makes distributors more receptive to a company's products because they are priced within the range the distributor already handles. Furthermore, this pricing policy enables companies to select from a variety of different pricing strategies to achieve their strategic goals. In other words, companies can choose to mark their prices above, below, or on par with their competitors' prices and thereby influence customer perceptions of their products. For example, if a Company A sets its prices above those of its competitors, the higher price could suggest that Company A's products or services are superior in quality. Harley Davidson used this with great success. Although

Harley-Davidson uses many of the same parts suppliers as Honda, Kawasaki, Yamaha, and Honda, they price well above the competitive price of these competitors. Harley's high prices combined with its customer loyalty and mystique help overcome buyer resistance to higher prices. Production efficiencies over the last two decades, however, have made quality among motorcycle producers about equal, but pricing above the market signals quality to buyers; whether or not they get the quality premium they pay for.

Strategies for new and established products

Product pricing strategies frequently depend on the stage a product or service is in its life cycle; that is, new products often require different pricing strategies than established products or mature products.

New Product Pricing Strategy

Entrants often rely on pricing strategies that allow them to capture market share quickly. When there are several competitors in a market, entrants usually use lower pricing to change consumer spending habits and acquire market share. To appeal to customers effectively, entrants generally implement a simple or transparent pricing structure, which enables customers to compare prices easily and understand that the entrants have lower prices than established incumbent companies.

Complex pricing arrangements, however, prevent lower pricing from being a successful strategy in that customers cannot readily compare prices with hidden and contingent costs. The long-distance telephone market illustrates this point; large corporations have lengthy telephone bills that include numerous contingent costs, which depend on location, use, and service features. Consequently, competitors in the corporate long-distance telephone service market do not use lower pricing as the primary pricing strategy, as they do in the consumer and small-business markets, where telephone billing is much simpler.

Another example is the computer industry. Dell, Fujitsu, HP, and many others personal computer makers offer bundles of products that make it more difficult for consumers to sort out the true differences among these competitors. For example, consumers purchasing an HP computer from the retailer, Best Buy, will have not only the computer itself, but also six months of “free” Internet access bundled into the price. Comparing the absolute value of each personal computer become more difficult as an increasing number of other products such as Quicken, Adobe’s Photoshop Elements, and other software are sold together with the purchase. For Macintosh users or for those who might consider switching from a personal computer to a Macintosh, Apple announced in 2005 that it would begin selling the Mac Mini, a Macintosh that, as with PC makers, bundles its iLife ® software into the mix. By extending its brand to non-premium price tiers, Apple will compete head-to-head with established firms. And although the Mac Mini is at a low price point, starting at $499, it will be difficult for consumers to directly compare the bundled products of PCs directly with the bundled products of Apple’s Mac Mini. The complexity of these comparisons is what can make such new product pricing successful.

Established product pricing strategy

Sometimes established companies need not adjust their prices at all in response to entrants and their lower prices, because customers frequently are willing to pay more for the products or services of an established company to avoid perceived risks associated with switching products or services.

However, when established companies do not have this advantage, they must implement other pricing strategies to preserve their market share and profits. When entrants are involved, established companies sometimes attempt to hide their actual prices by embedding them in complex prices. This tactic makes it difficult for customers to compare prices, which is advantageous to established companies competing with entrants that have lower prices. In addition, established companies also may use a more complex pricing plan, such as a two-part pricing tactic. This tactic especially benefits companies with significant market power. Local telephone companies, for example, use this strategy, charging both fixed and per-minute charges.

Market Segmentation

Because all customers do not have the same needs, expectations, and financial resources, managers can improve their pricing strategies by segmenting markets. Successful segmentation comes about when managers determine what motivates particular markets and what differences exist in the market when taken as a whole. For example, some customers may be motivated largely by price, while others are motivated by functionality and utility. The idea behind segmentation is to divide a large group into a set of smaller groups that share significant characteristics such as age, income, geographic location, lifestyle, and so on. By dividing a market into two or more segments, a company can devise a pricing scheme that will appeal to the motivations of each of the different market segments or it can decide to target only particular segments of the market that best correspond to its products or services and their prices.

Managers can use market segmentation strategically to price products or services in order to attain company objectives. Companies can set prices differently for different segments based on factors such as location, time of sale, quantity of sale, product design, and a number of others, depending on the way companies divide up the market. By doing so, companies can increase their profits, market share, cash flow, and so forth.

4.6 Summery

Every product or service must offer certain benefit or benefits to the prospective or likely customer either to satisfy some need or solve his problems. Different types of products require different marketing strategies. Personal selling is an important input in marketing of industrial products, whereas promotion and distribution are of critical importance in case of consumer products. You were then introduced to the concept of product line decisions. These involve having more products of the same type, but positioning them differently as shown in example of Hindustan Lever's soaps. You also have read that there are basically two types of diversifications, related and unrelated. Related Diversification involves going in for similar products. These products generally require the use of the same production, selling and distribution facilities. However, for continued growth of an organisation, it may be necessary to undertake unrelated diversification.

The product life cycle concept is an extremely important one which, at times, is neglected by even well known companies.

It is important to note the different marketing mix used in the different stages of the product life cycle. Please remember that the new products have to be introduced much before the decline of existing products, so that the total sales picture may be a stable one.

While one may like to add new products to, the company's product-mix, it should be remembered that it is an expensive process. However, it must be done and one must go through the proper steps. Not only must new ideas be generated but they must also be properly evaluated. Often the 'concept' itself must be tested before the company spends more money on product development.

Pricing is an important element of the marketing mix. Pricing is affected not only by the cost of manufacturing the product, but also by (i) the company's objectives in relation to market share and sales; (ii) the nature and intensity of competition; (iii) stage of the product life-cycle at which the product is currently positioned; (iv) nature of product whether as consumer or industrial product and if the former whether it is a luxury or necessity. Before making any pricing decision it is important to understand all these factors.

