MARKETING POLICY ANALYSIS

MCOM

FIRST SEMESTER

1.3

Gauhati University

Institute of Distance and Open Learning

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SYLLABI-BOOK MAPPING TABLE

Marketing Policy Analysis

Syllabi	Mapping in Book
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Unit II **Product policies:** Their importance: new product management- basic requirements for new product success. Developing the new product policies regarding addition, elimination and diversification of product lines. Simplication and standardization. Brand and trade mark. Style and design. Package planning and development.	**Unit 2:** Product Policies **(Pages 27-51)**
Unit III **Sales forecasting:** Developing and formulating sale plans, setting quantitative and qualitative objective, procedure for determining forecasts, study of seasonal demands, effect of changes in fashion and taste in planning sales programmes and campaign.	**Unit 3:** Sales Forecasting **(Pages 53-78)**
Unit IV **Marketing strategies for distribution:** Planning channels of distribution suitable to various classes of goods and customers appraisal of sales, costs and profit possibilities of each channel distribution of raw materials. The changing face of retail.	**Unit 4:** Distribution Channels **(Pages 79-104)**
Unit V Role of marketing communication, developing effective communication, identify the target audience. Determine the communication objective. Design the communication strategy developing and managing and advertising programme, sales promotion events and experiences, public relation.	**Unit 5:** Marketing Strategies for Distribution **(Pages 105-134)**
Unit VI Developing and communication of positioning strategy for creating brand equity. Devising a branding strategy. Branding identify andd customer loyalty. Brand image and personality.	**Unit 6:** Branding **(Pages 135-151)**
Unit VII Direct marketing; benefits, Direct mail, catalogue marketing telemarketing, interactive marketing, placing ads and promotion on line, E-marketing guidelines, ethical issues, relationship marketing.	**Unit 7:** Direct Marketing **(Pages 153-177)**
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INTRODUCTION

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Marketing has been referred to as a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others. In addition, it is often equated only with the more focused function of selling. But marketing encompasses a wider range of activities that must be a fully integrated process and form a foundation and catalyst for sales. The key to successful sales is a consistent proactive marketing strategy. The marketing function not only communicates product-related information to the customer, but also communicates the needs of the customer to the company. In addition, it arranges and monitors the distribution of products and/or services from the company to the customer. Marketing has its objective in understanding customers and eusuring that products and services are suitable to their requirements.

This book, *Marketing Policy Analysis*, lays emphasis on the role and scope of marketing, importance of developing product policies and sales planning.

The book, *Marketing Policy Analysis*, has been designed keeping in mind the self-instruction mode format and follows the simple pattern, wherein each unit begins with Introduction followed by Objectives. The detailed content is followed by Summing Up i.e., the concise review. Check Your Progress (questions and answers), Questions and Exercises, and Key Terms are useful tools for effectual recapitulation of the text by the students.

This book is divided into seven units, which are followed by Case Studies.

Unit 1: Discusses the nature, scope and role of marketing. It also deals with the relationship of marketing with other functional areas and general management in organization.

Unit 2: Explains the product policies and their importance.

Unit 3: Discusses sales forecasting and planning.

Unit 4: Deals with marketing strategies for distribution and the changing face of retail.

Unit 5: Explains the role of marketing communication and the importance of developing effective communication.

Unit 6: Discusses the importance of positioning strategy for creating brand equity.

Unit 7: Explains direct marketing and e-marketing.

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UNIT 1 MARKETING: AN INTRODUCTION

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1.0 INTRODUCTION

Marketing is the basic reason for the existence of a business organization. It works as a guide for all business organizations. It is a powerful mechanism which alone can satisfy the needs and wants of the consumers at the desired price and place. The success of a business depends largely on the effectiveness of its marketing strategies.

Marketing broadly encompasses the following:

(i) Sales in a planned way

(ii) Generating customers

(iii) Creation and satisfaction of demand

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept of marketing
- Explain the role and functions of marketing
- Discuss modern concepts of marketing
- Describe marketing as a philosophy of management
- Explain marketing relationships
- Discuss the analysis of the micro environment

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1.2 CONCEPTS OF MARKETING

Marketing has been defined by different experts in different ways, such as:

(a) According to H.L. Hansen, 'Marketing is the process of discovering and translating consumer needs and wants into products and services, specifications, creating demand for these products and services and then in turn expending this demand.'

(b) According to E W Cundiff, 'Marketing is the business process by which products are matched with markets and through which transfers of ownership are affected.'

(c) The American Marketing Association states that 'Marketing consists of the performance of business activities that direct the flow of goods and services from producers or supplier to consumers or end-users.'

(d) Philip Kotler states that 'Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating offering and exchanging products of value with others.'

According to the above definitions:

i. Marketing is the result of interaction of many activities.
ii. The ultimate aim of marketing is to satisfy human wants and thus it is consumer oriented.
iii. Marketing process begins with the recognition of consumer needs.

1.2.1 Nature and Scope of Marketing

Following are important features of marketing:

1. **Marketing is consumer oriented:** A business exists to satisfy human needs. Therefore, business must first explore customers' needs and then manufacture goods accordingly. Only such products should be produced which best satisfy consumer needs, at a profit to the manufacturer. Products offered for sale should be decided by the buyer and not by the seller. In the words of Levitt, 'Instead of trying to market what is easiest for us to make, we must find out much more about what the consumer is willing to buy. In other words, we must apply our creativity more intelligently to people, and their wants and needs, rather than to products.'
2. **Marketing begins and ends with the consumer:** Marketing is often thought to be concerned with the flow of goods and services to the consumer from the producer. It is very important to know and consider what the customers really want under customer-oriented marketing. This is possible only when information is collected from the consumers. In earlier times, the producer was in direct contact with the consumers. But after the advent of the mass production system, this was not possible. This necessitated a formal mechanism to keep in touch with consumers. As a consequence, marketing research and marketing information system have emerged as an important function of marketing.
3. **Marketing precedes and succeeds production:** A market transaction takes place when there is a balanced number of buyers and sellers. A transaction can be influenced by either the buyer or seller and this depends upon the competitive

strength. The seller can bargain for a product, its features, price, comparability, etc., whereas the buyer has bargaining power over the use of a product.

The above factors compelled the producers to accept consumer orientation as the marketing philosophy for their firms if they ever wanted bargaining power. This is the most distinguished feature of modern marketing. Today, all organizations accept that the marketing activities must commence before actual production. It will not be effective if the activities are undertaken after the product has been produced.

Thus, through market research, a manufacturer will be able to ascertain what the customer expects in a given product, what price he is ready to pay, and where and when 'it will be wanted'. Marketing would have authority over product innovation and planning, production scheduling, sales, distribution and servicing. This alone will give the bargaining power to the seller to meet customers' demands in the market.

4. **Marketing is the driving force of business:** Admittedly, marketing has become a driving force able to guide and control production. In fact, it is the market potential and not production resources that guide a business today.

   Earlier, it seemed that marketing was only about delivering goods and services to consumers. But later it was realized that goods must reach customers at the earliest with minimum cost. This involves the integration of a number of activities from the conception of a product idea to its profitable selling and ultimate consumption.

   In recent years, marketing has earned greater importance because of increase in production of wide variety of goods and services.

5. **Marketing is a science as well as an art**: Marketing is interdisciplinary in nature. It has borrowed heavily from economics, law, psychology, anthropology, sociology, etc.

   Marketing is an art in the sense that various principles of buying, selling, financing, standardization, market information, etc. have been put into practice to achieve success in the economic life of man. But later developments have changed the art base of marketing into a science base. This was necessary, for marketing is a study of behaviour in a particular setting. For example; it is the behaviour of individuals and institutions in the market-place. Human behaviour, of course, cannot be accurately measured. Since its rules or principles cannot be as accurate as those of science, such as, physics or chemistry, it has been contended that marketing is purely an art.

   However, modern marketers heavily depend on the semi-social sciences like ethics, education, etc. and the science with social implications, e.g. biology, for assistance in determining market values and predicting the results of marketing activity. Hence, it is not wrong to say that marketing is science based.

6. **Marketing is a system:** Marketing is a system comprising several interdependent and interacting sub-systems. It obtains the inputs from the environment, transforms these inputs and supplies into output, i.e. customer satisfaction, profits, etc.

7. **Exchange process is the essence of marketing:** Marketing activities turn around exchange process. Exchange implies transactions between buyer and seller. The seller hands over a product or service to the buyer who in return gives money. There is also exchange of information between buyers and sellers.

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8. **Marketing is goal oriented:** Like any other business activity, marketing seeks to achieve some useful results. The importance of marketing is to earn profits by satisfying human wants.

   Marketing helps in achieving the following objectives:

   i. To provide guiding policies regarding marketing procedures and their implementation;
   ii. To study marketing problems according to circumstances and to suggest solutions;
   iii. To analyse the shortcomings in the existing pattern of marketing;
   iv. To enable successful distribution of goods and services.
   v. To enable managers to assess and decide a particular course of action.

9. **Marketing is a process:** It comprises a series of interrelated functions. It is a dynamic process because it keeps on adjusting to the changes in the environment of business. Marketing is also considered as a social process as it is concerned with human managerial process, i.e. it involves the functions of planning and control. In summary marketing is an important functional area of management.

1.3 ROLE AND FUNCTIONS OF MARKETING

Marketing has different forms as it has been evolving over the years. A common misconception is that marketing means to sell and promote products. These activities are part of marketing and usually taken as only the result from a lot of marketing efforts, whereas it is only a vital part of this whole process.

Apart from promotional activities, marketing comprises strategic and tactical sets of functions covering planning, product development, packaging, pricing, distribution, customer service and evaluation.

Many organizations and businesses outsource the marketing functions to a marketing manager or a team within the organization. In this case, marketing is a separate entity. A marketing department comprises brand and product managers, marketing researchers, sales representatives, advertising and promotion managers, pricing specialists, and customer service personnel.

A marketer will also act as a co-coordinator between the customer and the organization; as a strategic partner, guide, deliverer, communicator, negotiator and customer voice.

Marketing also assumes the following responsibilities:

(i) Analysing the economic and competitive concepts of a sector/industry
(ii) Identifying markets to be targeted
(iii) Identifying segments or areas within a target market
(iv) Identifying most suitable strategies
(v) Commissioning, understanding and acting upon market research
(vi) Understanding competitors ,their strategies and likely responses
(vii) Developing new products

The extent of marketing is very wide; it may be analysed in terms of marketing functions. Functions of marketing are inherent in every process of marketing and

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these functions may have to be performed many number of times in the 'marketing of a given product'. For example, every time the product changes hands, buying and selling functions are performed.

The most widely accepted classifications of marketing functions are given as follows:

1. Functions of exchange

These functions form the cornerstone for any marketing activity. Goods are produced for satisfying human wants. This is attained when goods finally reach the consumers. This process of passing goods into the consumer's hands is known as function of exchange. For a clear understanding of the process this function is further divided into buying, assembling and selling.

(a) **Buying and assembling:** Buying is considered as one of the more important or primary functions of marketing. It is the initial step in the marketing process. A manufacturer buys raw materials for production purposes. Similarly, a wholesaler has to buy goods to sell them to a retailer. A retailer who has a direct line with the consumer also has to buy goods to be sold to the latter. Thus, in all functions of exchange the common aspect is buying.

Assembling starts once the goods have been purchased. Buying involves transfer of goods ownership, whereas assembling comprises creating and maintaining a stock of goods that are purchased from different sources. Usually goods are not purchased only from one seller. When they are purchased from different sellers, they have to be collected and assembled at one place under the control of the buyer. Thus, buying and assembling are two different processes.

Buying and assembling functions involve a number of different but closely related elements, i.e., type, quality, quantity, price, date of delivery, and other terms and conditions. These processes are not as simple as they appear. In fact, they require special knowledge on the part of buyers.

(b) **Selling:** Another important function which involves transfer of goods to the buyers involves selling. Selling is important from the viewpoint of the seller, the consumer and the general public. Efficiency in selling is the most important factor that affects the existence of a firm. The prime objective of a business is that profit is successfully achieved through the sale of goods.

The importance of selling has increased considerably as large-scale production has gained momentum. Mass production has necessitated mass selling of goods. It is easy to produce goods but it is very difficult to sell them. In short, demand creation is one of the formidable jobs that a seller has to face. The process of selling is further complicated by the presence of various legal restraints, such as Sale of Goods Act and Contract Act.

2. Functions of physical supply

Under this category two functions are included: (a) Transportation, (b) Storage or warehousing.

(a) **Transportation**: Transportation involves carrying commodities from where their utility is relatively low to places where it is higher. Concentration of natural resources at certain centres makes it necessary for the industries to concentrate there. This geographical division of labour and its advantages were made possible with the help of transportation.

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Even in the case of the simplest marketing mechanism, where the consumer buys directly from a local firm or a factory, transportation is involved and must be undertaken either by the buyer or seller.

The introduction of different kinds of transportation facilities has been responsible for bringing in new markets. Along with the developments in the communication sector, it has been a major factor in determining the extent of marketing. It assists in the sale of goods in domestic and foreign markets. Today, transport is capable of creating time utilities also with increase in the speed of various modes of transportation. Improvement in transport services has resulted in a regular supply of goods, lower prices and improved services to the consumers.

(b) Storage or warehousing: Storage is important under two conditions when there is seasonal production but consumption is continuous and also when there is continuous production but consumption is seasonal. In other words, storage involves holding and preserving of goods between the time of their production and the time of their use. It facilitates a steady flow of commodities to markets throughout the year.

The storage function is made effective through the establishment of warehouses. Warehouses also act as a central place for keeping goods from where the distribution could be made easy and pertain to needs.

3. Facilitating functions

Facilitating functions are subsidiary in nature. But they have a direct relationship with the marketing process. Facilitating function includes the following components:

(a) Financing: Though it is considered as an additional function of marketing, its importance cannot be underestimated. It is difficult to perform various marketing functions without the availability of adequate and cheap finance. In fact, finance facilitates marketing as modern marketing requires vast resources. There are various kinds of finance required: short-term finance, medium-term finance, long-term finance. There are various sources of marketing finance too, for example, commercial banks, co-operative credit societies and government agencies.

Modern business depends on trade credit. It facilitates increase in the amount of sale, improvement of creditworthiness, goodwill of the consumers, and increase in sales throughout the year.

(b) Risk-taking: Risk taking is yet another facilitating function of marketing. There are many risks that are involved and that a marketing enterprise has to bear in the process of marketing goods. These risks can arise due to unforeseen events which happen from time to time. Risks may be owing to social hazards like theft, burglary, and bad debts or they may arise during the course of transportation. They may also be due to decay, deterioration and accidents, or due to fluctuations in the prices caused by changes in their supply and demand.

Some of these risks may be avoided by careful handling. Some others may be shifted to insurance companies. For example, the risk due to fire and accidents may be covered by insurance, but the risks due to changes in prices caused by changes in demand and supply cannot be eliminated.

(c) **Standardization or grading:** There are certain predetermined standards for products that are preferred by the buyers and sellers. This relieves the buyers from examining the product and wasting time. That is why standardization has now been accepted as an important element of marketing. Some of the most important marketing problems concern the activity of establishing and maintaining standards and providing conformity to them.

(d) **Marketing information:** This is one of important functions of marketing. There is a lot of accurate, adequate and prompt information required by modern marketing. This information becomes the basis of many decisions in marketing. In marketing, there are many problems faced by a manufacturer, and the manufacturer can solve these problems by careful interpretation of the data available. Marketing information makes a seller know when to sell, at what price to sell, who are the competitors and other essential facts. Marketing information is the only source from where a seller knows the tastes and preferences of customers. For successful marketing as well as production, this is a highly essential function.

1.3.1 Role of Marketing in Economic Development

1. **Marketing sets the rate of economic progress:** The marketing organization, if more systematically organized, strengthens and stabilizes the economy. Underdeveloped marketing is a symbol of underdeveloped economy. An underdeveloped economy is characterized by many shortages and is a seller's market. There is no effort needed for selling. Thus, business firms do not change their marketing methods and practices. Other reasons responsible for the unsystematic marketing in an under-developed economy are heavy or complete dependence upon agriculture, old production methods, over-population, lower income and lower standard of living. Marketing is consumer oriented, so it can bring many changes that are positive in an under-developed economy

   Marketing helps a nation or country to improve the quality of goods and services and this consequently affects the business values. Consumers are most important elements of marketing. Quality of goods, store display, advertisement, packaging, etc., are all directed towards consumer satisfaction. Marketing helps in improving the standard of living by offering a large choice in goods and services. It also meets the consumers' physical and emotional needs.

2. **Marketing generates employment in areas like production and distribution:** Modern business houses employ a large number of people to carry out marketing functions. Marketing helps in developing employment option so that the finished products can reach the customers. The product passes through wholesalers and retailers and in this way many people are employed to provide products to various establishments. If there was no marketing, the level of employment would have stayed the same.

3. **Marketing boosts economic resources:** Since business firms generate revenue and profits by executing marketing functions, it will engage in exploiting a country's economic resources. Thus, marketing is of greatest importance if the resources of a nation are to be exploited completely. The needs of the customers are determined by marketing and it also sets out the production pattern of goods and services necessary to satisfy customers. Marketing also helps the manufacturers explore the export market.

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1.3.2 Marketing in an Emerging Economy

Marketing is a significant part in business today. Without marketing, business will be meaningless. Quite often, the success of a business is considered synonymous with the success of its marketing. Apart from being so crucial to a business, it is also helpful to the consumer and the development of the economy and society. Over a period of time, businesses have realized various dimensions and significance of this function and a more comprehensive view is being adopted. Specialized branches of marketing like the marketing of consumer goods and services, industrial goods and services, have developed with their own unique features. Marketing is a concept applicable not only to goods but also to services such as health service, investment counseling, bank deposits and loans. Marketing is important to the business, consumer and society. For business houses marketing brings in revenue, for the consumer it provides the goods and services of utility, for the society it enables a redistribution of income and generation of employment and improving the standards of living of people.

Major advantages of marketing are briefly discussed as follows:

(1) Marketing is important to a business organization since it is the activity that sells the product and brings revenue to the company and it is also the key to its success. Research and development and production become meaningless if the product is not marketed successfully. Scanning the environment, finding marketing opportunities, formulating product policies, evolving distribution and pricing strategies are some of the problems/areas that pose challenges to the success of a business. Marketing takes care of all these challenges.

(2) Marketing enables the consumers to exercise choice and to improve their levels of consumption. In a sense, marketing is defined as the delivery of a standard of living. The easy availability of goods and services of good quality at competitive prices is made possible only by an efficient marketing system. In such a system the consumer is the king.

(3) Marketing creates time, place and possession utilities to products and services. Products are useful only when they are available at the required time and place as well as to the person who needs them. Marketing creates these utilities.

(4) Marketing contributes to the economic development of the country. It symbolizes the economic development of a country. This is because on the one hand marketing activities generate employment and income, and on the other hand the development of a country is reflected in the variety and volume of goods available and consumed by the people of that country. The per capita availability of essential consumer goods is an indicator of the level of poverty or affluence in a country.

(5) Marketing offers career opportunities to a large number of people. Marketing-related occupations account for a significant portion of the employment generated in a country.

Importance of Marketing

Consumer is the pivot around which the whole economic world clusters. Today, a manufacturer does not pay as much attention to production as he pays to the consumer. It involves a fundamental change in the economic philosophy. At an early stage of

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economic development, the needs of a person were limited and he was capable enough to satisfy his needs on his own. Now circumstances have changed. It is the time of large-scale production with latest techniques which have resulted in the expansion of scope marked from a particular community to a state, from a state to the national level and from national level to the international level. Due to the increase in the scale of production and expansion of the market, the producer feels a need to take the help of different intermediaries for distributing his goods and services to the actual consumers. Along with it, product diversification and scattered location of consumers makes it compulsory for a manufacturer to adopt advertisement, sales promotion and salesmanship. As all these activities involve heavy expenditure, the cost of production is bound to increase day by day. The manufacturer wants to keep the selling price of his product comparable to that of his competitors so that he may maintain the demand for his product. Therefore, it becomes necessary that the cost of production must be controlled and the success of an enterprise in controlling the cost of production depends to a large extent upon successful operation of marketing activities and effective organization of this department. Marketing has acquired an important place the economic development of the whole country. It has also become a necessity for attaining the objective of social welfare.

Marketing and Society

In a business enterprise at the early stage of development marketing was considered to be the final activity. Against such a backdrop, the important functions of marketing may be explained as follows.

Significance of marketing in society can be illustrated as follows:

(i) Delivery of standard of living to the society: The foremost responsibility of marketing is to fulfil the needs and tastes of society by producing goods and services accordingly at reasonable prices.

Creating demand for goods and services encourages customers to use them, improving the standard of living. It is for this reason that Prof. Malcom McNair has said, 'Marketing is the creation and delivery of standard of living to the society.'

Marketing not only creates demand for new and existing products in the market but also maintains and increases them from time to time. It is marketing through which the customers use new commodities daily. Thus, marketing plays an important role in raising the standard of living of the whole society.

(ii) Decrease in distribution cost: The second important function of marketing is to control the cost of distribution. Decrease in the cost of distribution directly affects the prices of products because the cost of distribution is an important part of the total cost of production. If the cost of distribution is reduced the prices of products come down and it can be purchased by the customers or consumers who were unable to purchase it because of high prices. Even if we assume that the price of a product is not decreased by a manufacturer even when cost of distribution is low, it will increase the profit of the enterprise which will be divided among its shareholders and employees who are also consumers. Even if it is assumed that this increased profit is not distributed among these persons, it will be invested in research and development which will benefit the whole society.

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(iii) **Increasing employment opportunities:** Employment opportunities are directly affected by the development of marketing. Successful operation of marketing activities requires the services of different enterprises and organizations such as wholesalers, retailers, transportation, storage, finance, insurance and advertising thereby providing employment opportunities to a large sector.

According to an estimate, about 40 per cent of the labour force in developed countries like USA, Japan, Canada, Germany and France. is engaged in different activities of marketing such as marketing research, transportation, communication', storage, warehousing, publicity, wholesale and retail trade. It is expected that in an underdeveloped country, like India, there is a great scope of increasing employment opportunities by developing marketing activities.

(iv) **Protection against business slump:** Business slump causes unemployment, slackness in the success of business and great loss to the economy. Marketing helps in protecting society against all these problems. Marketing includes the discovery of new markets for the goods' modifications and alterations in the quality of products, and development of alternative uses of a product. It reduces the cost of distribution and maintains the level of sales volume. All this protects the business and industrial enterprises against the problem of business slump.

Marketing and Firm

Peter F. Drucker has rightly said, 'Marketing is the business.' All the business activities are directed on the basis of marketing decisions. The success an enterprise depends to a large extent upon the success of its marketing activities. A famous author commented upon the importance of marketing as, 'the problem of today is of marketing and not of production.'

The importance of marketing to the firm can be explained as follows:

(i) **Helpful in business planning and decision making:** It is very risky to take the decision with respect to production only on the basis of production capacity of an enterprise, especially in the light of increasing competition and changing circumstances. Therefore, it becomes necessary for a firm to decide what can be sold before deciding what can be produced. It is necessary to decide what quantity of a particular product can be sold in the market and what measures would be applied for getting loyalty of customers for the product. Unless these key decisions are taken, it is not possible to take the decision regarding production, purchase, finance, type of product and quantity of production. Marketing is very helpful in taking such decisions.

(ii) **Increase in profits:** The main objective of every firm is to earn maximum profit by successful operation of its activities; maximization of profits can be possible only through successful operation of the marketing department as much as the production or finance department. Though the marketing department needs help from other departments for discharging its duties successfully, the ultimate responsibility of introducing a product into the market and making it popular is the job of the marketing department. Marketing makes goods and services available at reduced costs by decreasing the cost of production and distribution. It generates the demand for goods and services through various media of advertisement, sales promotion and salesmanship. All these efforts result in the increase of demand, thus increasing the amount of sales and consequently increasing in the profits of the firm.

(iii) **Helpful in communication between society and firm:** Marketing forms an effective bridge of communication between society and the firm. Various categories of information regarding needs, attitudes, fashions, liking and disliking are collected by marketing. Marketing also provides valuable information to the top management of the firm regarding production policies of competitors, pricing policies of competitors, advertisement and sales promotion policy of competitors and availability of different media of advertisement so that a suitable policy maybe formulated by the top management. In addition to it, marketing provides extensive and deep information to society regarding availability of new products, characteristics of these products, life cycle of these products, utility of these products and the place of availability of these products.

Marketing and a Developed Economy

Economic activities for industrial growth and expansion in developed countries depend highly on marketing. In reality, developed countries are in greater need of efficient marketing than underdeveloped countries because in a developed country, generally, the production is carried on at a very large scale through the use of latest technology and equipment. In these countries, the production is much more than the demands. Therefore, product diversification takes place and the market is featured by stiff competition. It requires the marketing system to be much more effective so that the produced goods and services can be sold. In these countries, it is also not possible for the manufacturer to reduce the prices of their goods and services because their prices are already very competitive. Therefore, these countries take the help of improved techniques of marketing and make every possible effort to capture the market.

Marketing and a Developing Economy

Marketing in a developed economy is somewhat different from a developing economy like India. All the advantages of a matured marketing system as found in a developed economy may not be realized in a developing economy. Some characteristics of marketing in a developing economy are as follows:

1. Most of the markets remain seller's markets. The seller is in a dominating position and can influence the pattern of consumption, prices and quality of goods and services to his advantage. Many of the manufacturers believe in the selling concept and bother less about consumer satisfaction.
2. The variety of goods and services available are limited and even their quality may require improvement. Lack of effective competition enables the manufacturers to sell whatever they produce. The consumers have to accept and buy whatever is available in the market.
3. In a developing economy, due to lower per capita income, people spend most of their income on necessities and little money is available for discretionary spending. People may not be able to buy many goods and services within a limited income. As income determines consumption patterns, the scope for marketing is also determined by income.
4. Consumers' knowledge and awareness about their rights is also limited because they do not have more exposure to marketing activities. It is difficult to know about higher quality, better service and wider choice unless one has had exposure to these. The consumers of the developing economies, therefore, appear to be content with whatever is available in their country.

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5. The support services such as departmental stores, credit facilities, packing and delivery systems, after sales services, product guarantee and money back guarantee etc., are also uncommon in developing countries. All the developing countries are in a process of gradual evolution and in the normal course of events must grow into developed systems. Marketing will prove beneficial in bringing up an underdeveloped country.

Rapid development of an underdeveloped country is possible only through modern techniques of marketing. Importance of marketing goes on increasing in these countries with every step forward in industrialization and urbanization because marketing is an important tool for producing the goods and services at large scale and for selling them successfully in the market. Commenting upon the importance of marketing for developing countries, William J. Emlen said, 'Production may be the door to the economic growth of underdeveloped countries but marketing is the key that turns the lock.'

Bauer and Yemey expressed their opinions in this regard as, 'It is now held that the process of economic growth is one of increasing the size of the market. Narrowness of market, which is a general characteristic of developing economy, is in fact an impediment to economic growth.'

Marketing and the Indian Economy

The Indian economy is a developing economy. During recent years, the functions of marketing in India have undergone tremendous change. It is being recognized as a profession based on a systematic art of knowledge. The development of the new concept of marketing has also brought some revolutionary changes in the thinking of marketing executives. Marketing now means the creation of demands and customers. It also means satisfying the needs of society. It is regarded as the creation and delivery of standard of living to the society.

These changes have increased the liabilities of marketing managers these days. This has resulted in many important achievements in India such as: (i) Increase in employment opportunities; (ii) Balanced growth of the country; (iii) Increase in per capita income; (iv) Increase in the sale of goods; (v) Increase in profits; (vi) Development of the means of communication; (vii) Development of the means of transportation; (viii) Development of the means of warehousing; (ix) Development of new media of advertisement and sales promotion; (x) Development of banking and insurance industries; (xi) Development of packaging industries; (xii) Development of new means of finance; (xiii) Expansion in the scope and area of marketing; (xiv) Improvement in the standard of living; (xv) Industrial progress; (xvi) Maximum utilization of available resources; (xvii) Increase in exports; and (xviii) Increase in the national income of the country. On the basis of the above discussion, it can be concluded that India needs an effective system of marketing not only to expand its production capability but also to achieve all-round progress in the field of agriculture, industry, trade and commerce.

Check Your Progress

1. Define marketing.
2. Describe the nature and scope of marketing.
3. What are the main functions of exchange and supply?
4. What is the ultimate aim of marketing?

1.4 MODERN CONCEPT OF MARKETING

Over the years, the concept of marketing has changed and it now the needs and requirements of customers take precedence over selling and distribution activities. The modern concept of marketing is customer oriented. By providing goods and

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services that satisfy the needs of customers through a coordinated set of activities, a marketer also allows the organization to achieve its objectives. Based on these ideas, the modern concept of marketing can be defined as follows:

Customer needs, wants and demands: The most essential concept underlying marketing is that of consumer or customer needs. Needs are the basic human requirements, for example need for food, shelter, clothing, air, water, affection and self-expression. 'Needs become wants when they are directed to specific objects that might satisfy the needs.' For example, to satisfy the need of thirst, a person may want a glass of water. The 'thirst need' here becomes 'want for water.' Wants are shaped by a person's knowledge, culture, and personality. To satisfy the need for hunger, a North Indian, for example, may want a plate of rajma-chawal; a South Indian may want a dosa or uttapam; and a Bengali may want rice and fish. Wants that are backed by a customer's ability to pay become demands. For example, a student may want to buy a Luxor pen but may not have the power to purchase the pen. In such a case, this want will remain a want only and not become a demand.