There are various methods of pricing. The four most commonly used methods are full cost pricing, pricing for a rate of return going rate pricing and customary pricing. While the first two methods are based on the costs incurred, the latter methods are based on the competition's pricing. While from the company's point of view, price represents a king of 'maximum' that it can charge given its own costs and nature of competition, from the customer's viewpoint it is a representation of quality of the product. Thus, in many cases high price is associated with good quality and vice-versa.

Before designing the pricing strategy in which the choice is between penetrative and skimming pricing. The marketer must fully understand the connotation of price to a customer. In some a reduction in price may lead to an increase in sales, while **in** other cases it may not. This is especially true in case of industrial products, where the buyer may be more concerned with quality, reliability, delivery schedules, and after-sales services of the product rather than merely the price. Rather than a reduced price, what may be more relevant is price discounts in the form of quantity or cash.

4.7 Glossary

Consumer Goods are goods which are purchased by the ultimate consumer or user and require no further commercial processing.

Diversification implies that a company has moved from one product item to marketing more than one product.

Product or Goods is a composite of the characteristics and features-physical and psychological-which are offered for purchase by a customer, whether it is a consumer or an industrial purchaser. (In the marketing sense, a product is a bundle of

benefits-physical or psychological-offered to a customer.)

Product Item refers to a specific product or a brand.

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

Product Mix is a composite of products which are offered for sale by an organisation and may consist of different types of products-related and unrelated.

Introduction Stage is the stage where the product is just introduced and is at the beginning of the product life cycle. This is evidenced by slow growth and very small profits.

Market Testing is the stage where the product is actually tested in the market, that is, introduced in a consumer setting with a view to ascertain the reactions of consumers and dealers before a final decision to market or launch the product is made.

Maturity Stage is the stage in the life cycle where the sales stop going up and slow down because competitors have entered the market and it becomes difficult for a continuous increase in the sales.

4.8 Self assessments questions

1. Explain briefly the 'product life cycle concept' in marketing management and state why you feel it is useful to understand this concept.
2. Explain how the marketing mix has to be changed during the different stages of the product life cycle.
3. Selection and development of a new product are very important steps in the Marketing Strategy. Explain briefly the stages through which you would test ideas coming up for new products until the final stage of launching the new product.
4. What are the most important group of individual factors which influence the price of the product?
5. How do the stage of product life-cycle and product positioning affect the pricing decisions regarding the product of your company?

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Unit V **Lesson 20-25**

CHANNELS OF DISTRIBUTION AND PROMOTIONAL METHODS

Structure:

5.1 Introduction

Distribution Channels

Different people perceive marketing channels in different ways, some see it as a route taken by a product as it moves from the producer to the consumer, and others describe it as a loose coalition of business firms that have come together for purpose of business. Customers may view marketing channels as simply ‘a lot of middlemen’ standing between the producer and the product. Given all these different perspectives it is not possible to have one single definition for marketing channels. Marketing channels can be defined as the external contractual organization that management operates to achieve its distribution objectives.

There are four terms in this definition that has to be given a special mention namely external, contractual organization, operates and distribution objectives. The term external means that the marketing channel exists outside the firm. Managing of the marketing channel therefore involves the use of inter-organizational management (managing more than one firm) rather than intra-organizational management (managing one firm). The term contractual organization refers to those firms who are involved in the negotiatory function as the product moves from the producer to the end user.

The function of these firms involves buying, selling and transferring of goods and services. Transportation companies, public warehouses, banks ad agencies do not come under these and are referred to as facilitating agencies. The third term operates suggests the involvement of management in the channels and this may range from the initial development of the channel structure to the day-to-day management. Finally the distribution objectives explain the distribution goals the organization has in mind. When the objectives change, variations can be seen in the external contractual organizations and the way in which the management operates. In simpler terms a channel then consists of producer, consumer and any intermediary.

Marketing channel strategy is one of the major strategic areas of marketing. In most cases eliminating middlemen will not reduce prices, because the amount that goes to the intermediaries compensates them for the performance of tasks that must be accomplished regardless of whether or not an intermediary is present. In simple terms, a company can eliminate intermediaries but cannot eliminate the functions they perform.

5.2 Objectives

After going through this unit, you need the ahle to

* explain channel of Distribution.
* discuss types of channels.
* explore the functions of Wholesalers & Retailers
* discuss the distinction between wholesalers and retailers
* explsin difference between Personal setting and Sales Productions.

5.3 Meaning of Channels of Distribution

You know that the main purpose of trade is to supply goods to the consumers living in far off places. As goods and services move from producer to consumer they may have to pass through various individuals. Let us take an example. A farmer in Srinagar has an apple orchard. Once the apples are ripened he sells the apples to an agent of Delhi. The agent collects the apples from Srinagar, packs them, and sells them to a wholesaler at New Delhi sabzimandi. The wholesaler then distributes them to various retail fruit vendors throughout Delhi by selling smaller quantities. Finally, we purchase apples from those vendors as per our requirement. Thus, we find that while coming from the producer at Srinagar, the product reaches the consumers by passing through several hands like an agent, a wholesaler and a retailer. All these three are called middlemen. These middlemen are connecting links between producers of goods, on one side and consumers, on the other. They perform several functions such as buying, selling, storage, etc. These middlemen constitute the channels of distribution of goods. Thus, a channel of distribution is the route or path along which goods move from producers to ultimate consumers. The route taken by goods as they move from producer to consumer is known as Channel of Distribution.

5.4 Types of Channels

Normally goods and services pass through several hands before they come to the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called as direct channel. So there are two types of channels, one direct channel and the other, indirect channel. From the above diagram it can be found that there is just one direct channel i.e. from producer to the consumer. There are many indirect channels like:

(i) Producer Agent Wholesaler Retailer Consumer,

(ii) Producer Wholesaler Retailer Consumer

(iii) Producer Agent Consumer

(iv) Producer Wholesaler Consumer and

(v) Producer Retailer Consumer Let us discuss about some of the common channels.