Marketers always influence wants and demands. They do not create needs. Today, the challenge for marketers is to convert needs to wants and wants to demands. For this purpose, marketers spend huge sums of money in conducting consumer research so that they can understand their customers' needs, wants and demands.

Customer value and satisfaction: The success of marketing depends on customer's values and satisfaction. Value is expressed in terms of the benefits likely to increase from the purchase of a product or service and the cost involved in acquiring that product or service. Benefit can be in the form of quality, price, convenience, on time delivery, and after-sale service. Cost can be in the form of monetary cost, time cost, operational cost, and maintenance cost. Since the benefits and costs are not judged accurately and objectively, by the customers, they act on the face value. Customer value occurs when benefits perceived by a customer exceed the customer's perceived costs.

Marketers try to make the customer value favourable in the following ways:

(i) By increasing the benefits without increasing the cost

(ii) By decreasing the cost without decreasing the level of benefits and

(iii) By increasing both, benefits and costs, in a manner that the proportion of benefits is higher than the increase in cost.

Customer satisfaction: Customer satisfaction is expressed in terms of the product's perceived performance that is relative to a customer's expectations. If the product performance does not meet the customer's expectations, he feels dissatisfied and disappointed. If the product performance is reasonably close to a customer's expectations, one feels satisfied. It is only when the performance level of a product exceeds a customer's expectations, he feels satisfied and delighted. Satisfied and delighted customers not only make repeat purchases; they also become willing partners in a company's marketing efforts by spreading the word about their good experience to others. In order to retain and enlarge the base of customers, a marketer must attempt to deliver maximum satisfaction to its customers.

Exchange relationship: Exchange is the essence of marketing. The act of obtaining a desired object from some person by offering something in return is known as exchange. A marketing transaction occurs when both the buyer and seller voluntarily exchange something of value and both gain from the exchange. A seller provides a

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product or service, communicates about it, and facilitates the delivery of the offering to the buyer. The buyer completes the exchange by giving the cost of product to the seller.

For a mutually beneficial exchange to take place, the following conditions are necessary:

1. All the parties—individuals, groups, or organizations must participate in the process of exchange.
2. Each party must offer something of value to the other party.
3. Each party must have confidence in the promise ('something of value') given by the other.
4. Each party must obtain some benefit or satisfaction from the exchange.
5. Each party must be free to accept or reject the terms and conditions of exchange offer.
6. To build 'trust' each party must meet the other party's expectations.

1.4.1 Emerging Concepts in Marketing

(a) **Social marketing:** It covers the design, implementation, and control of programmes to increase the acceptability of a social cause among the target group. For instance, a recent publicity campaign for prohibition of smoking in Bhubaneswar showed the place where one can and can't smoke in Orissa.

(b) **Relationship marketing:** It is the process of creating, maintaining and enhancing customers and stakeholders' relationships. For example, some airlines offer special lounges with 'showers' at many airports for frequent fiyers. Thus, providing special benefits to choosen customers and strengthening bonds, will go a long way in building relationships. However, for effective relationship marketing, a marketer has to keep in touch with regular customers, identify most loyal customers to provide additional services to select customers, design special recognition and reward schemes, and use them for building long-term relationships.

(c) **Augmented marketing:** It means providing additional customer services and benefits of the products, such as introduction of hi-tech services like movies on demand, online computer repair services, and secretarial services. Such creative offerings supply a set of benefits that help in elevating customer service to unprecedented levels.

(d) **Direct marketing:** It means marketing products through various advertising media that are in direct interaction with consumers and these generally call for the consumer to make a direct response. Direct marketing includes catalogue selling, mail order, and TV shopping.

(e) **Service marketing:** It is a technique of marketing of services. 'Service is any activity or benefit that one party can offer to another that is essentially, intangible, and does not result in the ownership of anything.' Services may be financial, insurance, transportation, banking, retailing, educational or utilities.

(f) **Non-business marketing:** Marketing is applied not only to business firms but also to non-business organizations. Voluntary organizations are adopting principles and practices of marketing to promote their ideologies, schemes and programmes.

1.5 MARKETING AS A PHILOSOPHY OF MANAGEMENT

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Philosophy, in the context of marketing management, consists of an integrated set of assumptions and beliefs about the purpose of marketing activities and the way these should be undertaken. Taken together, these indicate the approach that will be adopted in performing various functions of marketing. These assumptions and beliefs were different at various stages of development of marketing management resulting in the emergence of different concepts of marketing: production concept, product concept, selling concept, marketing concept and societal marketing concept. Understanding these concepts is important for adopting marketing management as an integrated system.

1. **Production concept**

   Production concept is based on the assumption that if an organization is able to produce efficiently, it will not require any marketing effort. This concept was quite prevalent during the early years of the industrial revolution when demand for goods was much more than their supply. Therefore, all efforts were directed at increasing production volume and taking the advantage of large-scale production along with developing efficient distribution of goods. In some cases, this concept still applies, particularly in those organizations which have monopoly.

2. **Product concept**

   Product concept is based on the assumption that if an organization produces a superior product, it will sell on its own. The underlying philosophy is that customer favours the product quality, performance, innovative features, etc. Thus, product is the only consideration in exchange process relevant to marketing.

3. **Selling concept**

   Selling concept is based on the assumption that if an organization sells aggressively, it will capture substantial market share. As per this concept, the philosophy is to go for high promotional efforts which, in turn, will bring more sales. The promotional efforts will motivate the potential customers to buy the products as they become aware of the positive features of the products. Thus, the selling concept aims at bending the customers according to the product.

4. **Marketing concept**

   Marketing concept is based on the assumption that customer satisfaction is the key consideration in marketing. Thus, the marketing concept emphasizes on the identification of potential customers' needs and wants and providing matching products to satisfy these needs and wants. Identification of the requirements of customers takes precedence over producing the products as product features depend on these requirements. In this way, the marketing concept aims at developing the product according to customer needs. Thus, marketing involves selling satisfaction and not just products.

5. **Social marketing concept**

   Social marketing concept is based on the assumption that social objectives must be considered as an integral part of the customer satisfaction process.

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Thus, it is an extension of the marketing concept and adds on to the social aspect of marketing. Social aspect in marketing is required because customer satisfaction without the social aspect is counterproductive and brings many social problems, such as pollution, ecological imbalance, wastage of national resources, and drug abuse. Thus, marketing efforts should aim at enhancing the social well-being.

1.6 MARKETING RELATIONSHIPS

The success of a firm depends largely on cooperation among various departments. Thus, it is essential to analyse the relationships between marketing and other departments in an organization.

1.6.1 Other Functional Areas

1. **Marketing and manufacturing department**: Success of a firm depends on the continuous support and cooperation between the marketing and the manufacturing department. The degree of success is directly related to the co-operation between these two departments. The manufacturing department, for instance, may be working in full swing to match productivity targets. It is the duty of marketing to absorb the production through efficient distribution. So, there is no problem if the volume of sales is targeted. But problem begins when marketing fails to absorb excess production. The manufacturing department might have produced more number of units to bear minimum cost but such cost benefits will be offset by additional cost to be incurred by marketing to sell those additional units. Here the plan as well as objectives might get lost because of lack of coordination. Similar problem occurs when there are quality variations.

   This situation points out the need for cooperation, if mutually acceptable solutions are to be arrived at. Manufacturing may have limiting factors and marketing may have its own. Only an effective and scientific planning system could resolve these conflicts within the firm.

2. **Marketing and finance department:** Money is efficiently managed by the finance department. The finance department plays a major role in a firm's profit-planning. This is one of the important factors in the overall aspects of a firm, as limits are set for both the marketing and manufacturing departments. For example, the department of finance may not be interested in getting involved in too many bad debts and so they may restrict the credit sales of an organization or company. To make the objectives set by the finance department come true, marketing definitely has to stick to this. On the other hand, the department of finance should not impose too much credit control as it would have an effect on the company's future prospects. For instance, it might be fine to limit credit sales to small and insignificant customers, but the same cannot be advised for two reasons; first these insignificant customers might become significant for the company in future and second, competitors may carry away these customers by proposing liberal credit terms and conditions. Thus, it is advisable not to impose financial control systems so rigidly that they hinder the marketing and manufacturing operations and development.

It is with a view to ensuring cooperation that various control techniques are adopted. But often controls are used as restrictions. Control systems once properly designed could guide the business activities to make correct judgment and attainment of objectives and targets. At the same time, the whole process would remain a myth if controls are unrealistically set and are not arrived at through discussion between finance, marketing and operating departments.

3. **Marketing and Personnel Department:** All firms are social organizations comprising individuals. A firm's prosperity depends largely on human efforts. Marketing is dependent on employing the right persons in jobs requiring persuasive abilities. This is very important and essential in jobs like sales, distribution and promotion. Thus, there is a need for a high degree of co-operation between marketing and personnel.

This stresses the fact that marketing is the running thread or link through all the departments of an organization and it must ensure cooperation from other departments.

1.6.2 General Management of an Organization

Operating a company requires that all departments be working in harmony to reach corporate goals. To maximize the potential of the marketing group in an organization, one must understand the roles of marketing in the management of the company. The information that the marketing department collects has significant effects on a company's growth.

1. Focus

The marketing group designs the course which the company will take to move towards future goals. Marketing determines which products would be profitable in the marketplace, the geographic areas where the company needs to be placed to be competitive and the allocation of personnel necessary to develop and sell the products. Marketing research takes the pulse of the consumers and creates the company's future focus based on that data.

2. Corporate image

The marketing group is the flag bearer of the company's corporate image, and the corporate image is the primary way in which the company is identified by the public. The company's culture, ethics and external relationships depend on maintaining a positive company image. The marketing group controls the advertising images and releases the statements that address company issues. Corporate image is critical to corporate branding, which establishes the company's reputation in the marketplace.

3. Competition

Part of the marketing department's job is to conduct regular competitive analysis of the marketplace. The marketing group knows who their competitors are, what kind of new features and products the competitors will be releasing and whether they can compete with the other companies in the industry. Such information is vital in determining what products and services the company will focus on and what geographical area the company will target with its advertising.

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4. Performance monitoring

The marketing goals for the company become sales goals and production goals. When the marketing goals are set, the rest of the company has a way to measure progress. The sales group measures its progress against the revenue that the marketing research predicted for the year. The marketing group determines what kind of production schedule the company needs to keep up with demand, and that is what the manufacturing group uses as a way to monitor its performance.

1.7 ANALYSING THE MICRO ENVIRONMENT

Micro environment refers to the forces in the immediate environment which affect a marketing manager's ability to serve the customers. It includes both internal and external forces. Internal forces include a company's top management and its production, finance, personnel and other departments. External micro environment includes suppliers, marketing intermediaries, competitors, customers and general public.

1. Suppliers

Suppliers include those business firms or individuals who provide goods and services to the marketing department for sale. Business firms depend on numerous suppliers. The buyer–supplier relationship is of mutual economic interdependence. Both parties rely on the other for their commercial well-being and success. Buyers as well as suppliers seek stability and security from their relationship, but factors in the supplier environment can change because of industrial disputes which will affect material delivery to the buying company, or a sudden change in raw material prices, unexpected developments in the supplier environment. Because of this, marketing management, with the help of the marketing intelligence, should continuously monitor actual as well as potential changes in the supplier environment and should have alternative plans to deal with potentially adverse developments.

2. Marketing intermediaries

Marketing intermediaries are the individuals or organizations that are independent and that directly help in the free flow of goods and services between marketing organizations and their customers. These are basically of two types, namely merchant and agent. Merchant middlemen can be wholesalers and retailers. Agent middlemen can take different forms and they render such important services that they are an essential part of the distribution network.

3. Customers

The target customers also influence marketing environment of a business organization. They may be divided as follows:

(i) **Consumer market**–individuals and households

(ii) **Industrial market**–organizations buying process for manufacturing other products and services for either earning profits or fulfilling other objectives or both.

(iii) **Reseller market**–organizations buying goods and services so as to sell them to others for a profit. These may be selling intermediaries and retailers.

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(iv) **Government and other non-profit market**–those buying goods and services to produce public services. They transfer these goods and services to those who need them for consumption in most of the cases.

(v) **International market**–individuals and organizations of nations other than the home country who buy for either consumption or industrial use or for both. They may be foreign consumers, producers, resellers and governments.

4. Competitors

Marketing decisions by an individual firm influence not only consumer responses in the marketplace but also affect the marketing strategies of competitors. As a consequence, marketers must continuously monitor a competitor's marketing activities, such as, their products, channels, prices and promotional activities. The marketers must also gain strategic advantage by presenting their products and services strongly against those of their competitors.

Michale Porter has identified the following five forces of competition for a firm:

(i) Rivalry among existing firms
(ii) Threat from new entrants
(iii) Threat from suppliers
(iv) Threat from substitute products and services
(v) Threat from buyers

A thorough study of the above factors would help the firm in designing its competitive strategy. These five forces also determine the cost of operations, prices of end products, the investment and capacity to create and sustain entry barriers in the industry. A firm's performance is determined by the competitive positioning it adopts with regard to competitors giving due weightage to the five forces.

Marketers usually face three types of competition, which are as follows:

(a) The most direct form of competition occurs among marketers of similar products. For example, competitors in electronic home appliances include Videocon, Voltas, Samsung, LG, Philips, and Sansui.

(b) The second type of competition involves products that can be substituted for one another. For example, in the transport industry goods trains compete with road goods carrier, and airlines. In case a change occurs in a product, e.g., the price is increased, the demand for substitute products is directly affected.

(c) The final type of competition occurs among all organizations that compete for consumers' purchases. In other words, modern marketers accept the argument that all firms compete for a limited amount of discretionary buying power.

5. Public

The company's micro environment also includes various public, i.e. groups of people. A 'public' means any group that has an actual or potential interest in or impacts on the company's ability to achieve its objectives. Kotler and Armstrong have described seven types of public as follows:

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(i) **Financial public**. Financial public influences the ability of a company to obtain funds. Major financial public include banks, investment houses and shareholders.

(ii) **Media public**. Media public comprises those entities that carry news, features and editorial opinion and include newspapers, magazines, radio and television.

(iii) **Government public**. The management must take into consideration developments made by the government. Marketers must take into account issues of product safety, truth-in-advertising and other matters.

(iv) **Action groups**. A marketing decision made by a company may be questioned by consumer organizations, environmental groups, minority groups and others. The company's public relation department can help it stay in connection with consumer and citizen groups.

(v) **Local public.** Every company or organization has local public, such as neighbourhood residents and community organizations.

(vi) **General public.** A company should be concerned about the general public's attitude towards its products and activities. A company's public image affects its sales.

(vii) **Internal public**. Internal public of a company includes its workers, managers, and board of directors. Large companies use in-house newsletters and other means to update and motivate their internal public. When employees of a company feel good about their company, then this positive attitude reaches out to the external public.

1.8 SUMMING UP

- Marketing plays a significant role in a business organization. It works as a guide for all business organizations. It is a powerful mechanism which alone can satisfy the needs and wants of the consumers at the place and price they desire. The success of a business depends largely on the effectiveness of its marketing strategies.
- The main features of modern marketing are: Marketing is consumer-oriented, it starts and ends with the consumer, it precedes and succeeds production, it is the guiding force of business, it is a science as well as an art, it is a system, exchange process is the essence of marketing, marketing is a process, and marketing is goal oriented.
- Marketing sets the rate of economic progress. Marketing is consumer oriented; Marketing can bring about and introduce many positive changes in the under-developed economies. Marketing helps a nation to improve the quality of goods, services and this consequently affects the business values. Consumer is very important. Quality of goods, store display, advertisement and packaging are all directed towards consumer satisfaction. Marketing provides better living standard by offering a wide range of goods and services with freedom of choice, and by providing the customer a higher standard of living, as it meets the consumers' physical and emotional needs.
- Marketing generates employment in production and distribution areas. Modern business houses employ a large number of people to carry out the marketing

Check Your Progress

5. What is 'selling' in marketing?
6. What are the conditions of an exchange?
7. In what ways do marketers try to make customer value favourable?

functions of a business firm to generate revenue and earn profits. It engages in exploiting country's economic resources to earn more profits.

- Significance of marketing can be in terms of: (i) Delivery of standard of living to the society, (ii) Decrease in distribution cost. The importance of marketing to the firm can be explained as: (i) Helpful in business planning and decision making, (ii) Increase in the profit, (iii) Helpful in communication between society and firm.
- The most widely accepted classifications of marketing functions are:

  Functions of Exchange: The process of passing goods into the consumer's hands is called function of exchange. The process of this function is further divided into buying and assembling and selling. Functions of physical supply: under this category two functions are included: (a) transportation, (b) storage or warehousing.
- Facilitating function includes: financing, risk-taking, standardization or grading, marketing information.

  The modern concept of marketing is customer focused. By providing goods and services that satisfy customers' needs through a coordinated set of activities, a marketer also allows the organization to achieve its objectives.
- Philosophy, in the context of marketing management, consists of an integrated set of assumptions and beliefs about the purpose of marketing activities and the way in which these should be undertaken. Taken together, these indicate the approach that are adopted in performing various functions of marketing. Understanding these concepts is important for adopting marketing management as an integrated system.
- The success of a firm depends largely on cooperation among various departments. Thus, it is essential to analyse, the inter-relationship between marketing and other departments in an organization, such as: marketing and manufacturing departments, marketing and finance department, marketing and personnel department. Operating a company requires that all departments be working in harmony to reach corporate goals. To maximize the potential of the marketing group in an organization, one must understand the roles of marketing in the management of the company. The information that the marketing department collects have significant effects is on a company's growth.
- Micro environment implies the forces in the immediate environment which affect the marketing manager's ability to serve the customers. It includes internal as well as external forces. Internal forces include a company's top management and its production, finance, personnel and other departments. External micro environment includes suppliers, marketing intermediaries, competitors, customers and general public.

1.9 KEY TERMS

- **Service:** Service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.
- **Risk Taking:** Risk concerns the deviation of one or more results of one or more future events from their expected value.

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- **Exchange:** Exchange is the act of obtaining a desired object from someone by offering something in return.
- **Suppliers:** Someone whose business is to supply a particular service or commodity.
- **Competitors:** An organization or country that is engaged in commercial or economic competition with others.
- **Public:** 'Public' means any group that has actual or potential interest in or impacts on the company's ability to achieve its objectives.
- **Warehouse:** A place where goods are stored until further use.
- **Micro environment:** Factors or elements in an organization's immediate area of operations that affect its performance and decision-making freedom. These factors include competitors, customers, distribution channels, suppliers, and the general public.

1.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Marketing is the business process by which products are matched with markets and through which transfers of ownership are affected.
2. Following are the nature and scope of marketing:
   - Marketing is consumer oriented
   - Marketing starts and ends with the consumer
   - Marketing precedes and succeeds production
   - Marketing is the guiding force of business
   - Marketing is a science as well as an art
   - Marketing is a system
   - Exchange process is the essence of marketing
   - Marketing is goal oriented
   - Marketing is a process
3. The main functions of exchange are: (a) Buying and Assembling (b) Selling and functions of supply are, (a) Warehousing and Storage (b) Transportation
4. The ultimate aim of marketing is to generate profits through the satisfaction of human wants.
5. Selling concept is based on the assumption that if an organization sells aggressively, it will capture substantial market share. In this concept, the philosophy is to go for high promotional efforts which, in turn, will increase sales. The promotional efforts will motivate the potential customers to buy the products as they become aware of the positive features of the products. Thus, the selling concept aims at bending the customers according to the product.
6. The following conditions must be met for a successful exchange:
   (a) All the parties—individuals, groups, or organizations must participate in the process of exchange.
   (b) Each party must offer something of value to the other party.
   (c) Each party must have confidence in the promise ('something of value') given by the other.
   (d) Each party must obtain some benefit or satisfaction from the exchange.

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(e) Each party must be free to accept or reject the terms and conditions of exchange offer.

(f) To build 'trust' each party must meet the other person's expectations.

7. (i) By increasing the benefits without increasing the cost

(ii) By decreasing the cost without decreasing the level of benefits and

(iii) By increasing both, benefits and costs in a manner that the proportion of benefits is higher than the increase in cost.

1.11 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are marketing responsibilities?
2. Explain the importance of marketing in business.
3. What are the conditions of an exchange?
4. 'Marketing is an art and a system'. Explain.
5. How does marketing meet customers' needs, wants and demands?
6. Discuss marketing as a philosophy of management.

Long-Answers Questions

1. Discuss 'Public'.
2. What is the role of marketing in management of an organization?
3. Write a note on functions and scope of marketing.
4. What are the modern concepts of marketing?
5. Explain the relationship of marketing with the micro environment.
6. Define marketing and discuss its nature.
7. Discuss the role of marketing in economic development of a country.

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UNIT 2 PRODUCT POLICIES

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2.0 INTRODUCTION

In common dialect, product means a tangible object with distinctive features. However, in marketing, the term product is used in a broader sense. Thus, product may be anything that can be marketed. Based on this basic premise, Philip Kotler has defined product as follows:

'A product can be offered to a market for gaining attention, acquisition, use or consumption; it includes physical objects, services, personalities, places, organizations and ideas.'

For a customer, a product is a bundle of utilities through which different types of needs of a buyer are satisfied. Depending on the nature of the product, these benefits may be of three types: functional benefits, psychological benefits and social benefits. Functional benefits are provided by the basic features of the product, for example, functional benefits of a motorcycle are in the form of speed, fuel consumption, maintenance cost and Psychological benefits are in the form of mental satisfaction that the buyer experiences in possessing the product of a particular company. For example, in the motorcycle segment, there are different brands of motorcycles with each brand representing varying degrees of psychological satisfaction. Social benefits are in the form of wider social acceptance assigned to a product as being unique in some way. A buyer of such a product is treated highly by the concerned social group. For example, Rolls-Royce cars and Rolex watches are costliest in the world. Still you

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will find buyers for these products, not because they have more functional benefits, but because of their status value which makes the buyers of such products unique or select few in society. Understanding the nature of a product in terms of its benefits is important for marketers as they can add value to customers.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the meaning and importance of product policy
- Describe the development process of a new product
- Explain product diversification
- Discuss the importance of branding and packaging in marketing
- Explain the process of elimination of products and its significance

2.2 PRODUCT POLICY: MEANING AND SIGNIFICANCE

Product policies are the guidelines set up by the management for making product decisions. Products of a firm are the backbone with which profit is earned enabling the firm to exist. Therefore, the product is the fundamental element of marketing mix which determines the firm's success or failure. Good product policies are the basis on which the right products are produced and marketed successfully. The basic function of a product policy is that it guides the activities of a firm and is measured not only with the current profits, but also with the life of the firm. The policies of the firm must be to manufacture or handle right products for the consumers.

Product policy is concerned with defining the type, volume and timing of the products a company offers for sale. The product policy lays down the guidelines which determine the nature of the product or services, to be marketed. All types of commercial functions must have a policy. And as far as a product is concerned, a policy is essential to take the product up to the standard expected by consumers.

The significance of product policy is to guide the activities of the firm towards common goals. Today, the success of the company is not measured by its current profits but by its long-term growth. In other words, a company *must* strike a delicate balance between optimizing current operations and making necessary provisions for the future. These aims could be achieved only by adopting a proper product policy.

The important features comprising product policy are:

1. Product mix
2. The rate, nature and direction of changes in demand for the existing product
3. Product removal and decisions of new product development
4. Product policy of the competitors

Although product policies do not provide ready-made solution to the above problems, it could provide guidelines for efficient planning and action.

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Features of Product Policy

When a product policy is made, various factors are taken into consideration. Therefore, product policy is fundamental to the complete operation of the business. It broadly comprises:

1. Product planning and development
2. Product line
3. Product standardization
4. Product identification
5. Product style
6. Product packaging

Product policies are company rules to guide those engaged in product planning, development, production or marketing. Such policies are concerned with defining the type, volume and timing of the products that are offered by a company for sale. Product policies are applicable for both existing and new products.

2.3 DEVELOPMENT OF NEW PRODUCTS

Admittedly some products are discovered by accident and some are the outcome of a careful, methodical process of product development. As far as new product development is concerned, first of all new product ideas are to be explored, evaluated and then the most promising idea is selected for further analysis. The product concept is to understand how the new products would relate to other products in the line and to determine how much of the company's resources it would require. Marketers begin to develop the product, which can be an internal or external activity.

The new product is test marketed and a variety of marketing mixes are evaluated. Marketers commercialize the product by starting production and implementing the preferred marketing mix.

Basic requirements of new products are:

(a) Customer acceptance

(b) Satisfactory performance

(c) Economical production

(d) Adequate distribution

(e) Attractive packaging and branding

(f) Adequate after sales service whenever required

(g) Ultimate replacement: Ultimate replacement is a vital point. The business concern can stay in business only if it be comes regular with new products that will replace the old ones becoming obsolete.

(h) Technical advances: Due to research and development new products have emerged to help the customer. Many uses which were considered impossible have now become common. It is through research and development new uses of existing ones are known and obsolescence is avoided due to substitutes and competitive products.

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2.3.1 Process of New Product Development

The process of new product development is as follows:

(A) Exploration of new product ideas

The management of the company undertakes the policy decision of product launching and the technical department undertakes research. The marketing of a new product leads to industrial growth.

Developing a commercial idea is a part of marketing. An unsatisfied customer can also help in creation of commercial possibilities. Hence, marketing research and collection of data pertaining to the needs of the people are important at the stage of 'searching' for ideas of a new product.

Further, ideas for new products must accompany the technical knowledge and possibility of markets. One must analyse and evaluate sales potential, profitability, existing facilities and availability of other resources like finances. In this way the planners of the product can identify specific customer needs and expectations and align company capabilities with the changing demands.

(B) Selecting ideas

This needs consideration of market potential and profitability which requires:

(i) Product facilities
(ii) Availability of raw materials
(iii) Possibility of using existing plants
(iv) Finance allotted for the project

Finance, cost accounting and marketing departments are involved in the development of a new product. So is the importance of the sales department. The marketing department is responsible for sales policies and sales strategies. In the absence of a marketing department, this whole responsibility is undertaken by the sales department. In fact, all departments coordinate in new product development and all departmental heads interact with each other frequently to evolve a new product.

Assessment of market and collection of data are equally important. The data are examined and tested for its application. The next step is to form specifications. Innovative ways of marketing the product and all minimum requirements of the product are considered.

(C) Product development

At this stage, the higher authority must take decisions to prepare samples or designs of the product to gauge the consumer needs. Decisions regarding brand and packaging are taken and consumers' tastes are also investigated. After this, the decision to accept the project is taken.

(D) Test marketing

After designing, the next step is testing the product in the market. If it is an industrial product, the cost of testing will be much less because the users of such products are few and approached easily. In case it is a consumer product, it will take more time to test the product and the cost of testing will be much higher. The result of testing is analysed and if the product proves successful the decision to produce it on a commercial

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basis is taken and if it proves unsatisfactory, it may be withdrawn. For test purposes, test marketing is done, i.e., product is sold in some selected market segments for a specified period. Testing the product reduces the risk to a great extent.

(E) Commercialization of the product

If the product is proved successful in testing, the decision to produce it on commercial basis may be taken. Thus the last stage in product development is the introduction or launching of the product in the market after top management approves the introduction of the new product.

2.3.2 Standardization and Simplification

Standardization is a process through which a company establishes a uniform standard for a product, like dimensions, size and quality. In other words, products are turned out according to predetermined standards. Fixing up standards for products requires careful planning. Standards are fixed on the basis of the process involved, the nature of the product, market demand and other factors. Standardization includes various elements such as grading, packaging, labelling, and branding. In fact, standardization concentrates upon optimum number, types, size and grade of products and is concerned with a particular product or process. It is technical in nature. Product planning comprises discovery of ideas, selection, development and commercialization of new products. Sometimes out of compulsion the management reduces its existing product line which is known as product line contraction. It is a method by which a long product line is thinned out. It is also termed as simplification.

The management might decide to reduce or even suspend the product units due to an unprofitable outcome. Sometimes marketing problems also compel the manufacturers to withdraw certain items.

Product line contraction is a major decision from the point of view of the management. Many sick or marginal products never die. They are allowed to continue in the company's product mix until they fade away. These products will, in the course of time, eat away the profits earned by other products. The decisions to give away a product often result from changes in the market. Products may also be abandoned despite being profitable; if the management feels that the same resources could yield a higher profit from other products.

Thus, the process of avoiding or stopping the production of a particular product is called simplification. It is also termed as product line contraction. In fact, it is opposite diversification. Often, most managements are on the lookout for weak products and adopting a gradual elimination of some products.

Advantages of product simplification

Advantages of product simplification are:

1. **Reduced cost:** Cost of production is considerably reduced by the process of simplification because production of unprofitable products is stopped and the resources are made available to other profitable products. Hence, items are produced on a large scale and as a result large-scale economies are achieved.
2. **Leads to specialization and standardization:** In order to specialize in the production of one or two items, specialized plants and standardized methods are used.

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3. **Use of skill:** The firm can make use of the skill of specialized personnel so that better quality of products are produced.
4. **Increase in efficiency:** Because numbers of products are limited, the production is made on the principles of specialization and division of work. It increases the efficiency of labour and the firms.
5. **Increase in profits:** Due to increase in efficiency and reduced wastage and cost of production, the profits of the firm increase to a great extent.
6. **Market control:** Marketing control becomes convenient by simplification because marketing activities such as market analysis, consumer analysis and competition analysis can be carried out extensively. Moreover, marketing and production problems will be less.

2.4 PRODUCT AND FORMS OF DIVERSIFICATION

Product line is just the opposite of simplification and is referred to as diversification. To utilize the marketing opportunities, a firm may extend both in breadth and in depth. Depth refers to the number of product items offered by the organization within a particular product line, whereas, width refers to the extent of different product lines in the product mix offered by an organization. Consistency describes the close proximity of various product lines.

Product diversification increases the depth of the product mix and thus helps the organization to attract customers with deficient needs and preferences. This helps the company to capitalize on its established reputation and marketing skills. Increase in consistency of the product mix helps the business firm to capitalize on its existing facilities like production and distribution and establishes a high reputation for itself.

Diversification means addition of something new. It may be new products, new markets, new technologies or even a new company. Generally, it means adding a new product to the existing product line or mix. For example, if a TV manufacturing company starts producing washing machines, it is a case of diversification. It does not mean that the new product should be complementary or an allied product to the existing one, it may be a product which may be entirely different from existing products. The term is applicable not only to production but also to selling. For instance, if a wholesale dealing in FMCGs starts selling durable products simultaneously, it is also a case of diversification.

Some of the reasons which may require such change are:

(i) There is a technological development in the process of production.

(ii) New markets are to be created.

(iii) The advantage of the reputation of company's name, and its existing products is to be spread to other products.

(v) There is constant threat to the existing product due to sudden changes in fashion.

(vi) The spare capacity of the factory is to be fully utilized.

Diversification is profitable only in the case of large companies which are multimarket and multiproduct in nature. Such companies should be financially viable and supported by well-organized management. Diversification of products to a very large extent is capable of preventing recessionary trends. The usual way in which diversification is brought into effect is by means of merger of one company with another.

Check Your Progress

1. What do you mean by product policy?
2. List out the important features of product policy.
3. What is the value of product policy in marketing?
4. List the key points of the process of new product development.

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The objectives of product diversification are:

I. Stability in earnings and organization

(i) To eliminate seasonal slumps.
(ii) To eliminate repeated slumps.
(iii) To reduce the danger of decreasing demand.
(iv) To get social approval.

II. Complete utilization of company resources

(i) To make use of the innovations, accidental or purposeful, in the company laboratories.
(ii) To use excess productive capacity arising from abrupt decline in demand.
(iii) To capitalize the foreseen demands for a product developed for a company's own use.
(iv) To capitalize on a unique production process.
(v) To make new uses of the basic raw materials.
(vi) To utilize by-products and make profits on them.
(vii) Complete utilization of management and staff.

III. Efficient marketing

(i) To increase the sales of basic products.
(ii) To meet the demands and convenience of the diversified retailer.
(iii) To exploit the value of an established trade mark.
(iv) To meet the requests of specific customers.
(v) To reduce the ratio of sales costs and total sales.

IV. Profitable use of opportunities

(i) To use cash and undistributed earnings during high-profit periods.
(ii) To take advantage of the large company's access to debt financing at relatively low rates.
(iii) To manipulate capital gains versus income and inheritance taxes for the material benefit of the buyers and sellers in perspective mergers.
(iv) To capture merger bargains that are too good to pass up.
(v) To avoid the cost of constructing facilities under existing economic conditions.
(vi) To make the best of diversification acquired with a purchased company.

2.4.1 Forms of Diversification

There are three accepted forms of product diversification:

1. Diversification into related product line
2. Diversification into unrelated product line
3. Product replacement

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1. **Diversification into related product line**

   When diversification is planned in such products that are related to the existing product lines, generally the suggested products may be grouped with the existing product on 'one and the other' basis. For example, Reckitt Benckiser produces Dettol bathing soap, liquid handwash, shaving cream and hand sanitizer.

   The purposes of such types of diversification are:

   (a) To reduce the average selling cost

   (b) To reorganize its sales organization

   (c) To combat competition

   (d) To increase the profits

2. **Diversification into unrelated product line**

   The company may diversify in such product lines that are quite unrelated to each other. They cannot be grouped together. For example, TATA manufactures steel, chemicals, software, watches, light and heavy vehicles and jewellery. These products are not related to each other.

   The decision to diversify in this form is taken due to the following advantages:

   (a) to capture the market,

   (b) to take advantage of goodwill in the market,

   (c) to have stability in the trade.

   This type of policy requires extensive market analysis before taking a decision to diversify.

3. **Product replacement**

   Under this form of diversification, a new product is added to the existing product line to replace another product of the same product line. If a company thinks that a product is about to die, it adds another product of similar nature to the market so that the company can maintain its sale-volume and profits also. It is a defensive policy against the risk of eliminating one of the products of the company.

2.4.2 Factors Motivating Product Diversification

Following are the various factors that affect the decision of product diversification:

1. **Utilization of unused capacity:** If resources such as capital, labour, managerial skill and marketing facilities, remain unutilized or under-utilized, the company can take the decision to diversify its products to make the best use of such unutilized or under-utilized capacity. Change in product mix will reduce the cost of production because the company will no more bear the cost of unutilized resources unnecessarily.
2. **Scientific and technical development:** The decision of diversification may be the result of scientific and technical developments in production methods. Such developments make the existing products obsolete. Therefore, the company can replace the old product with the new one using modern technology. It may take advantage of its goodwill if it is a pioneer in the field.
3. **Efficient management:** If the management of the organization is efficient and takes interest in the development of the concern, it may come out with the decision to produce new products whether related or unrelated to the existing product line.

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4. **Government policies:** Industrial and economic policies of the government also affect the decision of diversification. If these policies motivate the producers to produce new products and does not restrict the monopolistic tendencies, then diversification may take place.
5. **Social changes:** Social changes such as changes in the nature and behaviour of the consumers, demand, fashion, and style motivate the producer to diversify a product according to the demand of the new product.
6. **Desire of the producer:** Sometimes, the desire of the producer is very strong to produce different products either to take the advantage of his goodwill or to control the market or to dominate the will of the buyers. This leads to diversification.
7. **Consumer satisfaction:** In some cases, the faith of the consumer is favourable to one company and he wishes that the company should produce other products also. In such cases, if the company is confident enough to earn consumers' faith it takes the decision to diversify in those areas. In India, the consumers have faith in the products of Tata or Hindustan Unilever and any new product manufactured by them will be easily accepted in the market only because it is produced by Tata or Hindustan Unilever.

2.5 ADDITION AND ELIMINATION IN PRODUCT LINE

A company always strives towards increasing its market share by adding or removing a low-selling product from the market. When a new product of the same company is introduced, it is usually launched under the parent name and is added to the line of products. However, if the product has become low-selling and fails to generate any revenue it is eliminated from the line of products. Hence, addition and elimination of products are two sides of the same coin.

Addition

Addition of product line may be a valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another; or if the competitors lack a comparable product or if competitors have already expanded into this area themselves. However, the main limitation in expansion is the availability of sufficient finances, time and equipment.

Addition to the present product-mix may be done by increasing the number of lines and/or the depth within a line. Such a new line may be related or unrelated to the present products. For example, the large provision stores may add drugs, cosmetics and housewares (width) while at the same time increasing their assortments of dry fruits, baby foods, and detergents (depth).

Elimination

Marketers are always on the lookout for weak products and adopting a gradual elimination of such products. There are some products that cannot be improved or modified to suit the market. In such cases, the profitable alternative would be to withdraw the product. The process of withdrawal is technically known as 'product elimination.' Products are removed from the product line at times. The management

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introduces a new product and reviews existing products from time to time and at times cancels the production. Continuation of sick products will lead a company to low profitability. Further, such products will possibly spoil the company's reputation if they are unacceptable to the customer.

Usually, elimination is not an option because the product has remained for years in the company's history. But the dying product loses market appeal and as a result capital is stuck.

Thus, such sick products should be dropped or removed from the company's existing product mix.

Process of Elimination

An organized plan is required to remove marginal or unprofitable products. The following process may be adopted for product elimination:

(i) The first step in the process would be to select the products that are to be considered for elimination.

(ii) Thereafter, necessary information would be collected and analysed. Factors like deficiency in product, substitutes, product life cycle, price, profitability and inability of the product to satisfy the needs of consumers are to be examined.

After due analysis, if it is found that the product can be modified to suit the needs of the consumers and it can be done profitably, the product should be improved or modified. On the other hand, if analysis reveals that the product cannot be modified to fit the demands of the customers, a decision to eliminate it should be taken.

Reasons for Product Elimination

The following factors should be carefully studied in order to determine if a particular product is to be eliminated. These include:

1. **Continuous decrease in the sale of the product:** It may be due to the last stage of the product lifecycle or availability of better quality products by the competitors in the market.
2. **Reduction in product effectiveness:** After some time, certain products lose their charm or effectiveness in providing the benefits for which they were produced. This particularly happens in the case of pharmaceutical products and certain drugs, therefore, they have to be removed or replaced by other drugs.
3. **Improved product:** If an improved substitute of the existing product emerges in the market, the management must consider this seriously even at the time when a substitute is in its introductory stages, otherwise the company will lose the market.
4. **Lack of attention:** If the management devotes more time to sick products in comparison to the other products, it is better to eliminate the product, so that administrative time spent on a sick product can be utilized for the betterment of other profitable products.
5. **Low prices trend:** If prices of the product are continuously decreasing in spite of the best efforts, and the management thinks that the obsolescence stage cannot be carried on further, the firm must take a decision to eliminate the product.

6. **Product lifecycle:** If the product is in its last stage, i.e., in the obsolescence stage, it would be wise to eliminate the product in order to restrict the fall in profits and the product will die itself within a short span of time.

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To sum up, the management should analyse the reasons very carefully and should take appropriate measures to improve the situation by various tactics but if the management still feels that the elimination is justifiable then the product should be scrapped. The elimination should be made at an appropriate time so that the manpower and capital released through the elimination of the product may be employed in some other and more profitable activities.

Problems Involved in Product Elimination Decision

Product elimination is not only a big decision but also a difficult one for the management because of the following factors:

(i) As executives are sensitive to the elimination, the management always avoids the problem of product elimination and is interested in continuing the present product mix.

(ii) It is presumed that the market will turn favourable to the product and its sales will go up very soon.

(iii) Sometimes, it is realised that the defect does not lie in the product, but lies somewhere in the marketing function and can be improved.

(iv) Very often, a sick product is allowed to continue because it facilitates the sale of other products of the concern.

(v) Sometimes, the management is of the view that the sale of the product shall have been increased after its proper modification by developing its quality, style, brand, and packaging.

(vi) In order to meet the liability of its fixed overhead charges, and to utilize its fixed resources, the management hesitates to eliminate the product. Unless those resources are utilized profitably, the management cannot take a decision of losing its capital.

(vii) Vested interests, sentiments of the management and consumers are some other factors which help in continuance of the sick product.

The above factors favour the continuance of the sick product in the market for a fairly long time, but the management should be cautious enough in taking the decision to eliminate the product. Keeping in view the present circumstances, if the management thinks it desirable to eliminate the product, it should take the decision immediately to prevent the firm from suffering a loss.

2.6 BRANDING

The method of giving a product distinct identity by appending a brand is called branding. Based on branding, products can be divided into two categories: branded products and generic products (unbranded products). Customers *differentiate* among various comparable branded products easily while such a differentiation is not easy in the case of generic products. Due to this reason, branded products (more particularly consumer products) are advertised heavily.

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The various terms related to branding are as follows:

1. **Brand:** A brand name is a stamp , sign, symbol, trademark or some combination of these used to identify products. For example, Dettol, Lux, VIP, and Nokia are brands. Similarly, a symbol through which a product is identified is also a brand.
2. **Brand name:** Part of the brand that can be spoken is brand name. Brand name is more popular because people generally buy products by their brand names and not by symbols.

   There are three methods of branding:
   (a) Brands by special name: Vim, Rasna, Dettol, Clinic Plus.
   (b) Combining product and brand name: Taj Mahal Tea, Maggie Noodle.
   (c) Combining the manufacturer's name and the product: Tata Tea, Tata Salt, Dabur Amla Hair Oil, Godrej Refrigerator.

   Many companies use brand extension in which a particular brand name is used as the name with some prefixes or suffixes, such as Lifeboy, Lifeboy Plus, Lifebuoy Gold, and Lifeboy handwash.
3. **Brand mark:** Brand mark is the symbol through which a product may be identified, for example, star of Mercedes, combination of red and white balls of Pepsi.
4. **Trade Mark:** Trademark is a brand or part of it which has been registered under the Trade Mark Act, 1999. In many cases, trade mark (TM) is suffixed with the brand usually in smaller-sized letters than the brand letters. Trade mark gives protection to the registered users.

Branding adds to cost of packaging, labelling, promotion and legal protection. However, branding has many advantages which not only offset extra cost but generates high revenues and profit. To sum up, brand provides advantages to both marketers and customers.

2.6.1 Advantages of Branding to Marketers

Following are the advantages of branding to a marketer:

1. **Product differentiation:** Branding helps a firm to distinguish between its own and other competing products. It enables the firm to control the market for its products.
2. **Advertising and display programmes:** With a brand name, advertisement creates awareness about the product and also popularizes the brand. For example, people will not simply purchase toothpaste, but they will ask for a particular brand, like Close Up, Colgate, Pepsodent.
3. **Differential pricing**: An established brand name enables the firm to charge prices higher than the competing products. It is possible because customers are willing to pay more for preferred brands.
4. **Introduction of a new product**: When a new product is introduced under a known brand, it can enjoy all the advantages of its parent brand. For example, Maggie (noodles) extended this brand name to introduce many of its new products such as tomato ketchup, soups.

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2.6.2 Advantages of Branding to Customers

Branding provides the following benefits to customers:

1. **Product identification:** Once a customer is satisfied with a particular brand, he does not make a close inspection every time. So, branding makes identification of the product easier and saves considerable time and energy while shopping for the customers.
2. **Ensures quality:** Branding ensures uniform quality and standard of the product. With brand name, a consumer has the assurance of quality and consistency in the product.
3. **Status symbol:** Certain brands provide status and prestige to consumers. Consumers feel proud in using such brands as it gives them psychological satisfaction.

2.6.3 Characteristics of a Good Brand Name

The following factors should be kept in mind while choosing a brand name:

1. **Simple and easy to pronounce:** The brand name should be simple, short and easy to pronounce and remember. For example, Nokia, RIN, Surf, Lux, VIP. Companies should avoid difficult words like Heinz.
2. **Suggestive:** The brand name should suggest the benefits, quality or purpose of the product. For example, Lijjat Papad suggests the taste of papad.
3. **Distinctive:** The brand name should be unique and distinctive so that the product is easily differentiated. For example, Liril, Sprite, Thums Up, Dove.
4. **Adaptable:** The brand name should be compliant to packaging or labelling requirements of advertising media in different languages.
5. **Versatile:** The brand name so flexible will be able to accommodate any new product added to its family. For example, BATA, TATA, Philips, Dettol, Maggie, Colgate.
6. **Legal protection:** Brand name should be capable of being registered and protected legally to prevent any kind of imitation by the rivals. For example, Nokia is a registered brand name.
7. **Staying power**: Brand name should have consistency, i.e. it should have a stable life. For example, Samsung, TATA, Philips. It should not depend upon fashions and styles as they have a short life.

2.6.4 Branding versus Trademark

Often, people are confused between brand and trademark of a company. The two concepts, despite many similarities, have different purposes and nature which people are not aware of. These two terms are used as synonyms but this is perhaps because of the fact that all trademarks are brands, whereas not all brands are trademarks. Differences between the two concepts are given below:

Brand names are like signals that convey a meaning in consumer's mind, and create a favourable image of a product to attract them to the products or services. Brand name has a commercial purpose. Mostly, brand names are visual identifiers of a business. There are cases where a sound has become a brand name as in the case of MGM (the roar of a lion) and for Nokia the original Nokia ringtone. Trademark is in

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itself just a protector of a brand, and it gives the owner right to sue any unauthorized use of the trademark.

A brand is an image, a set of promises made by a company about its product, high quality, durability, and convenience of use of a product as the case may be. It is this brand image that produces consumer loyalty.

Distinction between Brand and Trademark

- A brand is developed over a course of time with consistent quality that is appreciated by customers.
- A trademark is granted by the trademark and patent office, and is a legal device that protects the owner in case of unlawful use of the trademark.
- Brand helps in identification of the product and the company, while trademark helps in preventing others from replicating.
- If a brand has not been registered, anyone can replicate it, and there is no provision of any penalty, while in case of trademark violation, there is severe penalty.

2.7 PACKAGING

In the present market, packaging has become quite important. As a result, many products are being sold in packages which were earlier sold loose, such as sugar, milk, salt, rice, and flour. Packaging is defined as follows:

Packaging is the art of styling and producing the material, in the container or wrapper of the product. In the context of packaging, the term packing is also used and sometimes, confusion arises about the relationship between the two. Packing is an action or process of putting goods to be sold into a package.

Thus, packaging differs from packing in the following ways:

1. Packaging is a much wider function as compared to packing.
2. Packaging involves designing and producing a package which is used for packing goods while packing is an action of putting an item in a package.
3. Packaging requires high conceptual skills while packing requires low manual skills.

Levels of Packaging

Three levels of packaging are:

1. **Primary packaging:** Primary packaging refers to the first and basic packaging of a product, for example, chocolates in a foil wrapper, toothpaste in tube. In many cases, primary package is required to provide longevity to the product.
2. **Secondary packaging:** Secondary packaging refers to additional layers of protection to the product. For example, wrapped chocolates have secondary package in the form of another package having 50 or 100 such chocolates.
3. **Transportation packaging:** Transportation packaging refers to further packaging components necessary for storage, identification and transportation. For example, packages of chocolates are put into corrugated boxes for storing at a manufacturer's warehouse and transportation. Each box contains 30 or more packages.

Check Your Progress

5. What is branding?
6. Give one difference between branding and trademark.
7. Define addition and elimination of products.

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Importance of Packaging

Packaging has become quite important today because of the following reasons:

1. **High standards of hygiene:** In the present environment, people have become quite conscious about hygiene, i.e., health and sanitation. As a result, they prefer to buy packaged goods. Such goods not only meet the required level of hygiene but provide safety from adulteration too.
2. **Self-service outlets:** A self-service outlet is one where a customer is free to pick up products of his choice. Packaged goods become quite handy in this process. Throughout the world, such outlets have emerged and their number is increasing day by day.
3. **Innovative opportunities:** Because of technological advances, many innovative opportunities have become available to increase the shelf life of products with appropriate packaging. For example, milk can be stored for 4–5 days without refrigeration and having no risk of it being soured. There are many other products whose shelf life can be increased through packaging. As a result, the scope of marketing of such products has increased in terms of market coverage.
4. **Product differentiation:** At present, marketers are laying strong emphasis on product differentiation. Packaging not only looks attractive but also fulfils the purpose of differentiation.
5. **Need for product protection:** Today packaging provides protection to many fook items like juices, pickles, soft drinks, medicines.
6. **Easy for transportation and storage**. A product is produced at one location but is used at different locations. This requires transportation of the product. Similarly, the product is used much after its production. This requires storage of the product. Packaging is required in both cases.

Functions of Packaging

Packaging performs a number of functions which are as follows:

1. **Appeal to the customer:** Packaging is an important marketing tool, particularly for consumer products such as cosmetics, chocolates, toffees, and gift articles. A package performs self-selling tasks, such as attracts attention; talks about the product features and usage; and builds confidence of product usefulness for the purpose.

   Packaging plays special role in sales promotion activities. For example, Brown & Polson custard powder informs the consumer that the product is 'New Improved', Maltova flashes the massage that the 'Reusable Binnie's PET JAR worth Rs. 30' is free with one-kilogram pack. Dabur Chawanprash announces that the new pack is *from* the makers of the product. Thus, different sales promotion techniques are adopted for packaging the product; such as, 'Money-off pack', 'Coupon-pack', Pack-in-Premium', and 'Premium package'.
2. **Product identification**: Packaging helps in identifying the product. In most of the cases, even product features are mentioned on the packages.
3. **Preventing expiry of products:** Packaging protects adulteration of products, thereby keeping their initial quality intact. This is the reason that people prefer to buy packaged goods.

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4. **Convenient handling:** Packaging results in convenient handling of products. If certain handling precautions are required, these may also be clearly mentioned on the package, for example, Glass–handle with care.
5. **Product promotion:** Packaging is a good tool of product promotion. Many companies are using their packaging as self-advertisement and self-salesmanship by making it attractive for the customers to buy.
6. **Cost-effective:** A package costs the manufacturer. However, the cost of package should not alarmingly increase the price of the product.
7. **Adulteration:** Packaging is also necessary to prevent adulteration of products by the unscrupulous traders. For instance, Ghee, Oils, Cheese, Butter need sealed packaging to prevent any possibility of adulteration.
8. **Product protection:** The basic function of packaging is to provide protection to products. Therefore, products remain safe for a much longer time. The foremost function of the package is to protect the product from:
   I. Breakage or damage due to mishandling. For example, cardboard package for the washing machines, thermocol package for TV, refrigerator etc.
   II. Extremes of temperatures. For example, package for the Amul cheese, ice cream and butter include information about its refrigeration.

Requisites of Good Packaging

Packaging is an important instrument of sales promotion. It performs the job of a silent salesman. It gives full information about the uses and features of the product to the users. It helps in giving individuality to the product. It may be noted that branding is not possible without packaging. Both are interlinked. Brand name and trademark are to be printed on the package to make the product easily identifiable by the customers. In other words, the package must tell the product story at a glance.

The basic purpose of packaging is to provide protection to the products and to facilitate their easy handling and storage. But in the modern age of competitive marketing, packaging has assumed other important objectives also. Packaging is used as a medium of publicity and as a silent salesman, it helps in preventing adulteration of goods and ensures their safety. In order to achieve its objectives efficiently, a good package should possess the following features:

1. **Suitability**: A package should suit the; requirements of the goods to be packed in. That means the package designed should consider the size and quality of the product and the quantity to be packed in the container.
2. **Protective:** The package must be so designed that it protects the contents contained in it. Products subject to deterioration in quality such as medicines, and edible oils require a special type of packaging. Wherever required, the package must protect its contents from sun, moisture and germs.
3. **Requirements of consumers:** The same product might meet the requirements of different segments of consumers who have different levels of income. The package may be more attractive and expensive for selling the product to affluent users. It should be quite economical for selling the product to the users of the lower income group. For instance, polythene bags have become quite popular with the manufacturers of Ghee for selling it in small quantities, say half kilogram, to the customers from low-and middle-income groups.

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4. **Packaging materials**: This factor is very important as it influences the cost of packaging. Materials to be used in packaging depend partly on the nature of goods and partly on its appealing power to customers. For instance, sugar, food grains, and cement are traditionally packed in gunny or jute bags, and now in HDPE bags. Biscuits are packed in air tight containers or packets so that they remain fresh, crisp and original in taste and flavour. Oils, ghee, jams, and pickles are stored in glass or plastic jars.
   Materials used in packaging industry include glass, aluminum foil, tin, paper and cardboard, plastic, polythene and gunny bags. Their relative merits and demerits in terms of cost, utility, customer appeal have to be analysed before choosing any of the above materials for packaging.
5. **Cost:** The cost of package is to be considered in the context of nature and value of product and the nature of buyers. As such, products of common use such as sugar, soap, tea, cereals should be packed in low cost containers. Products of high value and catering to the requirements of high income group such as cosmetics, and jewellery should be packed in attractive and durable packages.
6. **Attraction value**: As far as possible, the package must possess attraction value. Design and label of the package, and the colour combination of the package are all important. Attractive packages earn reputation and increase sales and profits of the manufacturer. The use of a picture on the package is made quite often to attract the attention of people. The picture and other information printed on the package should be suggestive of the contents and its features inside. It should be ensured that there is maximum information in minimum words. Attractive packaging is not always expensive. Even the low-cost packages can be made very attractive.
7. **Size and shape:** The size and shape of packaging depend upon the type and value of product to a large extent. The size and shape of the package add to its attraction value. They also facilitate proper display of the product at retail stores.
8. **Durability:** Durability of packages is also an important consideration. If a package is durable, it will be reusable even after the product has been consumed. For example, plastic containers of coffee jars and pickle jars are reusable. From publicity point of view, such packages are quite useful.

Kinds of Packaging

Kinds or methods of packaging will depend largely on the nature of the contents in terms of their value, physical composition and durability. The length of the distribution channel, the amount of handling which the container will receive, and variations in climatic conditions which may be encountered between the point of manufacture and sales are to be taken into account. For example, products in liquid form require containers made of glass or similar materials. For fragile article, wooden or thermocol containers are used.

On the basis of nature, packaging is classified into:

1. **Family packaging:** The products of a particular manufacturer when packed in an identical manner are known as family packaging. The shape, colour, and size of packaging will be similar for all products. Family brands are made meaningful by using family packaging. In such cases, packaging methods,

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materials used for packaging, the appearance will be one and the same for all the products of a manufacturer.

2. **Re-use packaging:** Packaging that could be used for some other purpose after the packed goods have been consumed is known as re-use packaging. This aspect increases the sales value of the product considerably.
3. **Multiple packaging**: It is the practice of placing several units in one container. This helps to introduce new products and increase sales.

Problems in Packaging

Following are the problems encountered in packaging:

1. Cost of packaging
2. Appearance
3. Kinds of designs
4. Convenience
5. Re-use purpose

Even after a package is designed it is put to test to know the response. Engineering tests are necessary to know whether the package will withstand handling. Visual tests are done to prove its attractiveness. Dealer tests and consumer tests are also conducted to assure favourable response from these two groups.

In spite of its various advantages, packaging has been subjected to criticism. One among them is that it adds to cost. To some extent, this complaint holds good. It is true that packaging expenses definitely increase the price. But the benefits derived are sufficient to compensate for the increase in cost. For example, the medicine which we buy is not consumed at once. Its preservation is very important. Only a good package can render this service, So long as the product is capable of absorbing the packaging cost proportionately, this criticism cannot be accepted.

2.7.1 Package Planning

To satisfy the demands, needs and wants of the customer the brand must choose the artistic and functional components of packaging accurately, thus fulfilling the marketing objectives. Package's size and shape, material, colour, text and graphics are all part of artistic consideratons. The meaning and interpretation of colour, however, is influenced to a significant extent by culture. In India, the colour green tends to be associated with 'freshness,' and saffron with divinity and red with prosperity. From a functional point of view, the structural design of packaging is critical. For example, poor packaging design causes high wastage and loss while transporting and storing fruits and vegetables in many countries. Innovative packaging solutions, better structural designs and usage of appropriate materials, are needed to reduce damages and wastage, and to increase the shelf life of fruits and vegetables. The packaging elements must be harmonized with each other and with pricing, advertising, and other parts of the marketing programme.

Package Development Considerations

Package design and development are often considered as an integral part of the new product development process. Although development of a package can be a separate process, it is closely related to the packaged product. Package design starts with the identification of all the requirements: structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, graphic, end-use, and environmental. The design criteria, performance, completion time targets, resources, and cost constraints need to be established and agreed upon. Package design processes often employ rapid prototyping, computer-aided design, computer-aided manufacturing and document automation.

Transport packaging should work closely with the logistics system. Packages designed for controlled shipments of uniform pallet loads may not be suited to mixed shipments with express carriers.

An example of how package design is affected by other factors is the relationship to logistics. When the distribution system includes individual shipments by a small parcel carrier, the sorting, handling, and mixed stacking make severe demands on the strength and protective ability of the transport package. If the logistics system consists of uniform palletized unit loads, the structural design of the package can be designed to those specific needs: vertical stacking, perhaps for a longer time frame. A package designed for one mode of shipment may not be suited for another.

The design process involves detailed regulatory requirements for the package for different products. For example, while packaging foods, any package components that come in contact with the food are non-toxic materials. Toxicologists and food scientists need to verify that the packaging materials are allowed by applicable regulations. Packaging engineers need to verify that the completed package will keep the product safe for its intended shelf life with normal usage. Packaging processes, labelling, distribution, and sale need to be validated to comply with regulations and keep the well-being of the consumer in mind.

Sometimes the objectives of package development seem contradictory. For example, regulations for an over-the-counter drug might require the package to be tamper evident and child resistant. These intentionally make the package difficult to open. The intended consumer, however, might be handicapped or elderly and be unable to readily open the package. Meeting all packing considerations is a challenge.

Package design may take place within a company or with various degrees of external packaging engineering: independent contractors, consultants, vendor evaluations, independent laboratories, contract packagers and total outsourcing. Some sort of formal project planning and project management methodology is required for all but the simplest package design and development programmes. An effective quality management system and recommends verification and validation protocols are mandatory for some types of packaging, which are to be taken care of while designing and developing packaging.

2.8 PRODUCT STYLE AND DESIGN

Product design is the process of creating an attractive product which appeals to the customer. Development of a new product requires an efficient and effective thought process that leads to the success of that product.

The company's dedicated designers plan and conceptualize their ideas creating actual inventions and products. The role of these experts is to think along lines of art, science and advanced technology and to come out with a product that people are attracted to buy. The modern tools and the digitization has helped these designers so

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far by enabling them to communicate, analyse and give face and name to the idea. Industrial design is concerned with bringing artistic form and usability to a product.

Most of the time product design and industrial design are perceived as one. In no time, it has become a large term which includes service, software and product design in flash. Industrial design is connected with craft design and ergonomics to produce large quantity goods.

Various product design processes are focused on different aspects of production. It helps designers to shape their final product from mere ideas.

A group of people having the expertise in the product along with the designers and engineers expedite the process by focusing on their respective components. The main objective of this process is to know what is required, exploring possible ideas and hypothetical situations to make the product a success. So before the product is launched in the market all the possibilities of its improvement, suggestions, failure are contemplated. The designers then evaluate the success of the product by looking at the necessary changes and room for improvement.