Direct Channel

In this channel, producers sell their goods and services directly to the consumers. There is no middleman present between the producers and consumers. The producers may sell directly to consumers through door-to-door salesmen and through their own retail stores. For example, Bata India Ltd, HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers. For certain service organizations consumers avail the service directly.

Banks, consultancy firms, telephone companies, passenger and freight transport services, etc. are examples of direct channel of distribution of service.

Indirect Channel

If the producer is producing goods on a large scale, it may not be possible for him to sell goods directly to consumers. As such, he sells goods through middlemen. These middlemen may be wholesalers or retailers. A wholesaler is a person who buys goods in large quantities from producers; where as a retailer is one who buys goods from wholesalers and producers and sells to ultimate consumers as per their requirement. the involvement of various middlemen in the process of distribution constitute the indirect channel of distribution. Let us look into some of the important indirect channels of distribution.

Producer Wholesaler Retailer Consumer

This is the common channel for the distribution of goods to ultimate consumers. Selling goods through wholesaler may be suitable in case of food grains, spices, utensils, etc. and mostly of items, which are smaller in size.

Producer Retailers Consumer

Under this channel, the producers sell to one or more retailers who in turn sell to the ultimate consumers. This channel is used under the following conditions – (i) When the goods cater to a local market, for example, breads, biscuits, patties, etc. (ii) When the retailers are big and buy in bulk but sell in smaller units, directly to the consumers. Departmental stores and super bazars are examples of this channel.

5.5 Wholesalers and Retailers

Wholesalers and retailers are important middlemen who generally facilitate flow of goods from the producers to the consumers. Let us study in details about them:

Wholesalers

Wholesalers are one of the important middlemen in the channel of distribution who deals with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more. They usually deal with a limited variety of items and also in a specific line of product, like iron and steel, textiles, paper, electrical appliances, etc. Let us know about the characteristics of wholesaler. Characteristics of Wholesalers The followings are the characteristics of wholesaler:

(i) Wholesalers buy goods directly from producers or manufacturers.

(ii) Wholesalers buy goods in large quantities and sells in relatively smaller quantities.

(iii) They sell different varieties of a particular line of product. For example, a wholesaler who deals with paper is expected to keep all varieties of paper, cardboard, card, etc.

(iv) They may employ a number of agents or workers for distribution of products.

(v) Wholesalers need large amount of capital to be invested in his business.

(vi) They generally provides credit facility to retailers.

(vii) He also provides financial assistance to the producers or manufacturers.

In a city or town they are normally seen to be located in one particular area of the market. For example, you can find cloth merchants in one area, book publishers and sellers in one area; furniture dealers in one area etc.

Functions of Wholesalers

You have well understood the meaning of wholesaler and listed their characteristics. Now let us know about the functions of wholesalers. Following are the functions, which a wholesaler usually performs.

Collection of goods: A wholesaler collects goods from manufacturers or producers in large quantities. (b) **Storage of goods**: A wholesaler collects the goods and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage.

(c) **Distribution**: A wholesaler sells goods to different retailers. In this way, he also performs the function of distribution.

(d) **Financing**: The wholesaler provides financial support to producers and manufacturers by sending money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.

(e) **Risk taking**: The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.

Retailers

Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use.

Characteristics of Retailers

The following are the characteristics of retailers:

(i) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.

(ii) Retailers sell goods not for resale, but for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil etc. for your use, not for sale.

(iii) Retailers buy and sell goods in small quantities. So customers can fulfil their requirement without storing much for the future.

(iv) Retailers require less capital to start and run the business as compared to wholesalers.

(v) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.

Functions of Retailers

All retailers deal with the customers of varying tastes and temperaments. Therefore, they should be active and efficient in order to satisfy their customers and also to induce them to buy more. Let us see what the retailers do in distribution of goods.

(i) Buying and Assembling of goods: Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.

(ii) Storage of goods: To ensure ready supply of goods to the customer retailers keep their goods in stores. Goods can be taken out of these store and sold to the customers as and when required. This saves consumers from botheration of buying goods in bulk and storing them.

(iii) Credit facility: Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity. (iv) Personal services: Retailers render personal services to the customers by providing expert advice regarding quality, features and usefulness of the items. They give suggestions considering the likes and dislikes of the customers. They also provide free home delivery service to customers. Thus, they create place utility by making the goods available when they are demanded.

(v) Risk bearing: The retailer has to bear many risks, such as risk of:

(a) fire or theft of goods

(b) deterioration in the quality of goods as long as they are not sold out.

(c) change in fashion and taste of consumers.

vi) Display of goods: Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods. (vii) Supply of information: Retailers provide all information about the behaviour, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

Distinction between Wholesaler and Retailer

You have studied about wholesaler and retailer. You might have noticed that both of them differ in their style and function. Let us find out these differences. Wholesaler Retailer (i) Buys goods in large quantities. (i) Buys goods in small quantities. (ii) Buys goods directly from producers. (ii) Generally buys goods from the wholesalers. (iii) Deals with limited variety of goods. (iii) Deals with wide range of products. (iv) Requires more capital to start (iv) Requires less capital to start and run and run the business. the business. (v) Sell goods for resale purpose. (v) Sell goods for consumption. (vi) No direct contact with consumers. (vi) Direct contact with consumer. (vii) No special attention is given to (vii) In order to attract the attention of decoration of shop. customers retailers give more attention to decoration of shop.

Types of Retail Trade

You have learnt about retailers in the previous section. You may be under the impression that retailers are small shopkeepers trading in the nearby locality. However, you will be surprised to know that starting from hawkers and street traders, to super bazaars, departmental stores and multiple shops, all undertake retail-trading business in our country. We can classify this retailing business into two categories.

a. Small-scale retail trade; and

b. Large-scale retail trade.