3D printing has helped the designing process to touch new heights in past few years. 3D printers are so user friendly that it can create a dimensional view and print it upwards with plastic like substance compared to the old ink throwing printers.

The design process follows a guideline involving three main sections:

- Reasoning
- Idea
- Construction

Reasoning

- **Accept situation:** By accepting the situation the designers come together and pool their resources in order to find the most appropriate solution.
- **Analyse:** In this stage, everyone in the team undertakes research. They gather general and specific materials which will help to figure out how their problem might be solved. This can range from statistics, questionnaires, and articles, among many other sources.
- **Define:** This is where the key issue of the matter is defined. The conditions of the problem become objectives, and restraints on the situation become the parameters within which the new design must be constructed.

Construction

- **Idea:** The designers here explore different ideas, solutions, options for their design problem. The ideal brainstorming session does not involve any bias or judgement, but instead builds on original ideas.
- **Select:** By now, the designers have selected a few ideas, which can be guaranteed successes and from there they can chalk out a plan to make the product.
- **Implement:** This is where the blueprints are built, the plan in the previous step is realized and the idea starts to become an actual object.
- **Evaluate:** In the last stage, the product is tested for any room for improvement. Although this is the last stage, the designers keep exploring new ideas to have a backup in case the implemented idea fails.

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Demand-pull innovation and Invention-push innovation

Broadly, product designs can be divided into two categories: demand-pull innovation or invention-push innovation.

Demand-pull happens when there is an opportunity in the market to be explored by the design of a product. This product design attempts to solve a design problem. The design solution may be the development of a new product or enhancing a product that is already on the market, such as developing an existing invention for another purpose.

Invention-push innovation happens when there is advancement in intelligence. This can occur through research or it can occur when the product designer comes up with a new product design idea.

Product Design Expression

The combined affect of colour tone, shape and size should direct a person's thoughts towards buying the product. Therefore, the product designer should know that the end consumer is the best judge. Success of the product depends on how the consumer will think of the product. Hence, the design process is always through a customer's eyes. However, even within a specific audience, it is challenging to cater to each possible personality within that group.

The best thing is to create a product that expresses its traits through its designed appearance and function. Products that carry such traits are more likely to attract consumers. However, it is important to keep in mind that design expression not only concerns the appearance of a product, but also its function. A product can easily fail in the market if unable to perform its basic function for which it was created. In this sense, designers are like communicators; they use the language of different elements in the product to express something.

Product Design Considerations

Product design is not an easy task. Expectations of various stakeholders from product design are:

- The manufacturer is concerned with production cost and wants an economically produced product.
- The purchaser looks at price, appearance, and prestige value.
- The end user is concerned with usability and functionality of the final product.
- The maintenance and repair department focuses on how well and easily the final product can be maintained.

Stakeholders' needs vary from one another and it is the product designer's job to incorporate those needs into their design.

Trends in Product Design

Product designers need to consider the ways people use and abuse objects, faulty products, errors made in the design process, and the desirable ways in which people wish they could use objects. Many new designs will fail or eventually become obsolete. The design process itself can be quite frustrating and time consuming, usually taking a few trials to get the right product design. A product that fails in the

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marketplace the first time may be re-introduced to the market a few more times with enhancements. If it continues to fail, the product is termed bad by the consumer. The greatest product with superb designing also fails as it just does not appeal to the customer. The economy of manufacturing sectors is related to the product design. Innovation provides competitive impetus for the development of new products, with new technology often requiring a new design interpretation. It only takes one manufacturer to create a new product to force the rest of the industry to catch up—fueling further innovation.

Environmental Consideration

Package development keeps sustainability, environmental responsibility, and applicable environmental and recycling regulations in mind. It may involve a lifecycle assessment which considers the material and energy inputs and outputs of the package, the packaged contents, the packaging process, the logistics system, and waste management. It is necessary to know the relevant regulatory requirements for the point of manufacture, sale, and use.

The traditional 'Three R's' which are: Reduce, Re-use, and Recycle are part of a waste hierarchy which may be considered in product and package development.

(i) **Prevention:** Preventing waste is the first and foremost goal. If packaging is proper it can help in waste reduction. Packaging should be used only where needed. Although packaging plays an important part in preventing loss or damage to the packaged product it should be used only when required.

(ii) **Minimization:** The mass and volume of packaging can be measured and used as one of the criteria to be minimized during the package design process. Usually, 'reduced' packaging also helps minimize costs. Packaging engineers continue to work toward reduced packaging.

(iii) **Reuse:** The re-use of the complete package or a part of the package for other purposes is encouraged. Returnable packaging has proved useful and economically viable for environmental protection and logistics systems. Some manufacturers re-use the packaging of a product, either as packaging for the outgoing product or as part of the product itself.

(iv) **Recycling**: The processesing of a refurbished product into a new one is called recycling. Emphasis is placed on recycling the main components of a package: steel, aluminum, papers, and plastics. Small components can be chosen which are not difficult to separate and do not contaminate recycling operations. Packages can sometimes be designed to separate components to facilitate recycling.

(v) **Disposal**: A lot of toxic waste is released while making packaging components. These toxic materials have to be released in such a way so that they do not harm the environment. Incineration and sanitary landfill become necessary for disposal. Some countries control the use of packages as they contain toxic contents, which can contaminate the environment.

Therefore, business organizations, governments, consumers, packagers and retailers consider the use of environment-friendly packaging.

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2.9 SUMMING UP

- A product is anything that can be offered to a market for attention, acquisition, use or consumption; it includes physical objects, services, personalities, places, organizations and ideas.
- There are three different types of needs of a buyer: functional, psychological and social . Functional benefits are provided by the basic features of the product. Psychological benefits are in the form of mental feeling that the buyer. Social benefits are in the form of wider social acceptance assigned to a product as being unique in some way.
- Product policies are the guidelines set up by the management and forms the backbone of any firm. The important features comprising product policy are thought of the product mix; the rate, nature and direction of changes in demand for existing product; product removal and decisions of new product development; product policy of the competitors.
- Basic requirements of new products are customer acceptance, satisfactory performance, economical production, adequate distribution, attractive packaging and branding, adequate after sales service whenever required, ultimate replacement, technical advances.
- The process of new product development includes selecting ideas, exploration of new product ideas, product development, test marketing, commercialization of a product.
- Product simplification is discovery of new ideas and then commercializing the product according to the market requirement. Advantages of product simplification are reduction in cost; standardization, skillful labour, increase in efficiency, more profits, market control.
- Standardization is a process through which a company establishes a uniform standard of a product like dimensions, size, and quality.
- Product line is just the opposite of simplification and is referred to as diversification. Objectives of product diversification are stability in earning; full utilization of company resources; efficient marketing, profitable use of opportunities.
- Forms of diversifications are diversification into related product line; diversification into unrelated product line; product replacement.
- Factors which affect the decision of product diversification are utilization of unused capacity, scientific and technical development, efficient management, government policies, social changes, desire of the producer, consumer satisfaction.
- Reasons for product elimination are continuous fall in sales, product less effective, better substitute introduced, lack of attention, low price trend, product lifestyle.
- The method of giving a product distinct identity by appending a brand is called branding. Advantages of branding to marketers are: helps in product differentiation; advertising and display programs, differential pricing; new product. Advantages of branding to customers are: product identification; quality assurance, status symbol.

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- Characteristics of a good brand name are: short and sweet; suggestive; versatile; adaptable; legally protected; distinctive.
- Packaging has become quite important in the past few years mainly to attract its customers at the first glance. Packaging is the art of styling and producing the material, in a container or wrapper. There are three main types of packaging: primary; secondary; transportation.
- Problems in packaging are: cost of packaging, appearance, kinds of designs, convenience, and re-use purpose.
- Product design is the process of creating an attractive product which appeals to the customer.

2.10 KEY TERMS

- **Brand:** Kind, grade, or make, as indicated by a stamp or trademark.
- **Product:** The totality of goods or services that a company makes available.
- **Standardization:** To compare with or test by a standard.
- **Diversification:** The act or practice of manufacturing a variety of products, investing in a variety of securities, and selling a variety of merchandise.
- **Design:** To prepare the preliminary sketch or the plans for (a work to be xecuted), especially to plan the form and structure of the product.

2.11 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Product policies are the guidelines set up by the management itself in making product decisions. Products of a firm are the backbone with which profit is earned enabling the firm to exist.
2. Important features of product policy are:
   (a) Product planning and development
   (b) Product line
   (c) Product standardization
   (d) Product identification
   (e) Product style
   (f) Product packaging
3. The important features comprising product policy are:
   (a) Product mix
   (b) The rate, nature and direction of changes in demand for the existing product
   (c) Product removal and decisions of new product development
   (d) Product policy of the competitors
4. The process of new product development includes:
   (a) Selecting ideas
   (b) Exploration of new product ideas
   (c) Product development

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(d) Test marketing
(e) Commercialization of product

5. The method of giving a product distinct identity by appending a brand is called branding.
6. Brand helps in identification of the product and the company, while trademark helps in preventing others from replicating the idea or product.
7. Addition in product line simply means an addition of the product of the same company under the parent name, while elimination means removal of a product from the market.

2.12 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on the differences between branding and trademark.
2. What is product simplification?
3. List three methods of branding.
4. Mention two characteristics of good brand name.
5. What are the requirements of good packaging?
6. Give two reasons for product elimination.
7. List three features of product policy.

Long-Answer Questions

1. What are advantages of branding to customers?
2. Explain the advantages of branding to marketers.
3. What are the important features comprising product policy?
4. What are basic requirements of a new product?
5. What are the advantages of product simplification?
6. What are the objectives of product diversification?
7. Explain various forms of diversification.

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UNIT 3 SALES FORECASTING

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Structure

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3.0 INTRODUCTION

The important and creative part of the marketer's task is prediction and innovation. Businessmen make forecasts for their businesses. Forecasting enables the formulation of the plan of action on the basis of anticipated future events where such events are outlined with greater distinctions. Some common definitions of forecasting are:

- 'Forecasting is a systematic attempt to probe the future by inference from known facts.' **Allen**
- 'Sales forecasting is an estimate of sales in dollars or physical units for a specified future period under a proposed marketing plan or programme, and order an assumed set of economic and other traces outside the unit for which the forecast is made. The forecast may be for a specified item of merchandise or for an entire line.' **American Marketing Association**
- 'The company sales forecast is the expected level of sales based on a chosen marketing plan and assured environment or condition.' **Philip Kotler**
- 'An estimate of sales during a specified future period where estimate is tied to a proposed marketing plan which assumes a particular set of uncontrollable and competitive forces.' **Cundiff and Still**

Business forecasting is the calculation of probable events to provide against the future. It therefore involves looking ahead in business and idea of predetermination of events and then financial implications as in the case of budgeting.

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The above definitions clearly bring out the nature of sales marketing. The marketing manager needs to predict the future in order to adopt an appropriate marketing strategy. Sales forecasting forms the basis of most planning whether concerned with marketing, production finance or purchasing. After establishing the market or sales potential, the organization must prepare a sales forecast for the organization. The forecast includes consideration of outside uncontrollable forces as well as the internal proposed change in the marketing strategy.

3.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain sales forecasting objectives
- Discuss the importance of sales forecasting
- Explain the concept of sales forecasting and marketing objectives
- Describe sales planning forecasting techniques
- Analyse the effects of changes in fashion and tastes in planning sales programmes and campaign

3.2 OBJECTIVES OF SALES FORECASTING

The forecast may be for a short period up to one year or it may be for long periods extending over one year. A long range forecast should also be made to anticipate long-term trends. For example, an extra finance or personnel may be required in the future.

1. The short-run objectives

(i) **Suitable production policy:** The first objective of the short-run sales forecasting is to formulate a suitable production policy so that problems of under production or over production might not arise and production may be made according to the demand forecast.

(ii) **Regular supply:** The second objective is to make provision for the regular supply of raw materials for production on the basis of estimated sales during a short period.

(iii) **Complete utilization of machines:** One of the most important objectives of sales forecasting is to make full utilization of the available machines so that in case of increase in demand there should not be any shortage of production and in case of decrease in demand the machines should not remain idle.

(iv) **Appropriate price policy:** Sales forecast has an important bearing on production policy which in its turn influences the production costs affecting the organization's price policy. Therefore, the important objective of sales forecasting is to determine an appropriate price policy.

(v) **Availability of manpower:** One of the objectives of sales forecasting is to employ fully trained personnel and non-technical workers so that the organization may not experience any shortage of personnel and workers do not remain idle when the production is condensed.

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(vi) **Forecasting of short-term financial requirements:** Sales and production volume constitutes the financial requirement of an organization. Short-term requirements can be made and arranged accordingly much in advance on the basis of sales forecasting.

(vii) **Sales targets and incentives**: Sales forecast helps in setting sales target for different market segments exercising control on the personnel engaged in the work and reward necessary incentives for implementing the programme and achieving sales targets.

2. Long-run objectives

(i) **Estimating cash inflow:** Determining the cash and credit sales ratio can help in estimating the cash inflow through sales forecasting. It can also help in designing for the organization.

(ii) **Decisive dividend policy:** Dividend policy and profits can be forecasted on the basis of the ratio of profit: sales made.

(iii) **Plant capacity:** The long-run objective of sales forecasting is to determine plant capacity with the demand. If the sales forecast reveals that the plant may not have the capacity to adhere to the demand then steps should be taken to increase the production capacity or set up a new plant.

(iv) **Manpower:** Another long-run objective of sales forecasting is to keep the organization fully employed to prevent shortage in the long run.

(v) **Long-run production:** In the long-run products have to be adjusted to the market demand and other conditions predicted through sales forecasting.

(vi) **Long-run financial requirements:** Sales forecasting also determines the long-run financial requirements of the organization for working capital as well as for capital expenditure.

(vii) **Budgetary control:** In forecasting sales, all activities are to be forecasted and for this purpose a budget is to be prepared for the income and expenditure of the organization. The budgeting figures for income and expenditure are then compared with the actual performance and any variation is removed. Thus, budgetary control over expenditures is possible.

3.3 IMPORTANCE OF SALES FORECASTING

Manufacturing firms have great importance for sales forecasting. They base their production on the expectation of future demands. It is on the basis of correct forecast that the producer is able to adjust his production to the market demand and adjust the productive capacity of the plants. In fact, production policy and price policy all depend on accurate sales forecasting. It influences all the activities of the organization such as production, distribution, advertising and changes in the procedure of marketing goods. For the success and achievements of the overall objectives of the organization it is essential to review the sales forecasts periodically. Sales forecasting is equally important for organizing personnel management.

According to John D. Luth, 'a good sales forecast is undoubtedly the single most important planning tool. The basis of sound budgeting starts with the sales forecast.' Financial planning for working capital requirements, plant expansion and other needs

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are based on anticipated sales. Scheduling of all production resources and facilities such as setting manpower needs, purchasing raw material requirements and determining the rate of production-output depends upon the sales forecast.

The importance of sales forecasts are:

(i) Importance in promotion

(ii) Basis of planning

(iii) Correctness of management decisions

(iv) Effective control

(v) Incentive to cooperation and coordination

(vi) It facilitates the estimation of future needs of business

(vii) It is the basis of successful business

(viii) Singleness of purpose which helps the management in achieving the overall goals of the organization

3.3.1 Sales Forecasting Procedure

Sales forecasting procedure involves the following three sequential steps:

1. **Forecast of general economic conditions**

   General economic conditions of a nation affect the purchasing power of the individual customer. The standard yardstick for assessing for general economic conditions will be: gross national product, per capita personal income, personal consumption expenditure, level of employment and the consumer price index.

   The general economic conditions the world over too need to be considered; many a times, the imports substitution and the export boom or recession could have a direct impact on the home industry. Such forecast could be available through the secondary data published by various private foundations, government agencies, universities, export associations, trade associations and chambers of commerce. The budgets presented by the state governments also reflect on the general economic conditions as the backdrop while preparing the industry and product estimates.

2. **Forecast of industry sales**

   Though the industry forecasts are available from the trade associations and chamber of commerce, a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis of the competition prevailing could throw adequate light on the competition within the industry. The sales manager can seek the help and counselling of professional forecasters in predicting more accurate sales of the industry, who will base their projections on more sophisticated techniques.

   The indicators used for predicting general economic conditions become helpful in estimating industry productions and sales to a large extent.

3. **Preparing forecast of company sales**

   The sales manager, while preparing the sales budgets of the company has to forecast the company and product sales for the coming year. The entire planning of the organization for production, manpower, financial arrangements, revenue calculations will depend upon the accuracy of the sales manager's forecast. The sales manager will be seeking the help of other experts and the salesman and field sales executives involved in the activity of sales. A combination of many such opinions and methods will be used by him to forecast as precisely and accurately as possible.

Companies, over the years, have developed and used many methods for estimating total market demand as well as their respective share in it (Barnett, 1988). However, broadly there are four kinds of forecasts:

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1. **Total forecast:** Total forecast approach is also known as **'breakdown approach'**, and attempts to estimate future total sales of the company. On the basis of past experience and specific knowledge of factors applicable to the future, management breaks down the total sales in the desired manner, e.g., by company division, product category, geographic territory, nature of business. The measurement of sales forecast under total forecast approach is done with the help of the following equation:

   $$A = X \times Y \times Z$$

   where,

   A stands for total market demand,

   X stands for purchase made by an average buyer per year in terms of quantity,

   Y stands for price of an average unit, and

   Z stands for number of customers in the market.

   However, total forecast does not necessarily start with sales for the entire company, particularly if the company comprises more than one division making dissimilar products. If the company has product lines as different as pen and toothpaste, separate total forecasts would be made for each product line. In essence, thus, the total forecast covers a broad area, but not necessarily the entire area. On the other hand, it is possible that the area covered is too limited, resulting in a larger number of forecasts than is warranted. Here lies the challenge for the marketers to develop such a forecasting technique that would take care of such situations.

2. **Composite forecast:** Unlike the total forecast approach, which starts with a total and divides it into segments, the composite forecast, also known as build-up approach, starts with detailed forecasts and builds them into a total for the company. The initial forecasts are made by the individual salesmen for their territories and products, and sometimes for the individual customers. These forecasts are brought together for review and modification by the branch managers, then by division sales executives and ultimately by the chief sales executive. Details of product category, geographic area, and nature of business, are maintained while the division total and company totals are developed. The consolidated forecast is also reviewed and revised by a company's top management before it becomes the basis for the operating plan for the forecast period.

   The reviews of sales forecasts by sales executives are generally influenced by the following two major factors:

   (i) The review has to verify the reasonableness of the forecast as salesmen have the tendency to show it on higher side because of their optimist nature, and

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(ii) At the time of sales forecast, generally salesmen are not aware of the top management's decisions regarding new products, promotional expenditures and advertising and therefore, they are not in a position to include the impact of such decision in their forecasts.

3. **Short-term forecast**: A short-term forecast is a prediction for a period of one year or less than one year. It is concerned with daily operations with current limited resources. Short-term forecasting is essential for short-term planning and the scheduling of existing resources. Because of the regularity of seasonal factors and the relatively short time element involved, it is usually easier to obtain a more accurate forecast for the short term than for the long term.

4. **Long-term forecast:** It refers to a forecast made for more than one year. It is concerned with extending or reducing the limits of resources. Such forecasts are subject to the influence of wider economic factors such as national and international competition, population trends, cyclical fluctuations, technological developments, economic growth rate of the country, and many others. Thus, long-term forecast is the most difficult type of forecast to make with any degree of accuracy. However, such a forecast is an essential tool in long-term planning. It ensures the availability of resources required for the future operations.

Management and Organization of Forecasting

Sales forecasting is often treated as the joint responsibility of accounting and marketing visions of a firm. In the past, sales forecasting was considered the job of the accounting division which is responsible for the preparation of the master budget of a company. Later on, it was observed that the sales division can discharge this responsibility more effectively because it is in a much better position to know the trends of the company's customers, the company's own advertising and promotion plans, the new products and price changes of competitors, the contemplated price changes of the company, and similar factors affecting sales. As the business became more complex as a result of mass production, technological advancements and keen competition and so on, both accounting and sales executives failed to give proper treatment to sales forecasting. To deal with this problem, firms start to establish a separate wing for this purpose. Hence, at present, the marketing division performs this function in most of the enterprises. The principal responsibility for this task may fall on any one of the several persons, such as the chief marketing executive, the sales executives, and the general sales manager. Secondary responsibility for reviewing the forecast such as the basis, methods, and results may fall on any or all the foregoing persons as well as on the chairman and other executives. It is the prime responsibility of the top management to review carefully the basis and results of the forecast and modify it whenever required. For example, the management may have good reasons to believe that some of its customers will be subjected to a strike that will bring about a reduction in the company's sales—something that the formal forecasting procedure would not take into account. The company may be coming out with a fresh product that is expected to increase the company's sales. A competitor may be coming out with a new product that may temporarily decrease the company's sales.

Many other factors may similarly call for the judgmental revision of a forecast. Due to the dynamic nature of market forces, the intensity of competition and the emergence of unforeseen factors, a sales forecast may not remain valid for a very long period. Because so many plans depend on the forecast involving production, purchases, inventory, sales quotas, advertising, cash requirements, plant and equipment production force, sales force staff, it is vital to compare periodic forecast sales with actual sales and if warranted, adjust the forecast and the associated plans for the period ahead. The nature of the industry and of the company dictates how frequently the forecast should be reviewed. To some degree, the frequency depends on how accurate the forecasts have been in the past. To an extent it depends on how often it is feasible to revise plans for production, inventory, and advertising. There is no point in revising a sales forecast today if the associated production programme cannot be changed for a month. In some cases, a revision should be made promptly following an unexpected development such as the acquisition of major customers.

Many organizations use statistical techniques to decide whether to revise a sales forecast or not. For weekly or monthly cumulative sales, a range is statistically established to indicate the permissible difference between actual and forecast sales before a revision is required. The theory is that a small difference can be caused by chance rather than by a significant departure from the original forecast. As long as the cumulative difference remains within the stated range, the product forecast is left untouched. But if the cumulative difference goes outside the stated ranges, the company may assume that the difference has meaning and therefore revision of the sales forecast for the product in question is needed.

The importance of revised forecasts and the difficulties inherent in making them justify a thoughtful, systematic approach to the problem. Variations among industries and among companies within industries require the careful development of procedures that best fit the individual circumstances. These procedures should be refined as experience accumulates. In any event, a knowledgeable executive should be given responsibility for supervising the work.

One of the important aspects in the revisions of sales forecast is to fix the responsibility of revisions to a particular division of the organization. Previously, it was treated as joint responsibility of marketing and manufacturing divisions. But modern management recognizes that the review and revision of sales forecasts is purely a function of the marketing division as it is closely associated with the company's customers, competitors and markets.

3.3.2 Sales Forecasting Techniques

In establishing a forecasting procedure, an important distinction is made between forecasts for established products and forecasts for new products because the techniques used in these two types of products differ considerably.

Forecasting techniques for established products:

1. Direct methods
2. Indirect methods

1. Direct Methods

Direct methods attempt directly to assess the consumer intention. The important direct methods are as follows:

(i) Survey approach
(ii) Executive opinion
(iii) Sales-force composite

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(iv) Delphi method

(v) Controlled market experiments

(i) Survey approach

The simplest and the most straightforward approach to sales forecasting is consumer survey approach. The customers are asked to indicate the products and amounts they expect to purchase in a future period. The job of an interviewer is simply to collect the desired information from the consumer. The interviewer does not intervene in the process but helps in collecting both attitudinal as well as behavioural data by asking questions like:

- Do you like this brand?
- Do you plan to buy this brand?
- Did you buy this brand?
- Did you suggest this brand to anyone?

The key to interviews is to have the respondent convey the desired information by actions in a real choice situation rather than simply giving an answer to a question. Any three of the following methods can be used by a company to record the intention of the customers:

(a) **Field surveys** involve the use of personal interview, where the individual buyer is taken through a formal questionnaire, or the focused interview in which structured questions are asked to get the buyer to speak freely about a specific topic giving facts, opinions, and feeling.

(b) **Telephone survey** collects various facts regarding consumer intention from the conversation that takes place between interviewer and the buyer on the telephone.

(c) **Postal survey** can be used to collect data, either based upon a mailing list where a questionnaire is sent to buyers, or upon 'mail in' questionnaires in newspapers and magazines, or upon replies to questionnaires included in the packaging of products. However, this method must be supported by an incentive to motivate the buyers to respond and send the information.

Consumer surveys are ordinarily conducted by a corporate staff group or by the company's sales force, but design of the survey and interpretation of the results require participation by the management or management's advisors. A sample of consumers is carefully selected and they are asked for their views on the attractive and unattractive aspects of old, modified, new, or proposed products or services. For example, a company may want to find out what features, sizes and colours are to be incorporated in a new product.

While the design of a survey requires some knowledge of statistics, interpretation of the results requires a different skill and considerable experience. People will subconsciously answer questions in a way to build up self-image, to please the interviewer, or both. Thus, the answer to the survey will be helpful only if properly interpreted. Proper interpretation is a fine art. Attention may also be paid to responses from special groups within the entire consumer sample. Thus, a product might be highly acceptable to teenagers in a sample, despite poor response from the sample as a whole. If the product can be promoted at reasonable cost just to teenagers, the survey will pave the way for a different marketing approach.

Survey approach raises statistical problems of sampling and psychological problems of interview bias. Two important issues that can arise in the use of surveys of intentions are:

- Can the buyers make a reasonably accurate prediction as to their purchases, and if so,
- Can they meaningfully transmit this prediction to an interviewer?

(ii) Executive opinion

This method of forecasting is simply a technique whereby views of top executives concerning the products to be forecast are collected and combined. Generally, the company brings together executives from various operational areas of business in order to get the benefit of broad experience and opinion. Each executive makes a sales forecast based on all the figures he can assemble, plus any subjective judgment he may care to add about factors that may influence the future sales. This technique involves soliciting the judgment of a group of experienced and competent managers. This method can prove more effective if changes in variables like income, population, employment and promotional campaigns are considered while forecasting demand.

Executive opinion can also be used in the final stages of the development of a forecast. Where forecasts have been obtained from various sources, there is a need to assess and evaluate each one before adopting an actual forecast. This job can be performed efficiently by the panel of executives. Executive opinion method is also known as 'collective opinion' because it takes advantage of collective wisdom of experts from various fields.

(iii) Sales-force composite

Salesmen can judge rightly the future demands of the consumers as they are in constant touch with customers of their company. Through conversation with customers about the current as well as future business, they are able to develop some insight into future sales possibilities. The salesman is directed to estimate future sales of his territory and submit the same to the branch manager. The same forecasts after some modification by branch manager in the light of his experience and potential *are* then sent to the sales executives. Here the estimates are compiled after further modification on the basis of special information available to the sales executive. Finally, the composite estimate is submitted to the top management for final approval.

This method is suitable for all types of products or services, particularly for those products which do not have sufficient statistical data required for the estimation under other methods.

(iv) Delphi method

Delphi method, originally developed by Norman Delphi and his associates at the RAND Corporation in 1969 to forecast military events, is a

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sophisticated method for measuring and manipulating judgments about future sales. It attempts to make more effective use of informed judgments. The Delphi method entails collecting judgements from experts about specific acts or conditions expected to occur through a questionnaire. On the basis of the responses mentioned in the questionnaire these experts develop written opinion. The questions mentioned below and the format provide the description of the kind of items that the questionnaire used in the Delphi method generally include:

- The service organization needs to change their philosophies and strategies to ensure customer retention.

Strongly agree	1	2	3	4	5	Strongly disagree

- The increase in customer retention will increase both profitability and shareholders' worth.

Strongly agree	1	2	3	4	5	Strongly disagree

The information thus obtained is combined and fed back to the panel of experts so that every one reads the opinions of others and can revise his own ideas. This repeating process continues until some degree of convergence is attained. The consensus is then used as a measure of combined, averaged judgments for planning. It is based on personal expectations of individuals and, therefore, may take into account forecasting and influencing factors not considered by other people or included in the calculation of statistical forecasts. In short, the Delphi technique attempts to arrive at a collective decision in case of uncertainty with the help of experts. These group of experts are questioned until a disagreement is resolved and consensus is reached.

(v) Controlled market experiments

Under this method a firm may conduct the experiments in the actual market by varying the determinants of demand like price and advertising in order to assess its impact on sales. Experimentation may, of course, be carried out either in the laboratory or in the field, but field experimentation is by far the most feasible for marketing practice. Laboratory experimentation has accounted significantly for great developments in knowledge of natural sciences, but as yet experimentation of any kind has been little exploited for marketing purposes, although there is evidence that under certain conditions it can yield more precise answers than the other methods. An experiment consists of two essential elements, viz. (i) the use of a control group; and (ii) selection of the test and control units in a random manner.

A control group is essential to serve as a base against which to compare the results of the test group. The test and control groups must be randomly selected in order that probability theory can be used both in designing the study and in making a prediction about the desired parameter, e.g., the proportion of buyers that increase their purchasing as a result of a price cut after the data have been collected.

Some of the possible limitations of field experimentation should be recognized, but experience is not yet sufficient to permit a dogmatic statement about the

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seriousness of these limitations. Economic limitations can make it unwise to randomize; for example, it is expensive to experiment in a number of markets, and yet if only two markets are used, randomization might result in the most typical areas being selected. Second, experiments must be limited to measuring short-term response because if the experiments run long enough to detect the slower changes, so many other things happen that it is no longer possible to isolate the effects of the experiment. The executive, however, is often interested in estimating long-term responses. Third, measuring actual sales accurately can be costly. Special record keeping arrangements often must be established for the period of the experiment because changing inventory levels in the channel of distribution prevents the effects on sales being reflected at the manufacturing level. However, commercial market research agencies are making these data available for many consumer products at a cost that is probably reasonable for an important decision.

Fourth, the variability of sales among units of the test is often large by comparison with hope for responses to marketing actions so that the effect of the marketing influence cannot be identified. Fifth, the test units may lead to contamination of the control unit, e.g. national magazine advertising media can contaminate the experimental area when a local media is changed as a part of the test process. Sixth, it is often difficult, except for very short periods, to execute experimental designs properly when they require people in a marketing organization to change their behaviour. Seventh, it is often difficult to make marketing experiments sufficiently realistic to be useful. For instance, in advertising tests it may be difficult to adapt national media to experiment in local areas. Eighth, experiments raise 'security' problems of a more serious nature than those associated with a survey, e.g. a competitor may see the results and utilize them.

2. Indirect methods

Indirect methods are based on statistical techniques, where the relationship between variables is ascertained which indicate the potential position of sales. The most common indirect methods are:

A. Trend analysis

B. Regression analysis

A. Trend analysis

Trend analysis, based on past experiences, attempts to make a projection into the future by using several years rather than one year's experience. The projection may be purely judgmental, it may be based on charts, or it may be mathematical. This method assumes that a significant relationship exists between time and other variables and these can be used to make accurate predictions about the coming events. Past performance levels are plotted on a graph, thus creating a scatter diagram. A trend line is then established by drawing a line through the scattered points. This may be a freehand line, straight or curved depending on which reflects the direction of the scattered points. By extending the trend line, the forecaster is able to estimate where points in the future will fall.

Trend analysis does not fail to provide any indication of future changes nor does it reveal how the company might influence the future sales

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outlook. It is an 'other things being equal' approach. Assuming that personnel resources and competitive conditions remain the same, the company is able to make a forecast. Unfortunately, these factors cannot be counted on to remain static. A number of techniques that belong to this category of forecasting methods have been developed over the past few years.

The commonly used techniques are:

(1) **Moving averages:** Moving averages is a simple method of forecasting where forecasts are made by projecting moving average. Here forecaster computes the average volume achieved in several recent periods and uses it as a prediction of the further sales. The assumption is that the future will be an average of past achievements. The major drawback of this method is that it gives equal weight to all items. But, in fact, more weight must be given to immediate past as it has a direct influence on sales and less emphasis should be paid to earlier period—one method used in forecasting with this purpose is weighted moving averages.

(2) **Exponential smoothing:** Exponential smoothing method, like weighted moving averages, emphasizes recent data and discounts old information. However, the difference between these two methods lies in the fact that in case of weighted moving averages the weighing declined by a constant quantity value; say 1/5 on each item whereas in case of exponential smoothing the weighting declines by a constant percentage or ratio, e.g. 50 per cent. Thus, a constant percentage decline in weighting produces a geometric progression and, when graphed, smoothes the raw sales data into an exponential curve; the method is, therefore, referred to as exponential smoothing or weighting. It is a simple but highly reliable weighted moving average technique. The main drawback of this method is that such forecasts tend to lag behind when there is a trend in the data.

B. Regression analysis

Regression analysis attempts to find out the unknown value of an item from the known value of another item. The expected value of the independent variable (demand determinant) is injected into the equation and the value of sales (dependent variable) is derived. The relationship may be expressed by the simple linear equation.

$$A = b + yz$$

where A stands for dependent variable (sales); y symbolizes the independent variable (income); b signifies a constant, and z, the slope of the line. By estimating values for y and z and substituting values for b, one may obtain A. Thus, regression analysis shows the impact of the determinant variables on demand.

There are two categories of regression, such as, simple regression and multiple regression. Simple regression attempts to consider the relationship between two variables, one dependent variable while the other one is independent variable. When regression analysis explains the relationship between a dependent variable and a number of independent variables, it is referred to as multiple regression.

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Regression analysis can be made mathematically as well as graphically. However, the mathematical approach is always preferred because of being rigorous as compared to the graphical approach which is just an approximation. Although regression is a useful tool in forecasting, it suffers from the limitation that the relationship between dependent and 'independent variables which existed in the past may not stand in the future.

Forecasting Techniques for New Products

Forecasting sales for a new product or service before it is launched and while a company is going through the new product development process is always difficult. The lack of historical data, experience and forecast indexes makes the sales forecasting for new products a difficult job for the marketing manager. As a result, forecasting methods used for this purpose are subjective rather than objective. Perhaps the new product can be expected to follow the same course as comparable products in the prior period. Perhaps it can be expected to follow a course similar to a competitor's product. Perhaps the only basis for prediction sales is a market survey, involving consumer questionnaires and interviews and sales in pilot areas. The forecaster may have to consider the impact that the new product will have on the company's other products. Perhaps sales of the new products may take place largely at the expenses of old products. Accordingly, various approaches can be devised to forecast sales for a new product. The important ones among them are as follows:

1. **Evolutionary approach:** This approach assumes that the sales of a new product or service will follow the sales pattern of some existing products. Thus, it attempts to project the demand of the new product as an outgrowth of the existing product. Most domestic products have followed similar product life cycle curve, though it is important to define product similarities clearly in terms of potential consumer appeal in particular market segments.
2. **Substitute approach:** Where a new product may be viewed as a substitute or replacement for products already in the market, a straight continuation and possible extension of demand may be predicted for the new product. Listing possible alternative uses of existing products can often lead to determination of market potential. The sales of the established product would at least give a rough estimate of sales for the new product. Further, in the estimation of sales, due attention should be paid to consumer reaction to the new product.
3. **Potential consumers approach:** If the new product is absolutely unique that cannot be compared with the existing products, then the forecaster must attempt to determine who the users might be. Potential consumers should be described and properly classified on the basis of appropriate segment variables, e.g. income, age, status, occupation, sex. Accordingly, the size of each target market should be estimated. Thus, a forecaster may be able to estimate obtainable sales volumes of the new product.
4. **Test market approach:** In the absence of historical data for the demand of a new product, adequate data for forecasting can be obtained by testing a new product in a sample of the target market or markets. This approach can give the forecaster a clear image of the consumer reactions for the new product. At this stage, it might be necessary to ensure that the product has adequate general acceptance, in terms of performance, size, colour, taste, and price before proceeding to forecast sales. This technique suffers from serious limitations,

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e.g., early sales may be a 'novelty response' and not true indicator of demand. At the same time, company competitors may watch your test product, and if it is successful, may enter immediately into competition.

5. **Life cycle approach:** Under this approach, a new product is treated as a further logical stage in the lifecycle of some overall customer satisfaction. Market and sales are accordingly expected to grow at an anticipated rate. Thus in the home laundry market the sales growth of detergents continued and extended directly from soap powder, and in industrial machine tool situations numerical control devices have evolved directly out of the demand for manual control machines.

3.4 SALES FORECASTING AND MARKETING PLANNING

The role of a marketing manager is to forecast with a view to implement the appropriate marketing strategy going by the previous data. The future course of action depends largely on awareness of economic forecast and sales trend forecast. The sales forecasting is the basis of most planning. It is necessary to plan production and finance. It is also useful in planning the quantity to be purchased or manufactured when and what should be bought or manufactured and the amount to be spent on promotional activities. Forecasting involves prediction of the future events when the conditions are almost uncontrollable. No one can foresee the changes in weather, government activity and policies and competitive, behaviour. There are, however, some controllable determinants such as product, price, advertising distribution and service. An organization must forecast the market or sales potential and then prepare its own sales forecast. From the viewpoint of sales the market can be defined as the collective demand of the potential buyers of a commodity or services. Market potential refers to the maximum sales opportunities for all sellers of goods or services during a defined period. The marketing manager of a particular company cannot normally expect to win over all the potential customers for his company. He has to be satisfied with a share of these potential customers. The market share is the ratio of a company's sales to the total industry sales on an actual or potential basis. In short, a

$$\text{Market Share} = \frac{\text{Company Sale}}{\text{Industry Sale}} \text{ in units or rupees whichever is applicable.}$$

It represents the part of the total industry sales that a company expects to secure for itself.

The important roles of sales forecasting are:

(i) **Foundation of marketing planning:** Market planning is highly dependent on sales forecasting. The marketing manager has to have an idea of the future expected sales, in order to create a marketing program and various production activities. Therefore, sales forecasting is the base for marketing planning.

(ii) **Discovery of marketing opportunities:** Sales forecasting helps in discovering new marketing opportunities. The possibilities of venturing into new markets encourage the marketing personnel of the marketing department and makes their work more challenging.

Check Your Progress

1. What is business forecasting?
2. What is the formula used to measure the sales forecast?
3. Explain the Delphi method.

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(iii) **Reduces the marketing risks:** Sales forecasting also predicts the future marketing risks. Thus, the marketing manager can watch himself against such risks on the basis of sales forecasting. He can face the challenges of new situations in a better way by sales forecasting. He can modify and make necessary changes in the marketing programme minimizing the loss.

3.4.1 Factors Affecting Sales Forecasting

The forecast may be for a short period or long periods. The marketing manager is required to forecast what is likely to happen in order to adopt an appropriate marketing strategy with regard to formulation of production policy, price policy, setting the sales targets and establishing controls and incentives. The factors which affect sales forecasts are:

(a) **General business conditions:** Sales forecast requires the marketer to make due considerations to the conditions of the economy, growth of population, distribution of income and wealth, general customs, government policy, fashion and seasonal fluctuations for the future.

(b) **Fluctuating market situations:** The marketing manager should always be alert to the various factors which bring about changes in the market demand. A change in the overall market demand is bound to reflect the demand for the company's product. Therefore, in making sales forecast, the market behaviour in the past should be analysed and evaluated properly and future market conditions should also be analysed.

(c) **Conditions within the company:** Upcoming internal changes in the company also affect the future sales. Such changes may be in price structure, distribution channel, sales promotion measures, product or other marketing policies of the company. It is therefore necessary to anticipate the extent to which such measures may affect the future sales. Such factors are well within the control of the company and therefore sales forecast must take into consideration all these conditions.

(d) **Factors affecting export trade:** If the company is in an export business, factors such as export and import controls imposed by the government, export conditions, export-import policy, export finance, and new agreement can greatly influence the business and should be considered while forecasting sales.

3.4.2 Limitations of Sales Forecasting

Limitations of sales forecasting are:

(i) Changes in consumers' needs, tastes, fashion, style.
(ii) Lack of sales data in the case of a new product.
(iii) Growth elements.
(iv) Psychological factors.
(v) Lack of efficient and experienced managers.

(i) **Changes in consumer needs, taste and fashion:** Introduction of new fashion products is rarely smooth. Future sales depend on the response by the direct consumer. Sales will be enormous if the product is a hit among the users; else it will prove otherwise. The ever-changing tastes, fashions and styles make sales forecast very difficult.

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(ii) **Lack of data:** Marketing managers can only speculate the response of forecast when there is a new product if there is absence of data.

(iii) **Anticipatory growth element:** It is difficult to maintain a rapid rate of growth over an extended period of time. The market manager must estimate the likely growth rate and consider it while preparing the sales forecast for his company.

(iv) **Psychological factors:** The consumer attitude can change suddenly from confidence to uneasiness about the future. For instance, a rumour, during summers saying electric bill (per unit) has been lowered, would create higher demand for ACs and coolers.

3.5 SALES PLANNING FORECASTING TECHNIQUES

Sales planning is meant to prepare a 'blueprint' for how much or how many (or even volume) can be sold in a short time period of usually one year, which can be further broken down into half-yearly, quarterly, monthly, weekly or even daily basis. It usually covers area-wise, salesperson-wise, sales estimations, which can be even customer-wise for expensive, sophisticated, fabricated, capital plant-equipment. Simultaneously, sales expenditures are also budgeted.

This blueprint or the master document needs to consider the firm's present resources (micro-level), competitors, relevant target market's requirements, as per the defined 6 P's (Product, Price, Place, Promotion, Process, People).

For many proactive, professional organizations or industries, sales planning can also involve longer time periods. In such organizations, mid-term (three-year) and long-term (five-year) sales plans are also prepared, keeping in view all available information on both internal resources and target market's changing requirement patterns and competitors' reactions.

In short, for existing products-services and well-defined target markets, this ASP (Annual Sales Plan) is expected to serve as a standard for actual performance achievement and subsequent appraisal. To sum up, the role of sales planning will be relevant to sales forecasting, sales organization, sales control, sales direction and sales staffing.

3.5.1 Planning Approaches

An achievable set of targets needs to be pre-fixed. This internal target fixing is usually based on a number of internal meetings, which are inter-department as well as intra-department. Depending on the culture of the organization and the management philosophy, the annual business planning process can be:

1. **Top down:** Centralized company managements dictate the achievement of predefined objectives, mainly from their perspective. These are then considered as the basis for any internal exercise.
2. **Grassroot planning:** In highly decentralized organizations, both macro-level planning and micro-level (departmental) planning start simultaneously. In many proactive organizations information processed from the marketing department may start the ball rolling even prior to any planning exercise. Strategically, decisions on which markets to tap and how to tap may involve frequent discussions, at various levels, within departments and across departments. This

Check Your Progress

4. What is market share?
5. Explain collective opinion.
6. What are the limitations of sales forecasting?

highly desirable planning process, often known as the 'bottoms-up' method ensures involvement of all working executives, who prefer to give their best inputs. This can be termed as management by the objective process.

3. **Mixed approach:** In mixed decentralized organizations, both senior management and functional managements interact to arrive at a set of mutually acceptable and achievable targets. In this type of managerial culture, first level objective setting may even start from the top management level where employees are willingly involved.

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3.5.2 Qualitative Forecasting Techniques

These techniques are sometimes referred to as judgmental subjective techniques as they depend more on opinion than on mathematics in their forecasting.

Sales forecasts for new products are based on executive judgments, sales force projection, surveys and user's expectations in the absence of past sales data. It is now important to be more attentive in forecasting the product's success and sales.

Broadly, qualitative forecasting techniques include:

- **Jury of executive opinion:** 'Top down' is a technique wherein top executives bind together their views on future sales and forecast for the industry.
- **Customer expectations:** The sales force gather data by doing surveys with the end user and use to predict the sales of the new product by judging customer expectations and requirements.
- **Sales force composite:** This technique combines the individual forecasts of salespeople. It involves salesperson making a product-by-product forecast for their particular sales territory. Such a method is known as the bottom-up approach.
- **Delphi method:** This is similar to the jury of executive opinion technique. The main difference is that in this case the members do not meet in a committee. A project leader administers a questionnaire to each member of the team which asks questions usually of a behavioural nature. The questioning then proceeds to a more detailed second stage which asks questions about the individual company. Likewise, the process goes on to further stages. The ultimate objective is to translate opinion into some form of forecast.
- **Bayesian decision theory:** This has been placed under techniques although it is really a mixture of subjective and objectives techniques. It is similar to critical path analysis in that it uses a network diagram and probability must be estimated for each event over the network.

Qualitative techniques are often used when managers have little data to incorporate into forecasts. New products are a classic example of limited information and qualitative techniques are frequently employed to predict sales revenues for these items.

Qualitative techniques are recommended for those situations where managers or sales force are particularly adept at predicting sales revenues. These techniques are often utilized when markets have been disturbed by strikes, wars, natural disasters, recessions or inflation. Under these conditions, historical data are useless and judgmental procedures that account for the factors causing market stocks are usually more accurate.

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3.5.3 Quantitative Forecasting Techniques

Quantitative techniques are sometimes known as objective or mathematical techniques as they rely more upon mathematics and less upon judgment in their computation. These techniques are now very popular as a result of sophisticated computer software.

The important quantitative techniques are:

- **Regression analysis:** This statistically relates sales to one or more explanatory (independent) variables such as marketing decisions (price changes, for example) competitive information, and economic data or any other variable that can be related to sales.
- **Exponential smoothing:** This makes an exponentially smoothed weighted average of past sales, trend, and seasonality to plan the forecast.
- **Moving average:** This takes an average of past observations to make a forecast. As new observations become available, they are used in the forecast and the oldest observations are dropped.
- **Box-Jenkins:** This uses the auto correlative structure of sales data to develop autoregressive moving average forecast from past sales and forecast errors.
- **Trend line analysis:** This fits a line to sales data by minimizing the pointed error between the line and actual past sales values. The line that is projected into the future is the forecast.
- **Decomposition:** This means further dividing data to forecast its sub-components like season, trends, and skeptics.
- **Straight-line projection** is the projection of past data used to forecast the future growth with a visual theory.
- **Lifecycle analysis:** A product's lifecycle analysis helps in forecasting the future growth of the product. The product could be just introduced, growing or even in the last stages of its lifecycle.
- **Simulation:** The simulation model is a mathematical replica of the actual corporation which models the forces such as customers, marketing plans, competitors, and flow of goods, affecting sales with the help of a computer.
- **Experts systems:** More than one forecasting experts' pool in to reach consensus on forecasting.
- **Neutral networks:** This means to learn from the past history of sales and uncover any related pattern or data used to produce the forecast.

Thus, the thumb rule in sales is to know the customer's location and demand. Profitability will suffer greatly if data are calculated inaccurately. Thus, managers should calculate and record the forecasting errors to tighten any loose ends in the future and judging the best time to implement qualitative techniques.

Quantitative techniques are often in alliance with qualitative techniques. Quantitative forecasting techniques are best employed when companies have access to historical data. and have distinct advantages in situations where managers must make frequent forecasts for large number of products.

Appropriate forecasting software and computers are necessary for large number of calculations to be made by quantitative forecasting techniques. An analyst should have complete knowledge of the statistical procedures used by these techniques.

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3.5.4 Seasonal Demand

Seasonality refers to the variations in output and sales related to the seasons of the year. Production and sales often experience seasonal peak, sometimes over the week or within the day but the greatest problem concerns fluctuations related to seasons of the year.

Demand or Supply

Where production is affected by the weather and the cycle of the year it can be subject to seasonality in supply. The main examples of seasonality in supply relate to agricultural, horticulture and related activities. If production takes place in the open then seasonal changes will have an impact.

But manufactured products and services are produced indoors and supply is not affected by the seasons and the weather.

Seasonal Demand

Supply of manufactured goods and services is not greatly affected by seasonal factors. However, it does affect the demand for these goods. It can be explained in terms of culture and customs, e.g., religious festivals whereas seasonality can be explained in terms of the weather. High seasonal demand products include: sun coats, umbrellas, flight tickets, sweaters, fireworks, decoration items, winter clothes, and summer clothes. An example of instigated seasonality would be a policy decision by government regarding registration number of cars affecting sales.

Car registration shows a distinct seasonal pattern in sales of new cars. Each year, from 1st August onwards, new cars were given a new registration suffix. The purpose was to introduce some transparency into the market so that the age of the car was clear to all concerned. But it produced an unfortunate effect—Sale of new cars slumped in the spring and early summer and a high proportion of sales were concentrated in August. This was an example of seasonal fluctuation as an unintended by-product of a bureaucratic decision. As it distorted the demand for new cars, the practice was abandoned.

1. Factors affecting seasonal demand

Periodic events in nature are often referred to as seasonal. Factors that affect the price of a commodity are demand and supply in the market, the prices of other commodities, natural causes, and geopolitical conditions. But season is one of the major factors that affect the commodity prices and demand. Supply would usually increase in the peak season reducing the price of the product. During the off-season, it is just the opposite, prices increase due to shortage in supply. The production period may be different in several countries for a specific commodity and so international demand and supply and seasonal changes are to be kept in mind.

Some commodities are produced for only a few months in a year. But their demand continues for the whole year. For some commodities there are fluctuations in prices or quantities that are synchronized with the season or time of year. Some future contracts are based on annually produced commodities like corn, wheat, soybeans, and cotton. An annually produced commodity tends to have supply available at one harvest time while demand is variable, and segmented throughout the year. Other future contracts are based on a market with variable production cycles, and more

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constant demand components like petroleum products such as crude oil, heating oil, metals, gold, silver, and platinum.

So an investor should always keep in mind seasonal fluctuation in commodity prices before investing.

Now the question is what are the sources of seasonal fluctuations in prices or quantities of a commodity? Major sources affecting the fluctuation in prices are (i) demand and supply and (ii) climate.

Demand and supply is the major factor which affect the prices of a commodity. There may be waves in the market that are about a year long. The prices of soybeans, oil and meat are mainly determined by the supply and demand characteristics. Prices of petrol and diesel rose to more than double in the current year from last year due to strong demand and supply squeeze. We can also see the seasonal effect in the sugar market because prices of sugar increase from mid of August due to festive seasons.

Although natural gas is in demand throughout the year it is still variable. In summers, natural gas serves the sole purpose of cooking. But in winter, natural gas is burned for heating fuel too, resulting in price hike. The best method is to buy gas in the off-season and store it for winter use. If gas is put in storage in the summer and used in winter, the cost of gas charged to consumers in the winter will be an average of the current market price and the cost in summer. This method will have a limited effect on the price volatility to some extent and is far from the perfect solution. However, when natural gas prices fluctuate dramatically, consumers will still see considerable change in gas rates. For example, maize crop was affected badly in the season of bird flu and cast a disastrous spell on several poultry-related sectors. Due to this, the demand declined for maize resulting in decline in prices.

The main reason for these seasonal variations is climate. Changes in climate and the cycle of seasons throughout the year can affect the supply of some commodities (e.g. fresh fruits and vegetables), or the demand for them (e.g. coal, winter and summer clothing). Climatic conditions are a major factor in agribusiness despite the developments made in the past few years. Seasonal fluctuations are present in almost all sectors of most economies.

Floods and droughts affect food production both in terms of quantities and in terms of relative composition of the food basket. Major negative impact could be seen in the production of rice, wheat, maize and soya, all major consumption items globally. Calendar events can also create seasonal commodities. Climate change also has a tremendous impact on commodity prices.

3.6 EFFECT OF CHANGES IN FASHION AND TASTE

An important determinant of market demand is the consumers' tastes and preferences for the commodity. If there are sudden and significant changes in the consumers' preferences, the total demand for the commodity can change substantially. The three special categories of product lifecycles are—styles, fashions, and fads. A *style* is a basic and distinctive mode of expression, form, appearance and character of a human mind. Styles appear in homes, clothing (formal, casual, funky); and art (realistic, surrealistic, abstract). A style can be passed on for ages or just go out of fashion. A

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fashion is a currently accepted or popular style in a given field. Fashions pass through four stages: character, imitation, collective fashion, and rejection.

It is almost impossible to foresee the life of fashion cycle. It could be that fashions die out because the consumer comes to terms with the price and starts pointing out the missing features. For example, as mobile phone screens become smaller, they become uncomfortable and then a growing number of buyers start wanting mobile phones with bigger screens. Also, too many consumers try to fit in the fashion line, turning others away. Still another is that life of a particular fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in society, satisfies societal norms and values, and keeps within technological limits as it develops.

Fads are fashions that take almost no time to get adopted and takes even less time to lose their craze. They are accepted for a short time and are popular within a sector of society who are searching for excitement or want to distinguish themselves from others. Fads fail to survive because they don't meet the genuine need. The marketing winners are those who recognize fads at an early stage and transform them into products which not only stay in the market but also meet the strong need of the end user.

Sales pass through a succession of lifecycles based on the discovery of new product characteristics, users or uses. Through this process of continuous product improvement, the organization tries to avoid its product entering the decline phase of the PLC by stimulating further growth after a period of apparent maturity. For example, mobile phones were approaching the decline stage. But before the downward decline could start, the companies introduced GPRS facilities through which you could avail many value-added facilities. When that feature started getting old, the companies introduced camera into the mobile set. Some more features like online banking, e-mail check, cricket replay, exciting gaming, screensavers, polyphonic ringtones, and image morphing have been added so that the mobile is getting increasingly advanced and its lifecycle is being extended everyday.

1. **Style:** A style is a particular manner of appearance or presentation in any art, product, or form. Styles are more individualistic and can continue for generations. The traditional living of rural people with distinctive dresses, rituals and foods is an excellent example of ethnic style.
2. **Fashion:** Any style or routine that is largely accepted and purchased by successive groups of people over a reasonably long period of time is called fashion. The fashion adoption process explains how it effects the socio-economic classes. There can be three ways:
   - **Trickle-down:** This occurs when a fashion travels downward through several socio-economic levels. The example is cable TV or set top box, which once was a fashion of upper class but has now became a necessity even among the middle class.
   - **Trickle-up:** This is seen when a fashion travels from lower socio-economic levels upward to higher levels. The relevant example is hukka (predominantly a fashion in the lower economic class) bar in five-star hotels.

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- **Trickle-across:** This occurs when a fashion travels parallelly within several socio-economic levels. The prime example is the trend of blue denim jeans, which gained popularity among all sections of people.

  Consumer products where fashion and style are most noticeable include perfumes, household items, linen, and gift items. This is of much shorter duration and less individualistic than style. It may pass through four stages:

  - **Character:** Hindi movie stars create fashion trends in India. For example, in *Kaho Na Pyar Hai*, Hrithik Roshan wore a special kind of spectacles. The distinctiveness of the design of the specs started a new fashion trend.
  - **Imitation:** Fans of Hrithik started purchasing that special kind of specs in order to imitate him.
  - **Collective fashion**: The craze started by Hrithik reached such a level that he became a heartthrob and his fashion became a rage.
  - **Rejection:** As soon as wearing special specs became mass fashion, Hrithik's followers began to reject that fashion, as they did not find it attractive to show their passion for their idol in this way anymore and hence the fashion began to decline.

3. **Fads:** These are fashions that exhibit the following patterns:
   - It comes quickly into public view
   - It is adopted with great enthusiasm
   - It peaks in demand very early
   - It declines very fast
   - The acceptance cycle is very short
   - It tends to attract those who want to be distinguishable from others
   - It may have some queer, bizarre or abnormal qualities.

Against such a backdrop, marketers, in order to thrive in the present changing world of fashion and taste, have to keep a close watch on the consumers. Current choice, taste, likes and dislikes as far as the fashion market is concerned, is highly volatile in nature and consumers' perception of fashion changes rapidly with time. Therefore, marketers have to be vigilant and monitor recent trends of fashion as well as anticipate the future trend well in advance, so that they will be well prepared in terms of effective sales programmes and campaigns to adapt to the new situation as and when it arises. However, in the face of ever-changing tastes, fashions and style, sales forecast is a difficult proposition.

Check Your Progress

7. What do you mean by sales planning?
8. Why are qualitative techniques sometimes referred to as judgmental subjective techniques?
9. Why are quantitative techniques sometimes referred to as objective or mathematical techniques?

3.7 SUMMING UP

- Business forecasting is the calculation of probable events to provide against the future. It therefore involves a look-ahead in business and the idea of predetermination of events and then financial implications as in the case of budgeting.
- Sales forecasting forms the basis of most planning whether concerned with marketing, production finance, or purchasing. The forecast may be for a short period of up to one year when it should be reasonably accurate or it may be for long periods extending over one year.

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- Long-run objectives include: estimating cash inflows, determining dividend policy, planning of plant capacity, manpower planning, planning of long-run production, forecasting or long-run financial requirements and budgetary control over expenditures.
- Production policy and price policy all depend on accurate sales forecasting. It influences all the activities of the organization such as production, distribution, advertising and changes in the procedure of marketing goods. For the success and achievements of the overall objectives of the organization it is essential to review the sales forecasts periodically.
- The important roles of sales forecasting are: sales forecasting is the base for marketing planning, discovery of marketing opportunities, sales forecasting reduces the marketing risks and helpful in control.
- The forecast may be for a short period or for long periods. The marketing manager is required to forecast what is likely to happen in order to adopt an appropriate marketing strategy with regard to formulation of production policy, price policy, setting the sales targets and establishing controls and incentives.
- The factors that affect sales forecasts are: general business conditions, condition within the industry, changed market situations, conditions within the company and factors affecting export trade.
- There are several limitations of sales forecast which the marketing manager should realize and understand. Such limitations are: changes in consumers needs, tastes, fashion, style, lack of sales history in the case of a new product, growth elements, psychological factors and lack of efficient and experienced managers.
- Sales planning is meant to prepare a 'blueprint' for how much or how many (or even volume) can be sold in a short time period of usually one year, which can be further broken down into a half-yearly, quarterly, monthly, weekly or even daily basis.
- For many proactive, professional organizations, or industries, sales planning can also involve longer time periods for existing products-services, for well-defined target markets, this ASP (annual sales plan) is expected to serve as a standard for actual performance achievement and subsequent appraisal.
- Depending on the culture of the organization and the management philosophy, the annual business planning process can be classified into mixed approach, top down and grassroot planning.
- Qualitative forecasting techniques are referred to as judgmental of subjective techniques because they rely more upon opinion and less upon mathematics in their formulations. Broadly, qualitative forecasting techniques include jury of executive opinion, customer expectations, sales force composite, the Delphi method and Bayesian decision theory.
- Quantitative techniques are sometimes termed as objective or mathematical techniques as they rely more upon mathematics and less upon judgment in their computation. The important quantitative techniques are: regression analysis, exponential smoothing, moving average, box-Jenkins, trend line analysis, decomposition, straight-line projection, life cycle analysis, simulation, experts systems and neutral networks.