Small-scale retail trade is one where a limited variety and also limited quantity of goods are sold within a local area. It requires less capital and provides goods to a limited number of customers. On the other hand, large-scale retail trade is one where capital investment is more and it deals with large volume of goods. It caters to the needs of a large number of customers. Super bazars, Departmental stores and Multiple shops are examples of large scale retail trade organization.

. **Small-scale Retail Trade**: There are varities of retailers engaged in small scale retail trading. They can be classified as:

(i) Itinerant Retailing

(ii) Fixed Shop Retailing

(i) Itinerant Retailing Itinerant retailing is a type of small-scale retail trade in which retailers move around and sell a variety of items directly to the consumers. They do not have a fixed shop where they can sell. You must have seen them distributing newspapers early in the morning; selling peanuts, bangles, toys etc. in buses and trains; selling fruits and vegetables in your locality using a cart, selling icecream, namkeens etc. on a cycle, selling rice, earthen pots or even carpets by using a cart, etc. You can also see them on pavements in your locality. In towns and cities we come across different type of itinerant retailers. There are traders who sell their articles on fixed days at different market places. In villages these market places are called "Haat" and in towns or cities they are called "weekly bazars". The itinerant retailing also includes persons selling articles from door to door. In most cases, the price of items is not fixed and mostly settled through bargaining. Moreover, in most cases the items sold are not branded products. (ii) Fixed Shop Retailing Here the retailers sell goods and services from a fixed place known as 'shop'. These shops are usually located at market places or commercial areas or near residential localities. These shops normally deal with a limited variety of goods. The goods are stored as well as displayed in the shops. On the basis of the type of goods which the fixed shops deal in , we can classify this form of retailing as under. a. General store or variety store b. Single line store c. Speciality store Let us know the details about these stores. a. General store or Variety store These stores, as the name suggest, deal with a variety of items of general use. They sell products mostly required by people for their daily use. For example, in a variety store you can find different items on toiletry, hosiery, biscuits and snacks items, grocery, cosmetic, gift items and stationery, etc. Normally these retailers make direct sale by cash only. However, for their regular customers, these retailers may give discount, provide credit facility and also deliver purchased goods at the customer's house free of charge. b. Single line store These stores deal with a specific line of goods. You must have seen medicine shops, bookshops, toy shops, ready-made garment shops, etc. These are all single line stores. They sell goods of different size, brands, designs, styles and quality of the same product line. c. Speciality store These stores deal with products of specific brand or company. All varieties of any particular brand or manufacturers are made available in these stores. You must have seen stores, like Business Studies 78 woodland shoe shops where products starting from shoe to apparel produced by woodland company are made available to the customers.

Flows in Marketing Channels

As discussed a conventional channel of distribution consist of a manufacturer, a wholesaler, a retailer and the ultimate consumer. Not all the channels include all these marketing institutions. At times the product passes directly from the manufacturer to consumer. When a marketing channel has been developed a series of flows emerge. These flows provide the links that tie channel members and other agencies together in the distribution of goods and services. There are five most important flows namely

- Product flow
- Negotiation flow
- Ownership flow
- Information flow
- Promotion flow

The Product flow refers to actual physical movement of the product from the manufacturers through all the parties who take physical possessions of the product from the point of production to the final consumer.

In the negotiation flow, this represents the interplay of the buying and the selling functions associated with the transfer of title.

If you note the diagram you find the transportation firm is not included in the flow because it does not participate in the negotiation function, also you can find the arrows flow in both the directions, indicating the negotiation is mutual at all levels of the channels. The ownership flow shows the movement of the title to the product as it is passed along from the manufacturer to the consumer, here as well we find the transportation function missing since the transportation firm does not take title or is actively involved in the facilitating function. It merely involves in transporting physical products

In case of the Information flow, we can see that the transportation function has reappeared and all the arrows are two-directional. All the parties participate in the exchange of information. For example Coke may obtain information from the transportation company about its shipping schedules and the rates, while the transportation firm may seek information regarding when and in what quantities it plans to ship its products. Some times the information bypasses the transportation company directly to the wholesaler or the retailer when the information does not concern the transportation firm. If there is an offer, or a price reduction these information are not needed by the transportation firms.

Finally the Promotion flow refers to the persuasive communication in the form of advertising, personal selling, publicity. There is a new component that is added to the flow and that is the advertising agency and this actively provides and maintains the information flow. The organizations work closely with the promotional organizations so we find a two-directional arrow.

From the management view, the concept of channel flows provides a useful framework for understanding the scope and complexity of channel management. Changing scenario does make the role of the firms' complex, 246 as a result of which innovative channel strategies and effective channel management are needed to make this happen.

Functions of Distribution Channels

Some of the major functions performed by the intermediaries are mainly physical distribution, communication and facilitating functions. When we talk about physical functions, they include braking bulk, accumulating bulk, creating assortments, reducing transactions and transporting and storing.

Breaking bulk

One of the important role intermediaries perform is bulk-breaking function. Here these organizations buy in large quantities and break them into smaller quantities and pass them to the retailers, wholesalers or even to the customers. By doing so, the intermediaries reduce the cost of distribution for the manufacturers as well as the consumers. This particular function is also termed as 'resolution of economic discrepancies'. Exhibit 4.2 gives a pictorial description of bulk breaking.

5.6 Meaning of Sales Promotion

Every businessman wants to increase the sale of goods that he deals in. He can adopt several ways for that purpose. You might have heard about "lakhpati bano", "win a tour to Singapore", "30% extra in a pack of one kg", "scratch the card and win a prize" etc. You might also have seen gifts like lunch box, pencil box, pen, shampoo pouch etc. offered free with some products.

There are also exchange offers, like in exchange of existing model of television you can get a new model at a reduced price. You may have also observed in your neighbouring markets notices of "winter sale", "summer sale", "trade fairs", "discount upto 50%" and many other schemes to attract customers to buy certain products. All these are incentives offered by manufacturers or dealers to increase the sale of their goods. These incentives may be in the form of free samples, gifts, discount coupons, demonstrations, shows, contests etc. All these measures normally motivate the customers to buy more and thus, it increases sales of the product. This approach of selling goods is known as "Sales Promotion".

Personal selling involves face-to-face contact with specific individuals, while advertising is directed towards a large number of potential customers. They also help in increasing sales of goods. Thus, advertising can be used as means of communication to inform potential customers about the incentives offered for sales promotion. Personal selling can as well include communication of the incentives to individual customers. But, sales promotion differs from advertising and personal selling in terms of its approach and technique. Sales promotion adopts short term, non-recurring methods to boost up sales in different ways. These offers are not available to the customers throughout the year. During festivals, end of the seasons, year ending and some other occasions these schemes are generally found in the market. Thus, sales promotion consists of all activities other than advertising and personal selling that help to increase sales of a particular commodity.

Objectives of Sales Promotion You have learnt that the main objective of sales promotion is to increase sales. However, there are also some other objectives of sales promotion. The objectives are:

i. To introduce new products

ii. To attract new customers and retain the existing ones

iii. To maintain sales of seasonal products

iv. To meet the challenge of competition

Let us learn about these objectives in details.

(i) **To introduce new products**: Have you ever heard about distribution of free samples? Perhaps you know that many companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for consumption.

To attract new customers and retain the existing ones: Sales promotion measures help to attract or create new customers for the products. While moving in the market, customers are generally attracted towards the product that offers discount, gift, prize, etc on buying. These are some of the tools used to encourage the customers to buy the goods. Thus, it helps to retain the existing customers, and at the same time it also attracts some new customers to buy the product.

To maintain sales of seasonal products: There are some products like air conditioner, fan, refrigerator, cooler, winter clothes, room heater, sunscreen lotion, glycerin soap etc., which are used only in particular seasons. To maintain the sale of these types of products normally the manufactures and dealers give off-season discount. For example, you can buy air conditioner in winter at a reduced price. Similarly you may get discount on winter clothes during summer

To meet the challenge of competition: Today's business faces competition all the time. New products frequently come to the market and at the same time improvement also takes place. So sales promotion measures have become essential to retain the market share of the seller or producer in the product-market.

Tools of Sales Promotion / methods of sales promotion

To increase the sale of any product manufactures or producers adopt different measures like sample, gift, bonus, and many more. These are known as tools or techniques or methods of sales promotion. Let us know more about some of the commonly used tools of sales promotion.

(i) **Free samples:**

You might have received free samples of shampoo, washing powder, coffee powder, etc. while purchasing various items from the market. Sometimes these free samples are also distributed by the shopkeeper even without purhasing any item from his shop. These are distributed to attract consumers to try out a new product and thereby create new customers. Some businessmen distribute samples among selected persons in order to popularize the product. For example, in the case of medicine free samples are distributed among physicians, in the case of textbooks, specimen copies are distributed among teachers.

ii) **Premium or Bonus offer**: A milk shaker along with Nescafe, mug with Bournvita, toothbrush with 500 grams of toothpaste, 30% extra in a pack of one kg. are the examples of premium or bonus given free with the purchase of a product. They are effective in inducing consumers to buy a particular product. This is also useful for encouraging and rewarding existing customers.

iii) **Exchange schemes**: It refers to offering exchange of old product for a new product at a price less than the original price of the product. This is useful for drawing attention to product improvement. 'Bring your old mixer-cum-juicer and exchange it for a new one just by paying Rs.500' or 'exchange your black and white television with a colour television' are various popular examples of exchange scheme.

iv) **Price-off offer**: Under this offer, products are sold at a price lower than the original price. 'Rs. 2 off on purchase of a lifebouy soap, Rs. 15 off on a pack of 250 grams of Taj Mahal tea, Rs. 1000 off on cooler' etc. are some of the common schemes. This type of scheme is designed to boost up sales in off-season and sometimes while introducing a new product in the market.

v) **Coupons**: Sometimes, coupons are issued by manufacturers either in the packet of a product or through an advertisement printed in the newspaper or magazine or through mail. These coupons can be presented to the retailer while buying the product. The holder of the coupon gets the product at a discount. For example, you might have come across coupons like, 'show this and get Rs. 15 off on purchase of 5 kg. of Annapurna Atta'. The reduced price under this scheme attracts the attention of the prospective customers towards new or improved products.

(vi) **Fairs and Exhibitions**: Fairs and exhibitions may be organised at local, regional, national or international level to introduce new products, demonstrate the products and to explain special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount. 'International Trade Fair' in New Delhi at Pragati Maidan, which is held from 14th to 27th November every year, is a wellknown example of Fairs and Exhibitions as a tool of sales promotion.

(vii) **Trading stamps**: In case of some specific products trading stamps are distributed among the customers according to the value of their purchase. The customers are required to collect these stamps of sufficient value within a particular period in order to avail of some benefits. This tool induces customers to buy that product more frequently to collect the stamps of required value.

(viii) **Scratch and win offer**: To induce the customer to buy a particular product 'scratch and win' scheme is also offered. Under this scheme a customer scratch a specific marked area on the package of the product and gets the benefit according to the message written there. In this way customers may get some item free as mentioned on the marked area or may avail of price-off, or sometimes visit different places on special tour arranged by the manufacturers.

(ix) Money Back offer: Under this scheme customers are given assurance that full value of the product will be returned to them if they are not satisfied after using the product. This creates confidence among the customers with regard to the quality of the product. This technique is particularly useful while introducing new products in the market.