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- Sales forecasting procedure involves the following three sequential steps: forecast of general economic conditions, forecast of industry sales and preparing forecast of company sales. However, broadly there are four kinds of forecasts: total forecast, composite forecast, short-term forecast and long-term forecast.
- It is the prime responsibility of the top management to review carefully the basis and results of the forecast and modify it whenever required. Broadly, techniques of forecasting for established products can be divided into two categories: direct and indirect methods.
- Direct methods attempt directly to assess consumer intention. The important techniques of direct methods are: survey approach, executive opinion, sales-force composite, Delphi method and controlled market experiments.
- The simplest and the most straightforward approach to sales forecasting is the consumer survey approach. Field surveys involve the use of the personal interview, where the individual buyer is taken through a formal questionnaire, or the focused interview in which structured questions are asked to get the buyer to speak freely about a specific topic giving facts, opinions and feeling. Telephone survey collects various facts regarding the consumer intention from the conversation that takes place between interviewer and the buyer on the telephone.
- Postal survey can be used to collect data, either based upon a mailing list where a questionnaire is sent to buyers, or upon mail in questionnaires in newspapers and magazines, or upon replies to questionnaires included in the packaging of products.
- The executive opinion method of forecasting is simply a technique whereby views of top executives concerning the products to be forecast are collected and combined. The executive opinion method is also known as 'collective opinion' because it takes advantage of collective wisdom of the experts in various fields.
- The sales force composite method is suitable for all types of products or services particularly for those products which do not have sufficient statistical data required for the estimation under other methods. Delphi method is a sophisticated method of measuring experts advise through repeated questions. Under controlled market experiments method, a firm may conduct experiments in the actual market by varying the determinants of demand like price and advertising, in order to assess its impact on sales.
- Seasonality refers to the variations in output and sales related to the seasonal of the year. Production and sales often experience seasonal peak, sometimes over the week , within the day but the greatest problem concerns fluctuations related to seasons of the year.
- Factors that affect the prices of a commodity are: demand and supply in the market, the prices of other commodities, natural causes, and geopolitical conditions.
- Style is a particular manner of appearance or presentation in any art, product, clothing and art .
- A style can be passed on for ages or just go out of craze. *Fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages: character, imitation, collective fashion, and rejection.

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- The fashion adoption process explains how fashion travels through the socio-economic classes. There can be three ways: trickle-down, trickle-up and trickle-across.
- The fashion market is highly volatile in nature and consumers' perception of fashion changes with time. Therefore, marketers have to be vigilant and monitor recent trends of fashion as well as anticipate the future trend well in advance.

3.8 KEY TERMS

- **Demand:** To ask for urgently or peremptorily.
- **Supply:** To make available.
- **Fashion:** A trend or adopted trend which is accepted by society.
- **ASP:** Annual Sales Plan.
- **SWOT:** Strength, weakness, opportunity and threat.
- **Seasonal:** A commodity which can be made available only in a season.

3.9 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Business forecasting is the calculation of probable events to provide against the future.
2. A short-term forecast is a prediction for a period of one year or less than one year. It is concerned with daily operations with current limited resources.
3. Delphi method, originally developed by Norman Delphi and his associates at the RAND Corporation in 1969 to forecast military events, is a sophisticated method of measuring and manipulating judgments about the future sales. It attempts to make more effective use of informed initiative judgments.
4. The market share is the ratio of a company's sales to the total industry sales on an actual or potential basis.
5. The executive opinion method of forecasting is simply a technique whereby views of top executives concerning the products to be forecast are collected and combined. The executive opinion method is also known as 'Collective Opinion.'
6. Market share = Company share/ Industry share
7. Sales planning is meant to prepare a 'Blue print' as how much or how many (or even volume) can be sold in a short time period of usually one year, which can be further broken down into a half-yearly, quarterly, monthly, weekly or even daily basis.
8. These techniques are sometimes referred to as judgmental subjective techniques as they depend more on opinion and than mathematics in their forecasting.
9. Quantitative techniques are sometimes termed as objective or mathematical techniques as they rely more upon mathematics and less upon judgment in their computation.

3.10 QUESTIONS AND EXERCISES

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Short-Answer Questions

1. What are the short-run objectives of sales forecasting?
2. Briefly explain the importance of sale forecast.
3. What are the limitations of sales forecasting?
4. What is meant by seasonal demand?
5. What are the characteristics of direct method of forecasting techniques?

Long-Answer Questions

1. Describe qualitative forecast techniques.
2. Describe quantative forecast techniques.
3. What are the steps involved in the sales forecasting procedure?
4. What are the factors affecting sales forecasting?
5. Discuss the factors affecting seasonal demand.
6. Discuss the effects of changes in fashion and taste in planning sales programme and campaign.

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UNIT 4 DISTRIBUTION CHANNELS

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Structure

4.0 Introduction
4.1 Objectives
4.2 Functions and Significance of a Distribution Channel
    4.2.1 Functions of Distribution Channels
4.3 Channel Selection
    4.3.1 Electronic Channels of Distribution
    4.3.2 Benefits and Challenges in Electronic Distribution of Services
    4.3.3 Challenges in Distributing Services through Electronic Channels
    4.3.4 Electronic Channels in Action
4.4 Strategies for Effective Service Delivery through Intermediaries
4.5 Delivering through Intermediary Channels
    4.5.1 Channel Conflict
4.6 Distribution of Raw Materials
4.7 Changing Face of Distribution
4.8 Summing Up
4.9 Key Terms
4.10 Answers to 'Check Your Progress'
4.11 Questions and Exercises
4.12 References and Suggested Readings

4.0 INTRODUCTION

Manufacturers produce large quantities of a limited range of products whereas customers usually want only a limited quantity of a wide range of goods. The objective of each manufacturer is to ensure that his products are offered to customers, with the other product requirements, in adequate quantities, at convenient locations and at times when they want to buy them. Distribution channels are the means to achieve this objective, and make available products that meet the multiple requirements of customers.

In other words, distribution channels facilitate the flow of products from producers to customers. They are the means by which products are moved from the producer and offered to the ultimate customer. In fact, you can say that distribution channels are the intermediaries to facilitate the flow of products from producers to consumers.

Distribution channels serve several specialized functions. They enable manufacturers to make their goods available to consumers at the right place and at the right time. They are the basis on which buyer / seller relationships are analysed. They are used to understand buyer expectations. They determine the interaction of marketing and logistics activities. The performance of a distribution system is designed for final consumers. Ultimately, distribution channels determine the firm's customer service performance.

As a concept, distribution channels are required to make the output of any producer available and accessible to consumers, i.e., the target population. They are not limited to the distribution of physical goods only. These channels are meant for all types of goods. Producers of services also need distribution channels.

In this unit, you will learn about the process, functions, advantages and challenges of the distribution channel. You will also learn about channel conflicts and ambiguity, electronic channels of distribution and also the intermediary channels that are a part of the larger distribution channel.

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4.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the functions and significance of a distribution channel
- Explain the concept of channel selection
- Discuss the strategies for effective service delivery through intermediaries
- Describe delivery of services through intermediary channels
- Analyse the method of distribution of raw materials
- Describe the changing face of distribution

4.2 FUNCTIONS AND SIGNIFICANCE OF A DISTRIBUTION CHANNEL

A distribution channel is a set of interdependent organizations that collaborate to make the product available to the consumer or business user. At the same time, the channel intermediaries are firms like wholesalers, agents, brokers, or retailers who will help in the movement of the product from the producer to the consumer.

Since products may also be ideas such as in the form of services, they are intangible and often conceptual; the role of place – or distribution – is problematic. The distribution of ideas is often merged with promotion, and regarded as an aspect of the promotional mix. However, where the main product is an idea, the movement of that idea to the market has to be examined in the marketing mix. In marketing, the 'place' is traditionally the most neglected element of the marketing mix. Yet without an effective distribution channel to facilitate behavioural change, campaigns are unlikely to succeed.

The distribution of the facilitating tangible products needed to effectively adopt a new behaviour is fundamentally the same as any form of commercial product distribution. Subtle differences arise primarily in the type of outlet where the product can be purchased, or obtained. Campaigns usually have a stronger emphasis on supply through government agencies, schools, pharmacies and health clinics. For example, with the advent of HIV/AIDS, the distribution channels for condoms were rapidly expanded to include vending machines, supermarkets and service stations so that access and availability were significantly increased.

For idea products, distribution channels such as the media are often the same as used in promotion. One of the convenient aspects of an idea-based campaign is that the idea can be spread in a promotional campaign without requiring a separate distribution concept. Also, ideas are communicated and can easily be passed on by word of mouth with no direct funding on the part of the sponsoring agency. In addition to traditional communications media, there is a strong emphasis in marketing

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distribution on the 'selling' role of professionals and volunteers, particularly in the health sector.

The role of distribution channels in marketing focuses on facilitating behavioural change. Typically, marketers do not own the channels of distribution—instead, the role of marketing is to maximize the use of existing channels to assist in the delivery of different elements of the marketing product. Effective marketing therefore relies on quality relationships with partners and intermediaries in the public and private sectors.

Planning channels of distribution includes gauging aspects like suitability to various classes of goods and customers, appraisal of sales, costs and profit possibilities of each channel.

The major activities involved in the channel could involve the following general tasks:

- Ordering
- Handling and shipping
- Storage
- Display
- Promotion
- Selling
- Information feedback

Distribution channels ensure the availability of goods and services to customers at locations suitable for procurement. While finalizing distribution channels, decisions regarding the most suitable modes of reaching products to customers need to be taken. Operating parameters such as time, cost, and speed, need to be involved in the finalization process. In fact, well laid-out distribution channels serve as a source of competitive advantage to organizations, which in this era of rapid commercialization of products is crucial for success.

A distribution channel may be defined as a team of entities (individuals and organizations) that collaborate to ensure that a product or service is made available to the end-user. Distribution channels, also termed as *marketing channels* consist of manufacturers, intermediaries and end-users. The evolution of distribution channels has been primarily influenced by their environment. With the constant evolution in the market forces and relationships, distribution channels have constantly redefined themselves with the unwavering objective of providing value to the end-user.

During the evolution of sales management, businesses evolved through four distinct eras of *production*, *sales*, *marketing* and *relationship marketing*. The distribution channels too evolved along with this evolution and changed themselves to become customer centric from a previously production-centric bias. Subsequently an example of this evolution in the personal computer market is given.

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Stage 1	Stage 2	Stage 3	Stage 4
• Production based on forecast • Manufacturers sold directly through self- owned retail outlets. • Marquee brands	• Production based on forecast • Sale through Distributor retailer • Right to sell with Manufacturers. • Delivery and service more efficient as compared to Stage 1	• Production based on forecast • 'Intel Inside' component branding by manufacturers as product becomes homogenous • Sale through multiple channels – distributors, retailers, as well as through e-commerce • Rise of un-branded PC manufacturers; by small players with 'Intel inside' providing credibility	• Evolution of 'DELL model' of PC sales • Production based on customer order • Quick response delivery mode • Importance for standardization and component suppliers increase • Pipeline inventory reduces • Customers can buy from home as sale is through the Internet

Competitive market forces also ensured that *efficiency* and *cost saving* were the guidelines for the evolution of distribution channels all through these stages.

4.2.1 Functions of Distribution Channels

The different activities required to be performed for the product to reach the buyer from the manufacturer are termed as *functions* of the channel. The channel structure is also defined by the functions that should be performed. The principle channel functions are detailed as follows:

(i) Facilitating the exchange process: The foremost function of the marketing channels is to facilitate the process of buying and selling, i.e., the *exchange* process. This would involve the choice of the right channel members, for example, the choice of banks being a channel member for the insurance companies in the 'bancassurance scheme.' Here, the insurance products of various insurance companies are sold by the banks acting as their intermediary. Besides this, channels facilitate the interaction process of buying and selling by developing ordering systems, enabling proper delivery, and merchandising of the products.

Developing the market by tapping a larger cross section of potential clients is another important function of channels which facilitates the overall buying and selling process. Gathering and sharing market intelligence, identifying and sharing customer insights, and analysing consumer behaviour, are other varied functions of a well-developed marketing channel.

(ii) Facilitating the logistics function: Broadly, facilitating logistics has two connotations—*transportation* and *storage*. This primary function enables the physical reaching of the product to the customer from the producer. A vital requirement of increasing reach and coverage in the market is fulfilled by the presence of channel intermediaries over a broader area. Product availability enhances the probability of success and this underscores the significance of this vital function.

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(iii) Other key functions: Another major function of the channel is to provide *credit.* Capability to provide credit in the market is many times the deciding factor in determining the structure of marketing channels. In fact, even financially strong companies depend on their marketing channel intermediaries for this key function, as it would be impossible for them to recover small amounts of money from a large number of constituents if they resort to direct supply on credit basis.

Inventory management is another core function of the channel. As discussed, manufacturers produce in bulk while the consumption is in single units. Therefore, this requires stocks to be held so that consistent product availability is ensured at all times. This requirement is met through holding of inventory at the field level by the marketing channel members. Besides this, stocks are also held by the producers at their plants. The key is in determining the correct inventory level by balancing the *availability benefit* against the *cost of inventory holding* and the *liquidity* aspect.

Technical and service support is also another important function of the channel. Many organizations have a first line of service offering, routed through their channel partners and this could be further supported by company personnel. Customer product complaints in the first stage are also handled by channel members. Many organizations have defined a *standard operating practice* for such a function.

Finally, marketing channels perform one most important function; that of bearing some *risk* on account of the manufacturers. Besides credit and exposure risks, product obsolescence risk, risks due to product damage in transit, product misplacement, lost or stolen hazards are some of the other risks undertaken by the channel.

4.3 CHANNEL SELECTION

You have learned that channel members consist of the manufacturers, the intermediaries and the end-user. In this context, the recruitment of channel members normally refers to the recruitment of the channel intermediaries by the manufacturers. However, there could be instances where the reverse happens, for example, retailers (especially large established ones, like Walmart) are frequently on the lookout for recruiting manufacturers whose products they could stock, distribute and sell.

It is again not essential that all manufacturers would be looking for channel intermediaries for the distribution of their products. Instances of direct to market companies abound, for example, Eureka Forbes and Oriflame, who manage the entire supply chain themselves. However, outsourcing distribution to parties outside the organization and thereby concentrating on core activities are also sound operating practices which enable value maximization. It is in this context that recruitment of channel members is a critical activity that needs to be taken up in a manner that the member fits well with the culture of the organization and operating norms for being a motivated performer.

Recruitment of the right channel partners in the first instance is also very critical from the perspective of international business, where frequent changes would hamper the business growth. Recruiting and screening the right channel partner who will serve the customer needs in an appropriate manner is therefore important for the eventual success of marketing organizations.

Selection Criteria

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A well-laid down process for the selection and recruitment of channel members is the essential first step in reputed organizations. The process would detail the need, their role and the method that would have to be undertaken by the channel members to serve the customer. Simultaneously, the distributor rights and authority required for execution as well as the changes required over time would also need to be spelled out. In any 'going concern' the need and process to continuously recruit channel members is also an ongoing one. This is because of attrition of existing members, where replacement would be necessary besides the need for additional distributors to meet the growth requirements of the organization.

Screening is the first step in the recruitment of channel members, just as this would be the first process in selecting the employees for the organization. The criteria for screening would be varied and depend on the organization, the industry characteristics and the prevailing norms. However, some of the common criteria would be:

- The degree or extent of match that can be found with the organization's culture
- The potential channel member's capabilities and understanding of the business, product and market
- The resources provision capability versus the need
- The motivation for engaging as the distribution partner
- Their past performance track record

However, the profile of the required distributor/channel member could also alter as per the stage of the product in its product life cycle. For example, a new technical product may require distributors who have high capability to master the technicalities and are able to communicate these to the potential clients. After some time, this requirement may diminish once the product gets established and thereafter the distributors need not be as specialized.

Once the potential candidates have been screened and shortlisted, the recruitment of channel members may then be pursued by selection based on factors such as experience in the line, product knowledge and understanding, administrative and risk taking capabilities. The first and foremost on criterion is of course the sales capability and understanding of the sales process by the potential channel member. His knowledge and understanding of the market is also another key factor influencing choice. Next would be his product understanding and in case of technical products, his capability to understand technicalities.

Besides this, the capability of the potential channel member to handle the product in the right manner of unloading, storage and reshipment to clients and his willingness to invest in these as per need is judged carefully. Certain special products require special infrastructure and some distributors may not be in a position to provide these special requirements.

Experience in the distribution line and his performance in distributing other products could be the other criteria in finalizing candidates. In this process, it is also important to check out the type and extent of customers handled along with their efficacy. The administrative infrastructure and capability is also another basis for selection and current workload being handled versus the capability to take on additional load is judged at this stage. Lastly, the capability to take risk is a key requirement based on which the final candidate can be selected. From the organization's point of view, the risk involved in selecting a particular candidate is the cost incurred in appointing him and his subsequent commitment to the organization.

Exhibit 4.1 *Distributor Evaluation Parameters*

Ability to manage finances, sales and inventory
Warehousing facility, knowledge and efficiency
Ability to cover the allocated market and develop new customers
Capability to grow the market
Ability to meet the sales targets finalized by management
Experience and willingness to provide customer service
Willingness to carry the full range of products
Annual inventory turnover
Financial strength, payment track record
Share of market in the area assigned

Source: James D. Hlavacek and Tommy J. McCuistion, 'Industrial Distributors – When, Who and How?', *HBR*, March/April 1983.

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4.3.1 Electronic Channels of Distribution

Electronic channels are the only service distributors that do not require direct human interaction. What they do require is some predesigned service (almost always information, education, or entertainment) and an electronic vehicle to deliver it. We are all familiar with telephone, television channels and the Internet and Web and may be aware of the other electronic vehicles that are currently under development. The consumer and business services that will be made possible through these vehicles include movies on demand, interactive news and music, banking and financial services, multimedia libraries and databases, distance learning, desktop video conferencing, remote health services, and interactive, network-based games.

The more a service relies on technology and/or equipment for service production and the less it relies on face-to-face contact with service providers, the less the service is characterized by inseparability and non-standardization. As you will see in the following section, using electronic channels overcomes some of the problems associated with service inseparability and allows a form of standardization not previously possible in most services.

The Web and e-commerce alone will revolutionize the way in which services are delivered to customers and change the traditional relationship between the customer and the company:

The Internet will change the relationship between consumers and producers in ways more profound than you can yet imagine. The Internet is not just another marketing channel; it's not just another advertising medium; it's not just a way to speed up transactions. The Internet is the foundation for a new industrial order. The Internet will empower consumers like nothing else ever has. Think about this: Already 16 per cent of car buyers shop online before showing up at a dealership, and they aren't comparing paint jobs—they're arming them-selves with information on dealer costs.

Check Your Progress

1. Who are the channel intermediaries?
2. The major activities involved in the channel could involve which general tasks?
3. Name two main functions of distribution channels.
4. What is the primary requirement of electronic channels of distribution?

4.3.2 Benefits and Challenges in Electronic Distribution of Services

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The major benefits of electronic distribution are as follows:

- Consistent delivery for standardized services
- Low cost
- Customer convenience
- Wide distribution
- Customer choice and ability to customize
- Quick customer feedback

The major challenges in the electronic distribution system are as follows:

- Customers are active, not passive
- Lack of control of the electronic environment
- Price competition
- Inability to customize with highly standardized services
- Lack of consistency due to customer involvement
- Requires changes in consumer behaviour
- Security concerns
- Competition from widening geographies

Benefits of Electronic Channels

Consistent delivery for standardized services: Electronic channels such as television and telecommunication do not alter the service, as channels with human inter-action tend to do. Unlike delivery from a personal provider, electronic delivery does not interpret the service and execute it according to that interpretation. Its delivery is likely to be the same in all transmissions.

Distribution of television programming from networks through affiliate television and radio stations illustrates standardized electronic distribution. Networks create and finance programming including shows, news, and sports and distribute them through local stations in return for fees and advertising charges. In most cases, the local stations deliver what is fed to them through the networks. Local stations can elect not to carry a particular show because of low ratings or lack of fit with the local market. They can also refuse to carry advertising spots that are judged to be in bad taste or too controversial. Except for these situations, which are not common, what is distributed through electronic channels is what the service creator sends.

Low cost: Electronic media offers more efficient means of delivery than interpersonal distribution. For example, the cost of reaching buyers using a direct sales–force has been estimated to exceed ₹ 100 per interaction, whereas the use of electronic media such as television or radio often costs less than ₹ 30 per *thousand* interactions. Critics could rightly claim that the personal sales interaction was more powerful and effective, but with interactive media—now possible and being examined for commercial viability—service advertisers will be able to gain some of the credibility benefits (being able to answer individual questions or tailor the service for individuals) from personal interaction.

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Customer Convenience: With electronic channels, customers are able to access a firm's services when and where they want. 'Retailers still tell customers, *you have to come to us*. But online consumers are saying, *No way-you have to come to us. My place, my time is the new mantra of consumers everywhere.*' Just as catalog shopping freed working women from the perceived drudgeries of having to go to the mall, and fattened the purses of forward-thinking companies that recognized an underserved market, e-commerce is changing the way people shop. Many mail-order companies still limit their hours of 'availability, a real mistake if they are going to match the customer convenience of being able to order online 24 hours a day, seven days a week. For the marketer, electronic channels allow access to a large group of customers who would otherwise be unavailable to them because of busy schedules that do not allow them to shop in other ways. One only has to witness the incredible success of Amazon to realize this customer benefit, and to see its potential for profitability for companies.

Wide distribution: Electronic channels do more than allow the service provider to interact with a large number of end users. They also allow the service provider to interact (often simultaneously) with a large number of intermediaries. The costs and effort to inform, select, and motivate non-electronic channels are higher than the costs to accomplish the same activities with electronic channels.

Customer choice and ability to customize: Consider the options that will be available in movies and videos to customers who use video-on-demand services. Just as Dell Computer, a physical product, allows customers to configure an entire product to their own particular needs and desires, the Internet will allow many companies to design services from the beginning. Suppose you want to renovate your kitchen. It is likely, indeed already possible through such sites as www.garden.com, to go to many Internet sites, specify your requirements, and order what you wish. Whether a large retailer such as Home Town or a small startup company is the supplier, the customer gets exactly what he/she wants.

Quick customer feedback: Rapid customer feedback is without doubt one of the major strengths of e-commerce. Companies can find out immediately what customers think of services and of their transactions and can gain far higher participation from customers in surveys. With quick customer feedback, changes can be made quickly to service assortments, problems can be addressed immediately, and the learning cycles of companies can be increased dramatically,

4.3.3 Challenges in Distributing Services through Electronic Channels

Customers are active, not passive, and must be enticed: Traditional advertising media such as magazines and television consider the customer a passive receiver of their messages. If the customer is reading an article or watching a television programme, he will most likely see the advertisement. While we know that not all customers stay in the room for a television advertisement, most of us see hundreds of advertisements a day and accept this as an inevitable by-product of consuming entertainment and informational media. The user of the Web, however, is different:

It's not that Web users aren't interested in learning about new products and services or getting a great buy on an old standby, but they want to learn on their own terms. They want the choice to click or not, to view or not, and anything more

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than the gentlest form of persuasion from an advertiser is likely to be construed as an intrusion.

The idea of presenting to Web users the advertising information the service provider wants is not acceptable. Online consumers can take out of cyberspace whatever interests them and leave behind whatever doesn't. The advertising must educate, entertain, and draw the customer in. There must be clear benefits for the customer to read the marketer's information. A company called Yoyodyne (recently sold to Yahoo) calls the solution 'permission-based marketing,' a method of enticing customers to visit Web sites for the payback they receive. The company designs games, offers prizes, creates contests, and in other ways sends customers to Web sites to help advertisers build relationships with customers.

Lack of control of the electronic environment: It did not take long for the Internet to face the challenges of unregulated media. As soon as the network became popular, pornographic and other controversial material started to appear. When a service's advertising or information appears in proximity to such material, the result can be a negative spillover effect. It is similar to the challenge advertisers face in using print media such as *TV Guide—the* advertiser has to be careful to separate its advertising for banking from the ever-present ads on balding-concealment devices and quick weight-loss programmes. With the *TV Guide,* however, the advertiser could request or pay for the right positioning, something not possible on the Internet at this time.

Price competition: One of the traditional differences between goods and services has been the difficulty of directly comparing features and prices of services with each other. Whereas goods can typically be compared in retail settings, few retail settings exist that offer services from multiple sources. The Internet has changed all that. Services such as CompareNet and Priceline.com make it simple for customers to compare prices for a wide variety of services. Compare Net is a broker that will compare products and services feature for feature and price for price in an online version of information similar to *Consumer Reports.* Priceline.com is even more revolutionary. It allows customers to name their price for a service such as an airline ticket, wait until Priceline.com finds an airline willing to accept it, then purchase the ticket. Never has the customer had such ability to bid on prices for services. Another type of price competition spawned by the Internet is the Internet auction as presented by such companies as eBay, which sells more than one million products and services in more than 1,000 categories.

Inability to customize with highly standardized electronic services: Some of you have experienced learning of basic college courses through large, video-transmitted courses. If you consider what you missed in learning that way compared with learning directly from a professor, you will understand this challenge. In mass sections, you cannot interact directly with the professor, ask questions, raise points for clarification, or experience the connection that you receive in person. In electronic classes—as in videoconferences that are springing up in many businesses—the quality of the service can also be impeded by the way the audience reacts (or doesn't react) in those situations. People talk among themselves, leave, laugh, and criticize, among other behaviours.

Lack of consistency because of customer involvement: While electronic channels are very effective in minimizing the inconsistency from employees or providers of service, customer variability still presents a problem. Many times the customer produces the service himself using technology, leading to errors or frustration unless the technology is highly user-friendly. Manoeuvering online can sometimes be overwhelming, and not all Websites are currently easy to use. Furthermore, a large percentage of customers do not have computers and, even if they do, may be reluctant to try or continue using the medium.

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Requires Changes in Consumer Behaviour: A consumer purchasing a service through electronic channels engages in very different behaviour from a consumer entering a retail store and talking to a salesperson. Considerable changes in the willingness to search for information, the willingness to perform some aspects of the services themselves, and the acceptance of different levels of service are necessary when customers use electronic channels. Behaviour change is difficult, even for a consumer wanting to make change; therefore, marketers wishing to motivate consumers to alter long-established patterns will be challenged.

Security concerns: One issue confronting marketers using electronic channels is the lack of security of information, particularly financial information. Many customers are still hesitant about giving credit-card numbers on the Web and Internet, and some companies still do not accept credit-card orders because of potential security problems in the transactions. These problems can undermine consumers' trust in the Internet as a safe place to do business. Companies have devised ways to keep hackers out and thereby protect the systems, but many of these ways are temporary solutions. Among specific problems are penetration, vandalism, eavesdropping, and impersonation. With penetration, intruders steal password and exploit unprotected models and connections, actually taking over the sites. With vandalism, hackers crash corporate and other computers. To combat these problems, firewalls and other software scan for unusual activity. With eavesdropping, hackers snoop on information as it passes through multiple computers to the Internet. The typical solution is encryption software that scrambles electronic mail and other data to make in unintelligible to eavesdroppers. Finally, with impersonation, criminals could use phony identities to buy goods and services or create bogus businesses. A form of encryption technology is used to deal with this problem and special service companies (such as VeriSign of California) confirm signature holders.

Competition from widening geographies: Many services were somewhat protected from competition because customers had limited choice among the providers they could physically drive to. Banks, for example, supplied all local customers with checking accounts, savings accounts and mortgages. In fact, it used to be said that since services could not be transported they were limited in their scope. Not any longer, and especially not with electronic channels. Virtually all financial services can be purchased from institutions far from the local area. Even mortgages can be obtained, and an electronic service called Bankrate.com allows consumers to shop for the best mortgage rate from financial institutions across the country.

4.3.4 Electronic Channels in Action

The Technology Spotlight, an e-magazine which specializes in innovations in technology, shows one example of an effective electronic distribution channel in action. But the possibilities for selling and servicing on the Internet and other electronic channels are virtually limitless. For instance, Hollywood Online has a carousel of videos that users can browse through to make their choices. Some

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baseball teams, including the San Francisco Giants, let you see the view of the field from any seat before you book your ticket. At Lands' End, you can create a model onscreen with your figure and then try all the clothes on her to find out how they will look on you. Progressive real estate firms let you tour homes as if you were walking through them.

Interactive Television: Interactive television is an electronic channel that has been developed or proposed in many different forms, but essentially consists of television where the viewer participates actively rather than receiving the information passively. One might wonder why anything beyond the 100+ channels now available from some cable companies is necessary, but the possibilities are compelling. Perhaps the simplest form is video-on-demand, a more sophisticated version of Spectravision, the service offered in hotel rooms.

4.4 STRATEGIES FOR EFFECTIVE SERVICE DELIVERY THROUGH INTERMEDIARIES

Service principals, of course, want to manage their service intermediaries to improve service performance, solidify their image, and increase profits and revenues. The principal has a variety of choices, which range from strict contractual and measurement control to partnering with intermediaries in a joint effort to improve service to the customer. One of the biggest issues a principal faces is whether to view intermediaries as extensions of its company, as customers, or as partners. We discuss three categories of intermediary-management strategies: control strategies, empowerment strategies, and partnering strategies.

Control Strategies

In this category, the service principal believes that intermediaries will perform best when it creates standards both for revenues and service performance, measures results, and compensates or rewards on the basis of performance level. To use these strategies the principal must be the most powerful participant in the channel, possessing unique services with strong consumer demand or loyalty, or other forms of economic power.