Importance of Sales Promotion

The business world today is a world of competition. A business cannot survive if its products do not sell in the market. Thus, all marketing activities are undertaken to increase sales. Producers may spend a lot on advertising and personal selling. Still the product may not sell. So incentives need to be offered to attract customers to buy the product. Thus, sales promotion is important to increase the sale of any product. Let us discuss the importance of sales promotion from the point of view of manufacturers and consumers.

From the point of view of manufacturers

Sales promotion is important for manufacturers because

i. it helps to increase sales in a competitive market and thus, increases profits;

ii. it helps to introduce new products in the market by drawing the attention of potential customers;

iii. when a new product is introduced or there is a change of fashion or taste of consumers, existing stocks can be quickly disposed off;

iv. it stabilizes sales volume by keeping its customers with them. In the age of competition it is quite much possible that a customer may change his/her mind and try other brands. Various incentives under sales promotion schemes help to retain the customers.

From the point of view of consumers

Sales promotion is important for consumers because

i. the consumer gets the product at a cheaper rate;

ii. it gives financial benefit to the customers by way of providing prizes and sending them to visit different places;

iii. the consumer gets all information about the quality, features and uses of different products;

iv. certain schemes like money back offer creates confidence in the mind of customers about the quality of goods; and

v. it helps to raise the standard of living of people. By exchanging their old items they can use latest items available in the market. Use of such goods improves their image in society.

5.7 Personal selling

Think about the persons who come to you to sell goods and commodities. What do they do?

They show certain variety of goods to you, try to explain the features of the products, if required demonstrate the functioning of the items, inform you about the price concession available, persuade you to buy the product and also in some cases promises you to bring certain items of your choice in future. So not only do they inform and explain to you about the product but also persuade you to buy those items and want you to buy from them in future also. On the other hand, you also gather more information about the product, see and handle it personally to judge it better.

The person who sells goods to you in this way is called a 'salesman' and the technique of selling is known as 'personal selling' or 'salesmanship'. Thus, personal selling refers to the presentation of goods before the potential buyers and persuading them to purchase it. It involves face-to-face interaction and physical verification of the goods to be purchased. The objective is not only just to sell the product to a person but also to make him/her a permanent customer.

You can also find personal selling in some shops where salesmen are employed by the shopkeeper to use this technique. For example, you can find such salesmen in jewellery stores, consumer goods stores, saree houses, etc. In case of some services, we also find personal selling used in shops. For example, we find people going to the same barbershop to cut their hair and get a massage from a specific barber. This shows that in case of personal selling the seller usually come to know about the taster and preferences of the customer and thus attracts him to buy the goods or services.

Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products or services.

Essential elements of Personal Selling

Personal selling consists of the following elements:

i. **Face-to-Face interaction**: Personal selling involves a salesmen having face-to-face interaction with the prospective buyers.

ii. **Persuasion**: Personal selling requires persuasion on the part of the seller to the prospective customers to buy the product. So a salesman must have the ability to convince the customers so that an interest may be created in the mind of the customers to use that product.

iii. **Flexibility:** The approach of personal selling is always flexible. Sometimes salesman may explain the features and benefits of the product, sometimes give demonstration of the use of product and also faces number of queries from the customers. Looking into the situation and interest of the customers, the approach of the salesman is decided instantly.

iv. **Promotion of sales**: The ultimate objective of personal selling is to promote sales by convincing more and more customers to use the product.

v. **Supply of Information**: Personal selling provides various information to the customers regarding availability of the product, special features, uses and utility of the products. So it is an educative process. vi. **Mutual Benefit**: It is a two-way process. Both seller and buyer derive benefit from it. While customers feel satisfied with the goods, the seller enjoys the profits

Importance of Personal Selling

Personal Selling is extremely important as it helps in increasing sales. But there are other features as well which make it important. Let us discuss the importance of personal selling from the point of view of manufactures as well as consumers.

From manufacturer's point of view

i. It creates demand for products both new as well as existing ones.

ii. It creates new customers and, thus help in expanding the market for the product

iii. It leads to product improvement. While selling personally the seller gets acquainted with the choice and demands of customers and makes suggestions accordingly to the manufacturer.

From customer's point of view

i. Personal selling provides an opportunity to the consumers to know about new products introduced in the market. Thus, it informs and educates the consumers about new products.

ii. It is because of personal selling that customers come to know about the use of new products in the market. The sellers demonstrate the product before the prospective buyers and explain the use and utility of the products.

iii. Personal selling also guides customers in selecting goods best suited to their requirements and tastes as it involves face-to-face communication.

iv. Personal selling gives an opportunity to the customers to put forward their complaints and difficulties in using the product and get the solution immediately.

Qualities of salesperson engaged in Personal Selling

i) It is very difficult to enlist the qualities of people engaged in personal selling. The quality will vary from time to time and from situation to situation. It also depends upon the customers' demand and nature of the product. Again a salesman may be effective in one situation but may fail in another situation. So in real life certain qualities may be suitable for a particular line of product and may be irrelevant in any other case. However, there are certain common qualities, which every salesman should possess in order to become successful in their life. These qualities are listed below.

i) **Physical quality**: A salesman should have a good appearance and an impressive personality. He should also have a sound health.

ii) **Mental quality**: A good salesman should posses certain mental qualities like imagination, initiative, self-confidence, sharp memory, alertness etc. He should be able to understand the needs and preferences of customers.

iii) **Integrity of character**: A good salesman should posses the qualities of honesty and integrity. He is to gain the confidence of the customers. He should be able to understand their needs and guide them how to satisfy those needs. His employer too should have faith in him. A salesman should be loyal both to the employer and to the customers.

iv. **Knowledge of the product and the company**: A salesman should have full knowledge of the product and the company he is representing. He should be able to explain each and every aspect of the product i.e. its qualities, how to use it, what precautions to be taken, etc. He should be able to explain the business and service record of the company. He should also have knowledge of products of rival companies. So that he can put across the superiority of his own products.

v. **Good behaviour** : A salesman should be co-operative and courteous. Good behaviour enables one to win the confidence of the customers. He should not feel irritated if the buyer puts up many questions even if the questions are irrelevant. It is also not necessary that the person he is trying to convince buys the product. The salesman has to remain and courteous in every case.

vi. **Ability to persuade**: A good salesman should be good in conversation so that he can engage the person he is attending in conversation. He should be able to convince him and create the desire in his mind to posses the commodity.