Measurement: Some franchisers maintain control of the service quality delivered by their franchisees by ongoing measurement programs that feed data back to the principal. Virtually all automobile dealers' sales and service performance is monitored regularly by the manufacturer, which creates the measurement program, administers it, and maintains control of the information. The company could survey customers at key points in the service encounter sequence: after sale, 30 days out, 90 days out, and after a year. The manufacturer designs the instruments (some of them with the assistance of dealer councils) and obtains the customer feedback directly. On the basis of this information, the manufacturer rewards and recognizes both individuals and dealerships that perform well and can potentially punish those that perform poorly. The obvious advantage to this approach is that the manufacturer retains control; however, the trust and goodwill between manufacturers and dealers can easily be eroded if dealers feel that the measurement is used to control and punish.

Review: Some franchisers control through terminations, non-renewals, quotas, and restrictive supplier sources. Expansion and encroachment are two of the tactics being used today. Another means by which franchisers exert control over franchisees is through quotas and sales goals, typically by offering price breaks after a certain volume is attained.

Empowerment strategies, where the service principal allows greater flexibility to intermediaries based on the belief that their talents are best revealed in participation rather than acquiescence, are useful when the service principal is new or lacks sufficient power to govern the channel using control strategies. In empowerment strategies the principal provides information, research, or processes to help intermediaries perform well in service.

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Help the intermediary develop customer-oriented service processes: Individual intermediaries rarely have the funds to sponsor their own customer research studies or reengineering efforts. One way for a company to improve intermediary performance is to conduct research or standard-setting studies relating to service performance, then provide them as a service to intermediaries. As an example, H&R Block amassed its customer information and codified it in a set of 10 'Ultimate Client Service' standards, which are displayed in each office.

Provide needed support systems: After Ford Motor Company conducted customer research and identified six sales standards and six service standards that address the most important customer expectations, it found that dealers and service centres did not possess the know-how to implement, measure, and improve service with them. For example, one of the sales standards specified that customers be approached within the first minute they enter the dealership and be offered help when and if the customer needs it. While dealers could see that this standard was desirable, they did not immediately know how to make it happen. Ford stepped in and provided the research and 'process support to help the dealers. As another form of support, the company created national advertising featuring dealers discussing the quality care standards.

Develop intermediaries to deliver service quality: In this strategy the service originator invests in training or other forms of development to improve the skills and knowledge of intermediaries and their employees. Prudential Real Estate Associates, a national franchiser of real estate brokers, recently engaged in a companywide programme of service excellence. To teach sales associates (real estate agents) about what buyers and sellers expect, the company first conducted focus group interviews with end customers, then created a half-day training programme to communicate what the research revealed. To train brokers (the companies that employ the sales associates), the company created a highly successful operations review that examined the operational and financial aspects of the brokers, assessed their levels of effectiveness, then communicated individually with each broker about the specific issues that needed to be addressed and the approaches that would be successful in improving performance.

Change to a cooperative management structure: Companies such as Taco Bell use the technique of empowerment to manage and motivate franchisees. They develop worker teams in their outlets to hire, discipline, and handle financial tasks such as deposits and audits. Taco Bell deliberately reduced levels of management (regional managers used to oversee 5 stores; now they oversee 50 stores) and report improvements in revenue, employee morale, and profits.

Partnering Strategies: The group of strategies with the highest potential for effectiveness involves partnering with intermediaries to learn together about end customers, set specifications, improve delivery, and communicate honestly. This approach capitalizes on the skills and strengths of both principal and intermediary and engenders a sense of trust that improves the relationship.

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Alignment of goals: One of the most successful approaches to partnering involves aligning company and intermediary goals early in the process. Both the service principal and the intermediary have individual goals that they strive to achieve. If channel members can see that they benefit the ultimate consumer of services and in the process optimize their own revenues and profit, they begin the relationship with a target in mind. Sonic Corp, a drive-in hamburger chain, is attempting to retain open relationships with its franchisees, continually adapting to changing customer needs and franchisee suggestions.

Consultation and cooperation: This strategy is not as dramatic as setting joint goals, but it does result in intermediaries participating in the decision-making process. In this approach, which could involve virtually any topic, from compensation to service quality to the service environment, the principal makes a point of consulting intermediaries and asking for their opinions and views before establishing policy. Alpha-Graphics, a franchiser of rapid printing services based in Tucson, Arizona, makes a habit of consulting its franchisees to hear how they think the operation should be run. When the franchiser found that the outlets needed greater support in promotion, the company began to make customer mailings for franchisees. When the franchiser found that many franchisees were dissatisfied with the one-sided contracts they received, the principal revised contracts to make it easier for them to leave the system, changed fees to reflect a sliding scale linked to volume, and allowed franchisees to select the ways they use their royalty fees. This approach makes the franchisees feel that they have some control over the way they do business and also generates a steady stream of improvement ideas. Taco John's, the second-largest Mexican fast-food chain, has torn up its old contracts to forge a new state-of-the-art, cooperative relationship with franchisees.

4.5 DELIVERING THROUGH INTERMEDIARY CHANNELS

Direct or Company-Owned Channels

Starbucks, the popular chain of coffee shops, is an example of an exclusive distribution system with all company-owned outlets. Its 2,000 U.S.-based coffee shops are completely run and managed by the company. Some of the benefits of company owned outlets would be a better control, consistency, and maintenance of image.

One of the most critical implications of this type of control is that the owner can maintain consistency in service provision. Standards can be established, and will be carried out as planned, because the company itself is able to monitor and reward proper execution of the service. Control over hiring, firing, and motivating employees is also a benefit of company-owned channels. Using company-owned channels allows the company to expand contract sites without being bound by contractual agreements with other entities. A final benefit is that the company owns the customer relationship.

In service industries where skilled or professional workers share individual relationships with customers, a major concern is whether the loyalty the customer

Check Your Progress

5. Mention one major challenge of an electronic distribution system.
6. What are control strategies?

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feels is for the company or for the individual service employee. It is well known, for example, that most people are loyal to individual hair stylists and will follow them from one place of business to another. Therefore, one of the important issues in service delivery is who owns the customer relationship—the 'store' or the 'provider.' With company-owned channels, the company owns both the 'store' and the 'employee' and therefore has complete control over the customer relationship.

Basic Channel Functions

1. Decreasing the cost of delivering products and services to customers: Because the channel allows specialization, all parties can concentrate on what they do best, thereby lowering cost.
2. Regrouping activities: Intermediaries are charged with sorting out, accumulating, allocating, and as-sorting products and services.
3. Standardizing transactions: Intermediaries deliver products or services in consistent form, based on the needs of the buyer and the supply of the seller.
4. Matching buyers and sellers: Intermediaries spend time in the market, learning about customers and about what sellers have to offer them.
5. Provide customer service and support: Intermediaries provide various services including technical support, delivery, transportation, and education.

Types of Intermediaries

Retailers: Intermediaries who sell directly to end customers. They may be retail stores, mail order, door-to-door, even vending machines.

Wholesalers: Organizations that buy from producers and sell to retailers and organizational customers.

Number of Intermediaries

Three strategies are available for the distribution of products and services:

- *Intensive distribution:* Locating the offering in numerous outlets.
- *Selective distribution:* Use of more than one but less than all intermediaries who are willing.
- *Exclusive distribution:* Limiting the number of intermediaries to one per given area.

Criteria for Evaluating the Channel Alternatives

Economic criteria: The sales expected and costs associated with the channel.

Control criteria: The degree to which the service provider can expect to have its policies and procedures adhered to in the relationship.

Adaptive criteria: The extent to which the type of channel is able to change and be flexible when desired by the service provider.

'Push' versus 'Pull' Strategies

'Push' strategy involves companies aggressively promoting their products to intermediaries through personal selling, trade advertising, and trade incentives.

'Pull' strategy consists of building a reputation with customers through direct advertising and branding, creating a desire for the manufacturer's brand which is then pulled through the channel of distribution.

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Basic Channel Functions

Agreements and contracts are essential in franchising. Service companies have found that a franchise agreement should describe virtually all of the following aspects of the partnership:

- The nature of the service to be supplied by the franchisee.
- The geographic territory in which the franchisee can offer the service.
- How much of the revenue generated by the franchisee must be paid to the franchiser.
- The length of the agreement (usually 5 to 10 years with options to renew).
- The up-front fee for the franchise.
- The instructions by which the franchisee agrees to operate and deliver service (price, reliability of service, advertising).
- The promise that the franchisee will not act as an intermediary for any other service firm in the same industry (which is what technically distinguishes franchisees from dealers and agents).
- The promotional support to be given to the franchisee to improve the value of the franchised brands.
- The administrative and technical support provided by the franchiser.
- The way that the franchise agreement can be terminated.

As you may have guessed, these are the issues that create misunderstanding and conflict between franchisees and franchisers—the reasons for channel conflict and channel ambiguity, as well as tension between control and empowerment. The principal appears to have the upper hand because it is the entity drawing up the contracts and selecting franchisees, but franchising has benefits and challenges for all parties involved.

Franchising

Franchising is the most common type of distribution in services and accounts for most retail sales. The practice is large and growing rapidly. There are two other types of intermediaries in the category: retailers and dealers. Retailers are outlets authorized to distribute products and services to end customers. Let us now focus on distributing services rather than products, and discuss only those retailers that distribute services, such as film-processing companies, restaurants, drycleaners, and distributors of movies. When we narrow the list of retailers to services, most are operated as franchises and are subject to the same advantages and challenges.

Franchising works well with services that can be standardized and virtually duplicated, typically through the delivery process, service policies, warranties, guarantees, promotion, and branding. The more complex and professional the service, such as with internal medicine or business consulting, the less likely it is that services will be duplicated exactly the way the franchiser desires. At its best, franchising refers to a relationship or partnership in which the franchiser develops and optimizes a service format that it licenses for delivery by other parties—the franchisees. Both parties agree on how profits and risks will be determined.

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Benefits of Franchising for the Franchiser

Leverages the business format to gain expansion and revenues: Virtually all companies that seek to franchise their business concepts do so because they want wider distribution than they can support in company outlets. The reasons they desire wider distribution are to increase revenues, gain larger market share, obtain greater brand name recognition, or gain additional economies of scale. Even when franchisers can finance additional company-owned outlets, they may choose to minimize their investment and financial risks by sharing them with franchisees.

Maintains consistency in outlets: When franchisers have strong contracts and unique business formats, they can require franchisees to deliver services according to their specifications. The franchiser can stipulate virtually all aspects, from hiring and training practices to prices to store design.

Gains knowledge of local markets: National chains are unlikely to understand local markets as well as the businesspeople who live in the markets. With franchising, the company obtains personnel knowledgeable and is connected well in the local markets.

Shares financial risk and frees up capital: Franchisees must contribute their own capital for equipment and personnel, thereby bearing part of the risk of doing business. Rather than investing the bulk of money in distribution, having franchisees allows service principals to invest in core service production facilities.

Challenges of Franchising for the Franchiser

Difficulty in maintaining and motivating franchisees: The ability to motivate internal employees is difficult enough. But motivating independent operators to price, deliver, promote, and hire according to standards the principal establishes is a difficult job. When business is down, franchisees may be hard to maintain. Most franchising contracts are for 5 to 10 years, after which the franchisee can renew.

Highly publicized disputes between franchisees and franchisers: Because they are gaining more economic clout, franchisees are organizing and hiring lobbyists and lawyers to press their cause. Many states and even the federal government have implemented legislation boosting franchisees' rights, especially the right to renew and to transfer the franchise when desired.

Inconsistent quality that can undermine the company name: In instances where quality varies, the principal may find that the company's reputation is being damaged by low-performing franchisees.

Customer relationships controlled by the intermediary rather than the service principal: The closer a service company is to the customer, the better it is able to listen to that customer's concerns and ideas. When franchisees are involved, a relationship forms between the customer and the franchise, rather than between the customer and the service principal. All customer information, including identifying demographics, purchase history, and preferences are in the hands of the intermediary rather than the principal.

High fees: Franchisees typically pay up-front fees to acquire a franchise. They are also required to buy equipment, pay for training, and secure a mortgage or lease. On top of these fixed charges, monthly royalties are 2 to 8 per cent of gross sales, even without advertising fees. Franchisees of one company, Little Caesars Enterprises, Inc., say they are forced to buy ingredients and paper from a company-owned distributor.

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Unrealistic expectations: Some of what creates problems for franchisees involves approaching the agreement with expectations about revenues and profits that are unrealistic. Franchisers are partly responsible for the elevated expectations because they attract and sign new franchisees with promises that they can achieve the performance of their star franchises. More than one service principal has been found guilty of overpromising. Another area in which expectations are unrealistic involves the time commitment the franchisee must make to achieve success.

Agents and Brokers

In common terminology, an agent is an intermediary who acts on behalf of a service principal and is authorized to make agreements between customers and those principals. Agents and brokers do not take title to services but instead deliver the rights to them. They have legal authority to market services as well as to perform other marketing functions on behalf of producers. The two forms of intermediaries perform many of the same functions but are distinct from each other in some ways.

Types of Agents

Agents generally work for principles continuously, rather than for a single deal.

- *Selling agents* have contractual authority to sell a service principal's output (which can be anything from an athlete's time to travel, insurance, or financial services), usually because the principal is not interested, feels unqualified, or lacks the resources to do so. Selling agents act as a sales force with a difference: Because they know the market better than the service principal, they are typically entrusted with influence over prices, terms, and conditions of sale. Unlike a sales force, the selling agent normally has no territorial limits but represents the service principal in all areas.
- *Purchasing agents* also have long-term relationships with buyers, evaluating and making purchases for them. They are knowledgeable and provide helpful market information clients as well as obtaining the best services and prices available. Purchasing agents are frequently hired by companies and individuals to find art, antiques, and rare jewellery.
- *Facilitating agents* help with the marketing process by adding expertise or support such as financial services, risk taking, or transportation.

Types of Brokers

Brokers bring buyers and sellers together while assisting in negotiation. They are paid by the party who hired them, rarely become involved in financing or assuming risk, and are not long-term representatives of buyers or sellers. The most familiar examples are real estate brokers, insurance brokers, and security brokers.

Benefits of Agents and Brokers

The travel industry provides. an example of both agents and brokers. Three main categories of travel intermediaries exist: tour packagers, retail travel agents, and specialty channelers (including incentive travel firms, meeting and convention planners, hotel representatives, association executives, and corporate travel offices). You are likely to be most familiar with retail travel agents. Industry convention terms the travel companies as brokers and the individuals who work for them as travel agents or sales associates. We will illustrate some of the benefits and challenges of agents and brokers using this industry.

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Reduced selling and distribution costs: If an airline or resort hotel needed to contact every potential traveller to promote its offerings, costs would be exorbitant. Because most travel services are transactional rather than long term in nature, travellers would need to expend tremendous effort to find services that meet their needs. Travel agents and brokers accomplish the intermediary role by assembling information from travel suppliers and offering it to travellers.

Possession of special skills and knowledge: Each of the three intermediaries have special knowledge and skills in their areas. Retail travel agents know the industry well and know how to access the information they do not possess, often through reference materials and online services. Tour packagers have a more specialized role—they assemble, promote, and price bundles of travel services from travel suppliers, then offer these bundles either to travelers themselves or to retail travel agents. Specialty channelers (which we could put in the category of facilitating agents) have even more specialized roles: Some work in corporate travel offices to lend their skills to an entire corporation, others are business meeting and convention planners who act almost as tour package providers for whole companies or associations, and some are incentive travel firms that focus on travel recognition programmes in corporations or associations.

Wide representation: Because agents and brokers are paid by commission rather than by salary, there is little risk or disadvantage in extending the service offerings to a wide geography. Thus, companies have representatives in many places, far more places than the company would place them if fixed costs such as buildings, equipment, and salaries were required.

Knowledge of local markets: Another key benefit of agents and brokers is that they become experts in the markets they serve. They know or learn the unique needs of different markets, including international markets. They understand what their clients' preferences are and how to adapt the principal's services to match the needs of clients. This benefit is particularly needed and appreciated when clients are dispersed internationally. Knowing the culture and taboos of a country is critical for successful selling. Most companies find that obtaining local representation by experts with this knowledge is necessary.

Customer choice: Travel and insurance agents provide a retailing service for customers—they represent the services of multiple suppliers. If a traveller needed to visit six or eight different travel agencies, each of which carried the services of a single supplier, imagine the effort a customer would need to make to plan a trip! Independent insurance agents have the right to sell a wide variety of insurance, which allows them to offer customers a choice. These types of agents also are able to compare prices across suppliers and get the best prices for their clients.

Challenges of Delivering Service through Agents and Brokers

Loss of Control over Pricing and Other Aspects of Marketing: As representatives of service principals and experts on customer markets, agents and brokers are typically empowered to negotiate price, configure services, and otherwise alter the marketing

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of a principal's service. This issue could be particularly important—and possibly detrimental—when a service provider depends on a particular (high) price to convey a level of service quality. If the price can be changed, it might drop to a level that undermines the quality image. In addition, the agent has the flexibility to give different prices to different customers. As long as the customers are geographically dispersed, this will not create a problem for the service principal; however, if buyers compare prices and realize they are being given different prices, they may perceive the service principal as unfair or unethical.

Representation of multiple service principals: As we already discussed, when independent agents represent multiple suppliers they offer customer choice. From the perspective of the service principal, however, customer choice means that the agent represents and in many cases advocates a competitive service offering. This is the same challenge a manufacturer confronts when distributing products in a retail store. Only in rare cases are its products the only ones in a given category on the retail floor. In a service context, consider the use of independent insurance agents. These agents carry a range of insurance products from different companies, serving as a surrogate service retail store for customers. When they find a customer who needs insurance, they sell from their portfolio the offerings that best match customers' requirements.

4.5.1 Channel Conflict

Key problems with intermediaries include conflict over objectives and performance, conflict over costs and rewards, difficulty controlling quality and consistency across outlets, tension between empowerment and control, and channel ambiguity.

Channel Conflict over Objectives and Performance

The parties involved in delivering services are not always in agreement about the way the channel should operate. Channel conflict can occur between the service provider and the service intermediary, among intermediaries in a given area, and between different types of channels used by a service provider (e.g., when a service principal has its own outlets as well as franchised outlets). The conflict most often centres on the parties having different goals, competing roles and rights, and conflicting views of the way the channel is performing. Sometimes conflict occurs because the service principal and its intermediaries are too dependent on each other.

Channel Conflict over Costs and Rewards

The monetary arrangement between those who create the service and those who deliver it is a pivotal issue of contention. Nowhere was this type of conflict better demonstrated when major airlines surprised their major distribution channel (travel agencies) with caps on fees.

Difficulty Controlling Quality and Consistency across Outlets

One of the biggest difficulties for both principals and their intermediaries involves the inconsistency and lack of uniform quality that result when multiple outlets deliver services. When shoddy performance occurs, even at a single outlet, the service principal suffers because the entire brand and reputation are jeopardized, and other intermediate negative attributions to their outlets. The problem is particularly acute in highly specialized services such as management consulting or architecture, where execution of the complex offering may be difficult to deliver to the standards of the principal.

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Tension between Empowerment and Control

McDonald's and other successful service businesses were founded on the principle of performance consistency. Both they and their intermediaries–attained profits and longevity by the company's controlling virtually every aspect of their intermediaries' businesses. McDonald's, for example, is famous for its demanding and rigid service standards (such as 'turn, never flip, hamburgers on the grill'), carefully specified supplies, and performance monitoring. The strategy makes sense, because unless an intermediary delivers service exactly the same way the successful company outlets provide it, the service may not be as desirable to customers. From the principal's point of view, its name and reputation are on the line in each outlet, making careful control a necessity.

Control, however, can have negative ramifications within intermediaries. Many service franchisees, for example, are entrepreneurial by nature and select service franchising cause they can own and operate their own businesses. If they are to deliver according to consistent standards, their independent ideas must be integrated into and often subsumed by the practices and policies of the service principal. In these situations they often feel less freedom than they had in corporate jobs.

4.6 DISTRIBUTION OF RAW MATERIALS

Most raw and packaging materials are purchased from other companies and are available from several sources. For certain materials, however, new suppliers may have to be qualified under industry and government standards, which can require additional investment and take some period of time. No single raw or packaging material represents a significant portion of the Company's total material requirements.

Every organization is a part of one or more supply chain. Whether a company provides a service, sells directly to the end customer, manufactures a product or even extracts material from earth, it is characterized within its supply chain. Earlier, organizations placed little emphasis on organizations within their supply chain network. However, supply chain management had become a forefront of management's attention due to three major developments (Balsmeier 1996).

1. The information revolution.
2. Customer demands in areas of service and product cost, delivery, quality, technology and concept of cycle time brought about by increased global competition.
3. Emergence of newer forms of inter-organizational relationships.

These developments have nurtured the emergence and integration of supply chain approach. The following model illustrated the integration of supply chain in all the three developments mentioned above.

The supply chain is considered as the set of frameworks and processes that have helped organizations in the development and delivery of products. The supply chain represents the complex relationships of an organization with its trading partners through whom it sources materials, manufactures products and delivers products or services to the customers. The supply chain links all the activities in the procurement, transformation and storage of raw materials and intermediate products, and sale of finished goods.

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Supply chain management is considered as the integrated process of the management of all the networks of the businesses that are interconnected to each other. Supply chain management is involved towards the provision for all product and services that are demanded by the customers. (Harland,1996). The SCM includes various tasks such as raw materials, work in process, inventory management and also the finished goods moment from the origin point to the point where they will be consumed.

Integrating the supply chain to improve logistics efficiency is a key challenge. The composition today is not between the companies but between the supply chains. Hence, for the supply chains to be successful, it should integrate the three individual business processes of procurement, manufacturing, and distribution by consolidating the sub-components in each of the above functional areas (Ashkenas. R 1995).

Procurement: This is one of the major cost drivers in the supply chan. Procurement cost is influenced by the following factors:

1. The way the procurement decision is made
2. Procedures adopted in the procurement process
3. Relationship with the supplier
4. Firms' credibility
5. Market intelligence

Procurement cost can be controlled through long-term relationships with suppliers by considering the supplier as an extension of the manufacturing facility. The philosophy of co-partnership is based on the sharing of resources and benefits on a long-term basis. The major step in this process is reduction in supplier's base and induction of a few reliable suppliers into the supply chain, who are ready to work for the firm and can align themselves with the policy framework and requirements of the supply chain.

Material requirement planning is a critical element in the procurement process. In an integrated supply chain, material planning will have a cascading effect in the entire supply chain. Hence, in co-partnership arrangements the material planning will cover inventory requirements in the entire supply chain, including firms as well as suppliers.

Processing: For a lean supply chain the emphasis today is not on curtailing the processing/ manufacturing cost through economies of scale, but by curtailing the huge inventory carrying cost resulting from mass production ahead of demand. In the past, the emphasis was on building mega capacity factories to produce standard products in millions in order to reduce manufacturing costs and flood the market with low priced products. This approach resulted in the buildup of a large reservoir of finished goods, which remain unsold and dead due to its inability to respond to the changing needs of the customers. Hence, today firms instead of banking on cost reduction through economies of scale are thinking of strategies of reducing the total supply chain cost through manufacturing flexibility to rapidly respond to changing markets demands of products volumes and varieties.

Distribution: Traditionally, the role of distribution in the business process is warehousing transportation. However, in the supply chain model, the major task of distribution is the management of demand, i.e., to make available the right product, at the right place, at the right time, and at the least cost. Demand management covers all the activities involving anticipating the customer requirements of products and fulfils that requirements against defined customer service norms. Requirement fulfilment is done through proper distribution network.

The first and foremost task in demand management is to forecast customer requirement accurately. This is done only if the firm is able to satisfy the customer as per the service level acceptable to the customer. Logistics play a vital role in understanding the demand through improved informational flow.

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4.7 CHANGING FACE OF DISTRIBUTION

Many new forms of distribution are evolving due to the intense competition round the globe today. The same has brought up some new trends in distribution like:

- The downfall in business and economic growth. Retailers do not any longer enjoy sales and profit growth through an obvious and sure expansion in present and new markets.
- There is very fierce competition and fresh generation retailers are making it tough to compete in the present day dynamic markets.
- The retailing industry is already getting problems from severe over-capacity. It is estimated that there could be about 18 square feet of retail land for each person today in 2009 , this is more than 50 per cent of what was seen in 1999.
- Customer demographics, values and buying behaviour is highly dynamic today; There is a very fast rising cost which will make a higher form of retailing very crucial; and the relevant technologies are increasing and becoming crucial as valid forecasts are getting important and they are reducing the inventory costs.
- The new trend of buying electronically from vendors, getting information of various sellers and their stores ,the location of the same have led to an increased retail sale in India. The new technology has in it the new efficient checkout scanning systems that can bring about customized coupons offer and promotional programmes.

4.8 SUMMING UP

- A distribution channel is a set of interdependent organizations that collaborate to make the product available to the consumer or business user. At the same time the channel intermediaries are firms like wholesalers, agents, brokers, or retailers who will help in the movement of the product from the producer to the consumer.
- Distribution channels ensure availability of goods and services to customers at locations suitable for procurement. While finalizing distribution channels, decisions regarding the most suitable modes of reaching products to customers need to be taken. Operating parameters such as time, cost, and speed need to be involved in the finalization process. In fact, well laid-out distribution channels serve as a source of competitive advantage to organizations, which in this era of rapid commercialization of products is crucial for success.

Check Your Progress

7. Name the three strategies that are available for distribution of products and services.
8. Mention one benefit of franchising for the franchiser.
9. Name the three types of agents.
10. How can procurement costs be controlled?

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- The different activities required to be performed for the product to reach the buyer from the manufacturer are termed as the *functions* of the channel. The channel structure is also defined by the functions that should be performed.
- The recruitment of channel members normally refers to the recruitment of the channel intermediaries by the manufacturers. However, there could be instances where the reverse happens, for example, retailers (especially large established ones, like Walmart) are frequently on the lookout for recruiting manufacturers whose products they could stock, distribute and sell.
- Electronic channels are the only service distributors that do not require direct human interaction. What they do require is some predesigned service (almost always infor-mation, education, or entertainment) and an electronic vehicle to deliver it.
- Service principals, of course, want to manage their service intermediaries to improve service performance, solidify their image, and increase profits and revenues. The principal has a variety of choices, which range from strict contractual and measurement control to partnering with intermediaries in a joint effort to improve service to the customer. One of the biggest issues a principal faces is whether to view intermediaries as extensions of its company, as customers, or as partners.
- In service industries where skilled or professional workers have individual relationships with customers, a major concern is whether the loyalty the customer feels is for the company or for the individual service employee. It is well known, for example, that most people are loyal to individual hair stylists and will follow them from one place of business to another. Therefore, one of the important issues in service delivery is who owns the customer relationship—the 'store' or the 'provider.'
- Franchising is the most common type of distribution in services and accounts for most retail sales. The practice is large and growing rapidly. There are two other types of intermediaries in the category: retailers and dealers. Retailers are outlets authorized to distribute products and services to end customers.
- Brokers bring buyers and sellers together while assisting in negotiation. They are paid by the party who hired them, rarely become involved in financing or assuming risk, and are not long-term representatives of buyers or sellers. The most familiar examples are real estate brokers, insurance brokers, and security brokers.
- Key problems with intermediaries include conflict over objectives and performance, conflict over costs and rewards, difficulty controlling quality and consistency across outlets, tension between empowerment and control, and channel ambiguity.

4.9 KEY TERMS

- **Distribution channel**: It is a set of interdependent organizations that collaborate to make the product available to the consumer or business user.
- **Channel selection:** It refers to the recruitment of channel intermediaries by manufacturers.

- **Agent**: An agent is an intermediary who acts on behalf of a service principal and is authorized to make agreements between customers and those principals.
- **Brokers**: They bring buyers and sellers together while assisting in negotiation. They are paid by the party who hired them, rarely become involved in financing or assuming risk, and are not long-term representatives of buyers or sellers.

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4.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Channel intermediaries are firms like wholesalers, agents, brokers, or retailers who will help in the movement of the product from the producer to the consumer.
2. The major activities involved in the channel could involve the following general tasks:
   - Ordering
   - Handling and shipping
   - Storage
   - Display
   - Promotion
   - Selling
   - Information feedback
3. The principle channel functions are detailed as follows:
   (i) Facilitating the exchange process
   (ii) Facilitating the logistics function
4. Electronic channels are the only service distributors that do not require direct human interaction. What they do require is some predesigned service (almost always information, education, or entertainment) and an electronic vehicle to deliver it.
5. One major challenge is lack of control of the electronic environment.
6. In this category, the service principal believes that intermediaries will perform best when it creates standards both for revenues and service performance, measures results, and compensates or rewards on the basis of performance level. To use these strategies the principal must be the most powerful participant in the channel, possessing unique services with strong consumer demand or loyalty, or other forms of economic power.
7. Three strategies are available for the distribution of products and services:
   - *Intensive distribution:* Locating the offering in numerous outlets.
   - *Selective distribution:* Use of more than one but less than all intermediaries who are willing.
   - *Exclusive distribution:* Limiting the number of intermediaries to one per given area.
8. Consistency can be maintained in all outlets, in terms of quality and brand presentation.
9. Three types of agents are selling agents, purchasing agents and facilitating agents.
10. Procurement cost can be controlled through long-term relationships with suppliers by considering the supplier as an extension of the manufacturing facility.

4.11 QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Define distribution channel.
2. What are the advantages for an organization functioning with uninterrupted distribution systems?
3. What type of comparisons can be drawn in terms of purpose among channel associates?
4. How are channel affiliates selected?
5. Write a short note on electronic channels of distribution.
6. Mention some of the most interesting and innovative applications of the Web and other interactive channels.
7. Which are the different types of intermediaries in a distribution channel?
8. Write a short note on franchising.