Personal selling process

Promotion is communicating with potential customers. Almost every company can benefit from personal selling. While face-to-face with prospects, salespeople can get more attention than an advertisement or a display. They can adjust what they say or do to take into consideration culture and other behavioral influences on the customer. They can ask questions to find out about a customer's specific interests. They can also stay in tune with the prospect's feedback and adjust the presentation as they move along. If-and when-the prospect is ready to buy, the salesperson is there to ask for the order.

Selling, and particularly order getting, is a complicated activity that involves building buyer-seller relationships. Although the salesperson-customer interaction is essential to personal selling, much of a salesperson's work occurs before this meeting and continues after the sale itself. The personal selling process consists of six stages: (1) prospecting, (2) preapproach, (3) approach, (4) presentation, (5) close, and (6) follow-up

Prospecting. Personal selling begins with prospecting-the search for and qualification of potential customers. For some products that are one-time purchases such as encyclopedias, continual prospecting is necessary to maintain sales. There are three types of prospects. A lead is the name of a person who may be a possible customer. A prospect is a customer who wants or needs the product. If an individual wants the product, can afford to buy it, and is the decision maker, this individual is a qualified prospect.

Leads and prospects are generated using several sources. The enterprise can supply its sales force with different sources, but the sales person initiative is indispensable. This initiative can have different forms: consulting a variety of sources such as the professional press magazines, the Internet sites, the year books on paper or CD format (Kompass, SIRENE, etc); taking advantage of different events (congresses) where there are good chances to meet prospects; determining the clients to give names of potential buyers; appealing to the distributors, retailers, the other sales persons and bankers; contacting the professional associations where the prospects are taking part in; participating to congresses and conferences or writing articles in press magazines in view of increasing its visibility. [Kotler, Philip, 2006] Another approach for generating leads is through cold canvassing in person or by telephone. This approach simply means that a salesperson may open a telephone directory, pick a name, and visit or call that individual. Although the refusal rate is high with cold canvassing, this approach can be successful. Cold canvassing is often criticized by consumers and is now regulated. A recent survey reported that 75 percent of U.S. consumers consider this practice an intrusion on their privacy and 72 percent find it distasteful. [Zandl Irma, 1992] The Telephone Consumer Protection Act of 1991 contains provisions to curb abuses such as early morning or late night calling. A sales person must analyze the tracks to focalize on the most fertile ones. So, the salesman has to take into consideration the financial viability of every prospect, his turnover, his localization and the probability of establishing a long term commercial relationships.

Preapproach. Once a salesperson has identified a qualified prospect, preparation for the sale begins with the Preapproach. The preapproach stage involves obtaining further information on the prospect and deciding on the best method of approach. Activities in this stage include finding information on who the prospect is, how the prospect prefers to be approached, and what the prospect is looking for in a product or service. For example, a stockbroker will need information on a prospect's discretionary income, investment objectives, and preference for discussing brokerage services over the telephone or in person. For industrial products the preapproach involves identifying the buying role of a prospect (for example, influencer or decision maker), important buying criteria, and the prospect's receptivity to a formal or informal presentation. Identifying the best time to contact a prospect is also important. For example, Northwestern Mutual Life Insurance Company suggests the best times to call on people in different occupations: dentists before 9:30 A. M., lawyers between 11:00 A.m. and 2:00 P.m., and college professors between 7:00 and 8:00 P.M. [Marks Ronald B, 1988]

Approach. The approach stage involves the initial meeting between the salesperson and prospect, where the objectives are to gain the prospect's attention, stimulate interest, and build the foundation for the sales presentation itself and the basis for a working relationship. The first impression is critical at this stage, and it is common for salespeople to begin the conversation with a reference to common acquaintances, a referral, or even the product or service itself. Which tactic is taken will depend on the information obtained in the prospecting and preapproach stages. The approach stage is very important in international settings. In many societies outside the United States, considerable time is devoted to nonbusiness talk designed to establish a rapport between buyers and sellers. For instance, it is common that two or three meetings occur, before business matters are discussed in the Middle East and Asia.

ia. Presentation. The presentation is at the core of the order-getting selling process, and its objectiee is to convert a prospect into a customer by creating a desire for the product or service. Three major presentation formats exist: (1) stimulus-response format, (2) formula selling format, and (3) need-satisfaction format. Stimulus-Response Format. The stimulus-response presentation format assumes that given the appropriate stimulus by a salesperson, the prospect will buy. With this format the salesperson tries one appeal after another, hoping to "hit the right button". A counter clerk at McDonald's is using this approach when he or she asks whether you'd like an order of french fries or a dessert with your meal. The counter clerk is engaging in what is called suggestive selling. Although useful in this setting, the stimulusresponse format is not always appropriate, and for many products a more formalized format is necessary. Formula Selling Format. A more formalized presentation, the formula selling presentation format, is based on the view that a presentation consists of information that must be provided in an accurate, thorough, and step-by-step manner to inform the prospect. A popular version of this format is the canned sales presentntion, which is a memorized, standardized message conveyed to every prospect. Used frequently by firms in telephone and door-to-door selling of consumer products (for example, Fuller Brush Company and Encyclopaedia Britannica), this approach treats every prospect the same, regardless of differences in needs or preference for certain kinds of information. Canned sales presentations can be advantageous when the differences between prospects are unknown or with novice salespeople who are less knowledgeable about the product and selling process than experienced salespeople. Although it guarantees a thorough presentation, it often lacks flexibility and spontaneity and, more important, does not provide for feedback from the prospective buyer-a critical component in the communication process and the start of a relationship. Need-Satisfaction Format. The stimulus-response and formula selling formats share a common characteristic: the salesperson dominates the conversation. By comparison, the need-satisfaction presentation format emphasizes probing and listening by the salesperson to identify needs and interests of prospective buyers. Once these are identified, the salesperson tailors the presentation to the prospect and highlights product benefits that may be valued by the prospect. The need-satisfaction format, which emphasizes problem solving, is the most consistent with the marketing concept. Two selling styles are associated with this format. Adaptive selling involves adjusting the presentation to fit the selling situation, such as knowing when to offer solutions and when to ask for more information. Consultative selling focuses on problem identification, where the salesperson serves as an expert on problem recognition and resolution. Both styles are used for industrial products such as computers and heavy equipment. Many consumer service firms such as brokerage and insurance firms and consumer product firms like AT&T and Gillette also subscribe to these selling styles. 3159 Handling Objections. A critical concern in the presentation stage is handling objections. Objections are excuses for not making a purchase commitment or decision. Some objections are valid and are based on the characteristics of the product or service or price. However, many objections reflect prospect skepticism or indifference. Whether valid or not, experienced salespeople know that objections do not put an end to the presentation. Rather, techniques can be used to deal with objections in a courteous, ethical, and professional manner. The following six techniques are the most common [Balsley Ronald D, 1978]: 1. Acknowledge and convert the objection. This technique involves using the objection as a reason for buying. For example, a prospect might say, “The price is too high.” The reply: “Yes, the price is high because we use the finest materials. Let me show you....” 2. Postpone. The postpone technique is used when the objection will be dealt with later in the presentation: “I’m going to address that point shortly. I think my answer would make better sense then.” 3. Agree and neutralize. Here a salesperson agrees with the objection, then shows that it is unimportant. A salesperson would say: “That’s true and others have said the same. However, they concluded that issue was outweighed by the other benefits.” 4. Accept the objection. Sometimes the objection is valid. Let the prospect express such views, probe for the reason behind it, and attempt to stimulate further discussion on the objection. 5. Denial. When a prospect’s objection is based on misinformation and clearly untrue, it is wise to meet the objection head on with a firm denial. 6. Ignore the objection. This technique is used when it appears that the objection is a stalling mechanism or is clearly not important to the prospect. Each of these techniques requires a calm, professional interaction with the prospect, and is most effective when objections are anticipated in the preapproach stage. Handling objections is a skill requiring a sense of timing, appreciation for the prospect’s state of mind, and adeptness in communication. Objections also should be handled ethically. Lying or misrepresenting product or service features arc grossly unethical practices.

Close. The closing stage in the selling process involves obtaining a purchase commitment from the prospect. This stage is the most important and the most difficult because the salesperson must determine when the prospect is ready to buy. Telltale signals indicating a readiness to buy include body language (prospect reexamines the product or contract closely), statements (“This equipment should reduce our maintenance costs”), and questions (“When could we expect delivery?”). The close itself can take several forms. Three closing techniques are used when a salesperson believes a buyer is about ready to make a purchase: (1) trial close, (2) assumptive close, and (3) urgency close. A trial close involves asking the prospect to make a decision on some aspect of the purchase: "Would you prefer the blue or gray model?" An assumptive close entails asking the prospect to make choices concerning delivery, warranty, or financing terms underthe assumption that a sale has been finalized. An urgency close is used to committhe prospect quickly by making reference to the timeliness of the purchase: "Thelow interest financing ends next week," or, "That is the last model we have instock." Of course, these statements should be used only if they accurately reflect the situation; otherwise, such claims would be unethical. When a prospect is clearly ready to buy, the final close is used and a salesperson asks for the 3160 order. Knowing when the prospect is ready to buy becomes even more difficult in crosscultural buyer-seller negotiations where societal customs and language play a large role.

Follow-up. The selling process does not end with the closing of a sale; rather, professional selling requires customer follow-up. One marketing authority equated the follow-up with courtship and marriage [Levitt Theodore, 1983], by observing, "…the sale merely consummates the courtship. Then the marriage begins. How good the marriage is depends on how well the relationship is managed." The follow-up stage includes making certain the customer's purchase has been properly delivered and installed and difficulties experienced with the use of the item are addressed. It is important that the salesman follows the client to get informed of his satisfaction degree and, maybe, his probability of repurchase. Once the sale is done, the sales person must give all the complementary information regarding the distribution delays, paying terms or the service after the sales. It is often recommended to make a control visit after the reception of the merchandize to verify that everything is all right. A such visit permits to detect a certain problem, to reveal the interest of the salesman in his client and to assure the customer that he has taken the right decision.

5.8 Glossary

- **Wholesalers -** Wholesalers are the important middle in the channel of distribution who deals with the goods in bulk quantity.
- **Retailers -** Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sale them to the Consumers.

5.9 Self Assessment Questions

1. What is the difference between wholesaler & Retailer ?

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2. Explain the importance of Sales Promotion ?

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5.10 Lesson End Exercise

1. What is the personal selling ? Explain its process.

5.11 Suggested Readings

Kotler, Philip, 2002, Marketing Management, PHI-New Delhi

Ramanuj Majumdar, 1998, Product Management in India, 2nd edition, 1998, PHI, New Delhi, India

S.A. Chunawalla, Product Management, 1999, 2nd edition, Himalaya Publications, New Delhi

Wessim Hanna and H.Robert Dodge: - Pricing Policies and Procedures, Macmillan India, New Delhi