Long-Answer Questions

1. State and explain the various functions of distribution channels.
2. What are the primary functions of the distribution system?
3. Explain the concept and parameters of channel selection.
4. State and explain the advantages and challenges in electronic delivery of services.
5. Explain the plans in detail required for an efficient amenity distribution via intermediaries.
6. What are the benefits and challenges of having agents and brokers?
7. Explain the distribution of raw materials.

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UNIT 5 MARKETING STRATEGIES FOR DISTRIBUTION

Structure

5.0 Introduction
5.1 Objectives
5.2 Role of Marketing Communication
 5.2.1 Marketing Communications Strategy
 5.2.2 Laivdge–Stenier Model
 5.2.3 DAGMAR Approach
 5.2.4 Developing an Effective Communication Plan
5.3 Identifying Target Segment
 5.3.1 Promotions for Marketing
5.4 Developing, Managing, Advertising Programme, Sales Promotion Events and Experiences and Public Relation
 5.4.1 Determining the Communication Objective
5.5 Summing Up
5.6 Key Terms
5.7 Answers to 'Check Your Progress'
5.8 Questions and Exercises
5.9 References and Sugested Readings

5.0 INTRODUCTION

Fundamental understanding of consumer behaviour is essential to fully appreciate the intricacies of marketing communication. It is important to understand how consumers respond to marketing communication stimuli and make choices among brands.

Marketers are looking for greater accountability from their distribution strategies. The marketing budget can be one of the biggest expenditures for an organization. So, managers want to see how their budgets are translating into results. Also, markets for all products are becoming increasingly fragmented. Competition is also intensifying in several product categories. These powerful forces leave little margin of error for marketers.

Marketers must know the best audiences for any product, where these audiences obtain information about products, how they respond to different styles of marketing, where they shop, and how they select products. Therefore, it is absolutely imperative to understand the behaviour of the target audience and the market trends in general.

In this unit, you will learn about the role of marketing communication, various strategy models, target segments and their identification and the development and management of advertising programmes, sales promotion and public relations.

5.1 OBJECTIVES

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After going through this unit, you will be able to:

- Discuss and explain the role of marketing communication
- Explain how to identify a target segment
- Discuss and manage an advertising programme, sales promotion event and experiences and public relations

5.2 ROLE OF MARKETING COMMUNICATIONS

Marketing communications are only one of the elements of an integrated marketing strategy despite being the most visible element of the marketing mix. Marketing communication refer to any communication that occurs between the originator of the programme and the public. Communication can be conducted either on a mass scale, reaching a large audience with a single message or on a personal, one-to-one basis.

For a campaign to be considered a marketing programme, the programme needs to adopt the client–centred focus of marketing along with the full marketing mix, and other strategic marketing tools. For example, a health marketing communication programme with extensive advertising and other communications is not necessarily a marketing programme, unless it addresses the other areas of the marketing mix and adopts the client focussed marketing philosophy, as opposed to an expert–driven, top down approach 'telling' the market what it 'should' do.

Just as there is a marketing mix, there is also a communication mix which includes the following elements:

- Advertising
- Publicity
- Personal selling
- Internet
- Direct mail
- Points of sale
- Helpline

5.2.1 Marketing Communications Strategy

Marketing communications strategy refers to the incorporated programmes which are used by the marketers in order to communicate the product and services offered by a company via using various modes of communication and marketing techniques like through various modes of advertisement such as TV ads, banners and pamphlets. The aim of a marketing communications strategy is to ensure that the company's image is successfully communicated to the targeted potential consumer in the market and developing a brand name for the company which would help it to sustain it through the long run.

For any marketing communication campaign to be a successful one the primary task which the marketer needs to accomplish is to create awareness about the products and services offered by the company in the minds of their target consumer base. The task is to create a *'Unique Selling Proposition (USP)'* for the product or service which would help the company to stand out from the rest. The company in this case can select from the varied choices which it has in the communication techniques like personal communication, mass communication, selective communication and many more.

The chosen mode of communication says a lot about the company and the product and services which are offered by them. The company must choose the mode which is expected to be the most effective for sending out their message to the target audience. In the case of products which are for mass consumption, the company should be using mass marketing communications and communication techniques like TV ads, comprehensive internet advertising and others. In the case of products which are for a select audience, more selective advertising and communication is required, like in the case of luxury goods, advertisements in high end magazines, banner ads in the target location where the target consumer density is high and personal communication. In the case of luxury goods when it is difficult to identify the end receiver, mass communication is better. If there is a need for the company to communicate to the target audience in an individualistic manner, then personal communication is preferred. So the marketer must not only take into consideration the product of the service which is to be marketed, but also the target audience for the company for its products or services.

In order to achieve the objectives or marketing communications, the marketer has to develop a comprehensive and effective marketing communications strategy. A marketing communications strategy adopted by a marketer can broadly be classified into two categories, and they are:

- Product pull strategy
- Product push strategy (Rossiter & Perry, 1997)

A product pull strategy is aimed at putting questions in the mind of the target potential customer about the company and to intrigue them enough so that they try to find out more.

This is aimed at stimulating the mind of the targeted audience where the curiosity about the product itself is going to generate demand for the product or service in question. On the other hand, in the product pull strategy the marketer is focusing on the aspect of pushing the product on his end or the bank end to boost up the company's sales. Both the product pull strategy and the product push strategy are aimed at achieving the goals of the company and drive up the sales but in a different manner from each other. In the case of a product push strategy the marketer focuses on techniques aimed at pushing the product into the market. Here, the techniques used by the marketer are that of like offering the extra discounts being offered to the wholesalers to push the products in the market.

In the case of a product pull strategy the marketer is focuses on the aspect of intriguing the target customer to know more about the product and create buzz in the market about the products and services in the industry.

Both the above–said strategies can be applied to the luxury classes of brands. What is crucial for the luxury brand under study is the pull strategy. When the consumer

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comes to know about the luxury class of brands and sees it displayed, he wants to buy the brands from the retailer.

5.2.2 Laivdge–Stenier Model

This model emerged in 1961, and was given by Robert J. Lavidge and Gary A. Steiner for marketing communications. It explains the hierarchy of effects which include persuasion—an important factor in the model. Here the model looks into the long-term effect of advertising communication as well.

As per the Lavidge and Steiner Model, the customer goes through the following six phases in making a purchase:

1. **Awareness:** Here, the customer gets an awareness of the product.
2. **Knowledge:** Here, the customer gains knowledge about the features and use of the brand or product.
3. **Liking:** Here, the customers get a favourable opinion about the product.
4. **Preference:** Then the customer develops a preference for the product in comparison to the competitive products.
5. **Conviction:** Here a desire to buy the product gets generated.
6. **Purchase:** Now, finally, the customer goes for the actual purchase.

5.2.3 DAGMAR Approach

DAGMAR model talks of the ultimate objective of advertising which is to take the consumer through four levels of understanding; these vary from unawareness to awareness—the consumer will first be made aware of a brand, then the next level will be comprehension in which he or she will get a better understanding about the features and functions of the product is and after that the customer will look for benefits the product offers to himself or herself.

The next step would be the conviction which the consumer will get through the conviction about why he will opt for the brand. The last step would be 'action' in which the customer actually buys that product.

It is true that in different cultures the company might have to employ different communication techniques for the audience. The choice of the techniques is vital in this process of marketing. This premise has been well explained by the AIDA model.

AIDA model was given by Elmo Lewis as a form of the personal selling process. It explains a set of steps or stages which show the process by which a potential customer reaches the purchase decision.

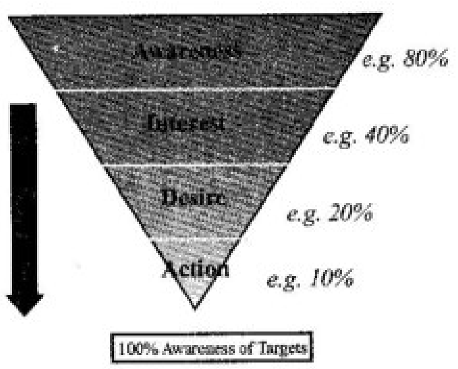

Fig. 5.1 AIDA Model

Here the major stages are attention, interest, desire, and action, in a linear hierarchy.

5.2.4 Developing an Effective Communctaion Plan

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Communication Approach

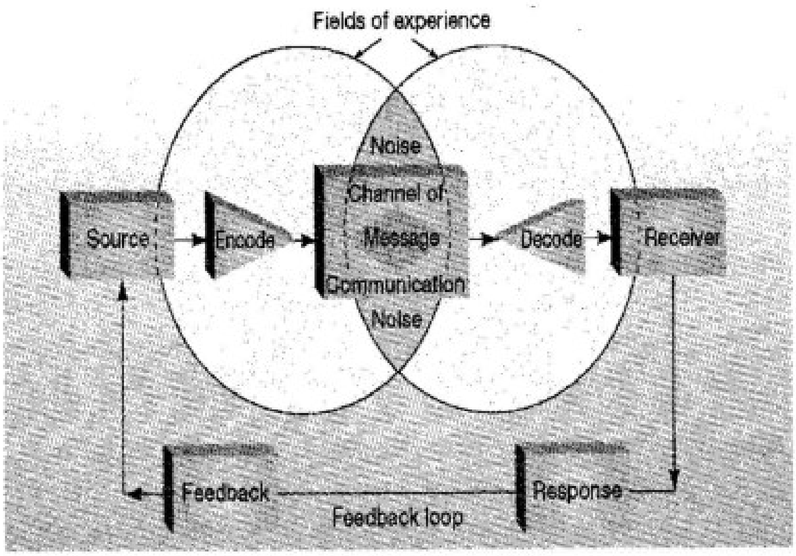
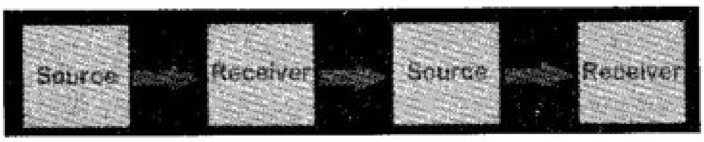


Fig. 5.2 The Communication Approach

The communication approach, as shown in Figure 5.2, stresses more on the reaction of the consumers who see the message. Sales might not always be the motive of a communication strategy. It could also be to build a brand image. This is what was done in the advertisement for Mahindra Scorpio. The main aim was not sales but to change the image of the rural brand of Mahindra and Mahindra motors to a lavish SUV. The communication in the ad was ideal for the same.

Communication is a vital part of any company's marketing strategy and it is is responsible for ensuring that the message of the companys goods and services are passed on the target audience appropriately. Communication strategies are a key part of any company's marketing plan as it would ensure that the company's marketing goals are implemented appropriately. (Hornstein, 2005).

In other words, 'communication is an activity through which information is conveyed from one person or a group of people to another person or group of people'.



Communication can be broadly categorized into the following :

Verbal Communication

This type of communication is based on the words used by the sender of the information which are intended for the receiver of the information. This method includes both the written and oral forms of communication. Verbal forms of

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communication include telephonic communication, letters, e-mails, face-to-face oral interaction and more.

Non-Verbal Communication

The type of communication in which words or not used for conveying the information is called non-verbal communication. Here, gestures, body language, and expressions are used for conveying information from the sender to the receiver.

Business Communication

Business communication is the type of communication which is used by the company in order to promote the organization, the goods or the services to the targeted audience of the message being passed on in the communication. An organization adopts two types of communication:

- Internal communication: It is for the internal use of the organization, i.e. for internal purposes such as sharing information among employees and conveying targets to the employees and so on.
- External communication: It is used by the organization to convey a message about the organization itself or the goods and services produced by them to the desired target audience.

When the products are limited in numbers then a company may not push that product and rather focus on pulling the target audience towards the products and services offered.

Communication is an important part of a good marketing strategy for goods. This is because the message has to have the niche appeal for the consumers to buy it. For a higher level middle class opting for impulsive products, it becomes important to communicate the high-class image attached to the luxury brand. Thus the same can only be done with the above-said promotional and communication strategies.

The process of communication strategy and planning could be divided into the following steps:

1. Identify the communication target

These would be the group of people for whom the communication strategy is created; this could be the direct campaign or only a portion of the target market. The important aspect here is the research and analysis of the communication targets for establishing an information base in the campaign. Thus, this will increase the advertiser's knowledge of the said target and make the communication strategies more effective.

2. Define objectives

The company objectives should be clear, precise and measurable, so that they could be employed to measure the success of the campaign. These standards can be used as a benchmark. Some of the aims of the communication could be to increase purchases or to generate consumers in the retail store or the alignment of the demand-oriented objectives with the image-oriented objectives.

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3. Create a communication message

A message shows the functions of the product, its features, and its uses and benefits. So, it is important that one is aware of the characteristics of the target market, to bring in a relevant message for the target market.

Some of the components of the communication strategies message could be

- Headline
- Sub-headline
- Body copy
- Illustrations
- Signature

4. Determine the media plan

This step is where one decides the exact media vehicles along with the dates and times of the advertisements. Thus, the effectiveness of the plan will determine how many people the advertiser will target through the message. Thus, one needs to select the media in an appropriate way. The common media that one can select from are:

- TV programmes
- Sponsor cable channels
- Radio
- Magazines
- Newspapers
- Direct mail
- Outdoor, billboards
- Placed based
- Electronic media

5. Execution of the campaign

Executing a campaign requires extensive planning and coordination. The communication agencies have to coordinate their production costs, along with the help of the research organizations, the media firms, the printers, photographers, and commercial artists. In all, a detailed schedule needs to be made which will ensure that everything is seen on time.

6. Test the effectiveness of the campaign

The last stage is to measure the achievement of the objectives, which will be a step in judging the effectiveness of the communication strategies and the media. This could include:

- Pretests before campaign
- Tests during the campaign
- Post-campaign assessment, such as consumer surveys
- Recognition tests
- Recall evaluation

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Communication has many vital functions in marketing:

- **Promoting products or organizations**

  Promotions may refer to promoting organizations, images, new ideas or political issues. For example, Bacardi Beer company sponsors responsible drinking for the promotion of the company image.

- **Stimulates primary and selective demand**

  When the product needs get introduced then it stimulates the *primary* demand. The initial promotion tells people about the product and do not lay too much stress on brand promotion. In the case of *selective* demand, the advertisers use competitive international marketing, or the brand promotes the benefits which are not available with other brands.

- **Offsets competitors**

  One of the major advantages of promotions is that the defensive marketing will offset and lessen the effect of competitors and their marketing efforts. This is, for example, very frequently used for the fast-food industry, and the consumer products markets.

- **Sales become more effective**

  Marketing is a way to pre-sell a product to buyers and this is done by informing them of the product's uses, their features and benefits and thereby encouraging them to contact the retailers. The best example here is of cars.

- **Increasing the usage of the product**

  Here one can see that the consumer limits the actual demand. Thus, through promotions one could convince the market to use the product in better and new ways which could be different from the traditional way.

- **Reinforcing product to the customers**

  International marketing helps in keeping the company or product name at the tip of the consumers' minds for the competitive marketplace. This reinforcement prevents the cognitive dissonance. The term cognitive dissonance is used to describe the feeling of discomfort that results from holding two conflicting beliefs. When there is a discrepancy between beliefs and behaviours, something must change in order to eliminate or reduce the dissonance.

5.3 IDENTIFYING THE TARGET SEGMENT

Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment. Sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used for casual purpose by some other people. People drive their cars in different ways. Some are 'rough' drivers, while others take it easy on the road. The same grocery items are bought both at neighbourhood stores and at upscale stores.

Check Your Progress

1. Which are the six phases of the Lavidge and Steiner model?
2. What does the communication approach stress upon?
3. Which are the components of the communication strategies message?

Positioning is the perception or the image that customers have of the company and its products. It is the customers' beliefs about the company's product being of, say, high quality, low price, or durable. This perception is the stimulus of customers' attitude and behaviour towards a company's products. Customers' positive perceptions will drive up the business of the company and negative perceptions will sink it.

Customer Value Proposition

Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. Customer value proposition is an unusual blend of customer relations, corporate image and service and product mix offered by a company. Customer value proposition suggests ways in which the organization can stand out from the rest or be different from competition in order to attract target customers and also sustain and strengthen relationships with them.

The value proposition facilitates the connection of the internal processes of an organization in a manner that will improve the results in terms of its customers and the relationship with them. An effective process of segmentation should result in a different set of internal processes for each segment, because only a unique set of internal processes will create a unique value proposition for the customer. These unique sets of internal processes will necessitate creation of separate organizations to serve each of the segments. If one common organization has to serve all the segments, the demands made on it would be so contradictory in nature that it will not be possible to serve even one of the segments effectively. This is especially true if the value propositions are vastly different. And the process of segmentation will provide value only if the value propositions for various segments are very different from one other. The organization thus does not have any other alternative but to create separate organizations to ensure success in different segments that it is serving.

Non-segmented Markets

Very few products or services can satisfy all customers in a market. Not all customers want to buy the same product. Companies in some countries like India have behaved as if there was just one common market and fed it with one offering for decades. A decade back, Ambassador and Fiat and later Maruti 800 were the only cars on Indian roads. But now, Mercedes Benz is being run as a taxi for the super premium segment of the market.

This indicates that marketers had been ignoring the potential for market segmentation for long. Now, a new car is launched in the Indian market once a month, sometimes even by the same company. Similar stories abound in most categories of goods in most developing countries. In fact, one of the reasons for the relative backwardness of these countries can be lack of a thorough process of segmentation.

Marketing not based on segmentation is essentially inefficient because some segments get over engineered, advanced products with far more value and features than what is desired by the customers are offered, whereas other segments do not get the required value and features that they want in the product. Nobody is happy in the process and the company ends up spending a lot of money unnecessarily. Companies confuse segmentation, and market evolution and the state of the economy. Whatever the state of the economy and market, distinct segments are always there in any market because segments are based on differences in society, and differences in society are

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more pronounced in developing countries. Any marketing endeavour has to start with the process of segmenting the market, else it will be *Segmentation and Positioning* ineffective (due to under serving the market) and inefficient (because of over serving the market).

Purpose of Segmentation

Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation is concerned with the identification of groups of individuals or organizations that have some significance in determining a strategy for marketing. Segmentation involves the division of the market into multiple small parts or submarkets with the objective of identifying groups of customers with similar needs. This ensures that there is a sufficient group size for the efficient supply of the product and the customers are effectively attended to and served. Marketers try to study their markets and develop suitable strategies for serving their target customers better than their competitors on the basis of segmentation.

Target market selection

Target markets are identified on the basis of segmentation. A target market is that portion of the market which is selected by the company to cater to. Customers comprising the target market possess similar characteristics and express similar needs. Therefore, it is possible to satisfy them using a single marketing mix. Creative segmentation can result in the identification of new or unexplored segments that are not being catered to currently and may actually turn out to be profitable targets.

Tailored marketing mix

Segmentation allows the classification of customers on the basis of similarities (in terms of benefits). It allows marketers to understand the needs of the segments and come up with a marketing mix designed to fulfill their requirements. Segmentation is based on the concept of customer satisfaction and therefore, markets are viewed as a diverse set of requirements demanding thorough understanding and attention from the suppliers.

Differentiation

By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.

Opportunities and threats

Static markets hardly exist. With the increase in incomes, customers not only look for new experiences but also develop expensive tastes and new values. This leads to the emergence of new segments. A company may identify an unexplored or undeserved market segment and serve its requirements before competition or better than competitors. Similarly, the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market.

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Segmentation and Market Entry

Segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because no matter how stable a market may be changes are always taking place. So instead of launching identical products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. It can focus its energies on serving this segment.

Process of Market Segmentation: Target Marketing

Selection of a target market

A target market refers to a category of individuals or organizations for which a company not only designs but also puts into action and helps maintain a marketing mix aimed at meeting the requirements of that particular class or category. This results in exchanges that are mutually advantageous and satisfying. Selection of target markets is a three–step process.

1. The requirements and characteristics of the individuals that comprise the market are understood. Marketing research helps in this process.
2. Customers are grouped according to these requirements and characteristics into segments. A given market can be segmented into various segments. A given market can also be segmented in various ways depending on the choice criteria. There is no single, prescribed way of segmenting a market. A car market can be broken down according to the type of buyer (individual/organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/family with children).
3. There are no rules that lay down how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity. The selection of the criteria on which the market will be segmented is the most important decision that the company will have to make. The criteria should be able to bring out meaningful differences among customers which the company can exploit by designing a unique value proposition. Using a new criteria or using a combination of well-known criteria in a novel way may give fresh insights into a market. Marketers should visualize markets from fresh perspective. They may be able to locate attractive, under-exploited market segments.
4. Finally, one or more markets are chosen for targeting or serving. Marketing mix is developed by keeping in mind what the customer values. The aim is to design a mix which is distinctive from that which the competition is offering.

Target market strategies

When selecting their target markets, companies have to make a choice of whether they are going to be focused on one or few segments or they would be catering to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank.

Undifferentiated targeting

A company that uses an undifferentiated targeting strategy ends up following a philosophy of mass-market. It looks at the markets as a single large entity without

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individual segments. The company applies one marketing mix for the whole market. It is usually the first company in an industry that employs a strategy of undifferentiated targeting because it assumes that each customer has a need that is similar to the other and can be fulfilled using the strategy of undifferentiated targeting. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classical example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy.

Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or have been arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

Concentrated targeting

A company selects one segment to serve. It understands the needs and motives of the segment's customers and designs a specialized marketing mix. Over the years, companies have come to know that concentrating their resources and fulfilling the requirements of a market segment that is narrowly defined brings in more gains than spreading resources over a variety of segments. Starbucks, for example, succeeded because it focused only on customers who demanded gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment were to become unprofitable or shrink in size, the companies will be in problem. Such companies also face problems when they want to move to some other segments especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service, that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment.

Companies that begin by following a concentrated targeting strategy but at the same time are ambitious about catering to more segments should step into other segments early on or periodically. This helps avoid being labelled as a company devoted to serving a specific segment exclusively. Any association with a segment in particular, should not get a chance to become so powerful that customers are unable to come to terms with the company's indulgence in other things or interest in other segments.

From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

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Multi-segment targeting

A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments by most companies following this strategy. This strategy is the most in demand because of its potential to generate more profit, more sales, bigger market share as well as marketing and manufacturing economies of sale. However, this strategy involves greater product design, promotion, production, inventory, management and marketing research costs. Another source of cost is cannibalization which takes place when sales of a new product eat into the sales of existing products. Before deciding on the adoption of this strategy, a company should compare the advantages and expenses of multi-segmented targeting with those of concentrated and undifferentiated targeting.

The car market is most clearly segmented. There are segments for small cars, luxury cars, and sports utility vehicles. Most car makers like General Motors, Ford, Toyota, Honda, and others offer cars for all segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments.

Segmenting Consumer Markets

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: behavioural, psychographic and profile variables.

- Behavioural variables such as benefits sought from the product, and buying patterns such as frequency and volume of purchase may be considered as the fundamental basis.
- Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.
- Profiling is not essentially a criterion for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables such as socioeconomic group or geographic locations are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After tracing such people the marketer attempts to profile them in terms of their age, socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers.

But in practice segmentation may not follow this logical sequence. Often profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements.

Segmenting Organizational Markets

Organizational markets can be segmented on the basis of various factors, which can be broadly classified into macro segmentation and micro segmentation. Macro

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segmentation focuses on characteristics of the buying organization such as company size, industry and geographic location.

Micro segmentation is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision-making such as choice criteria, decision-making unit structure, decision-making process, buy class, purchasing organization and organizational innovativeness.

First macro and then micro basis of segmentation are employed while segmenting organizational markets.

Macro segmentation

Organizational size

Large organizations have greater order potential, a more formalized buying process, increased specialization of functions and special needs (more services and quantity discounts). They are important target market segments and require tailored marketing mix strategies. Dedicated sales teams are used to service important industrial accounts. List price should take into account the inevitable demand for volume discounts. The sales team should be well versed in the art of negotiation.

Industry segmentation and positioning

Different industries have unique requirements of products. Computer suppliers can market their product to various sectors such as banking, manufacturing, healthcare, and education, each of which has unique needs in terms of software programmes, price and purchasing practice. By understanding each industry's needs in depth, a more effective marketing mix can be designed.

Geographical segmentation

There are regional variations in purchasing practice and needs.

Micro segmentation

Choice criteria

One customer may rate price as the key choice criteria, another may favour productivity of the equipment being sold and a third may want more services. Marketing strategies need to be adapted to cater to each segment's needs. Three different marketing mixes would be needed to cover the three segments and salespersons would have to stress different benefits when talking to customers in each segment. Key choice criterion is a powerful predictor of buyer behaviour.

Decision-making unit structure

Members of the decision-making unit (DMU) and its size vary between firms. A DMU consists of all the people in a buying organization who have an impact on supplier choice. In one segment, the top management may make the decision, engineers may play a role in another, and in yet another purchasers may play a role. The selling approach that a company will adopt will depend heavily on the priorities of the members of the DMU.

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Decision-making process

Decision-making process can take a long time or be relatively short in duration depending on size of the DMU. Large DMUs will take a longer time. Where the decision time is long, there is a need for high marketing expenditure with considerable effort being placed on personal selling. Much less effort is needed when the buying process is short and where, say, only the purchaser is involved.

Buy class

Organizational purchases are categorized into straight rebuy, modified rebuy and new task. Buy class affects the length of the decision-making process, complexity of DMU and number of choice criteria which are used in supplier selection. It can therefore be used as a predictor of different forms of buyer behaviour.

When a company is buying an item for the first time, it will prefer suppliers who will have the patience to educate the buyer company. It will also be suspicious of sellers as it does not really know the credibility of the sellers. The sellers will have to demonstrate a lot of patience as the buyer will evaluate a lot of options and get into consultation before settling on a supplier (new task). When the company is already buying the item but only wants to alter the specifications of the product or the conditions of purchase, it will expect the incumbent supplier to make the required changes and retain the order. New suppliers can make a pitch but they have to compete hard against the incumbent supplier because of its proximity to the buyer (modified rebuy). The incumbent supplier should get the order when the buyer continues to buy the same item in the same way. New suppliers can make a pitch but they have to prove that they are decisively better than the incumbent (straight rebuy).

Purchasing organization

Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists. The opportunity for volume buying means that their power base to demand price concessions from suppliers is enhanced. In centralized purchasing systems, purchasing specialists have greater power within the DMU with respect to technical people like engineers.

In decentralized purchasing, users and technical personnel have a lot of influence and it is important to understand their requirements. A purchaser may ultimately negotiate the price and place the order, but the choice of the user and technical person is respected by the purchaser.

Centralized purchasing segment could be served by a national account team whereas decentralized purchasing segment might be covered by territory representatives.

Organizational innovativeness

Marketers need to identify the specific characteristics of the innovator segment since these are companies that should be targeted first when new products are launched. Follower firms buy the product but only after innovators have approved it.

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5.3.1 Promotions for Marketing

Promotion is used to communicate information about goods and services to target market audiences thereby facilitating the exchange process. It is sometimes argued that effective marketing—offering the right service at the right price in the right locations to meet target customers needs and wants—should not require extensive promotional activity as the products or services will 'sell themselves'. There is an element of truth in this, as the purpose of developing a finely tuned marketing mix is to match offerings and benefits very closely to the needs of identified target groups of customers. The result of this, in theory, is that customers will favour one particular organization over competitors and will actively seek their service offerings.

However, in practice, it is difficult to imagine a situation where some element of promotion is not required to inform the customer of the organization's existence or about the offering itself, even if this is simply by word of mouth. Promotion plays an important role in informing, educating, persuading and reminding customers. This role is even more important in services where there is a high degree of intangibility and so there is no physical product or packaging to attract potential customers' attention.

Additionally, effective communication is needed to inform customers about their role in the service delivery process. The highly competitive marketplace for both commercial services and, increasingly, services in the not-for-profit and charitable sectors has led to advertising playing a major role in marketing today.

The promotional mix will be adjusted according to the organization's promotional objectives and its marketing situation. Generally, however, in consumer marketing, advertising will be by far the main component (and the most expensive) while in industrial and business-to-business sectors greater reliance is placed on personal selling, trade fairs and other promotional tools.

5.4 DEVELOPING AND MANAGING AN ADVERTISING PROGRAMME, SALES PROMOTION EVENTS AND PUBLIC RELATIONS

The company has to take care of products and services, with their distribution, quality, pricing and guarantee policies. Thus, one has to take care of objectives and goals. One could also decide how one has to promote the company to achieve the said objectives and goals.

Define Your Customers

This by far is the number one reason. In case marketing communication fails it would be because it is poorly targeted. It is true that no marketing communication can be successful if its target audience is not defined and understood well. So, you need to talk to the customers and also the potential prospects. One has to listen to them and understand them and their needs.

It is thus critical to define the customers. Before implementing the marketing communication strategy, finding the right target group is important. Thus, one should not try to include the whole world. If the company tries to do so it might lose its focus. (Terpstra, v. and Sarathy, R. (2000)

Check Your Progress

4. When is segmentation done?
5. What is differentiation?
6. Which are the categories of organizational purchases?

Unique Selling Proposition

When a company creates a marketing communication plan, it must have a description of the market in which the organization is competing. So, the first thing to do is to narrow a larger market into an area that the company can specialize in. Once this area of specialization is chosen, the company can then explore its opportunities in that area.

When a company creates a marketing communication plan, it will want to clearly communicate to its employees and customer what makes the company special and different from its competition. The marketing communication plan would describe the said area of specialization in a unique message, which would then become its USP or unique selling proposition.

Marketing Communication Goals

The marketing plan has some broad sales goals that could be extremely crucial for the company. It is important to know the total market size, with the right strength of the competitors, along with the appropriate amount of business that the company could take. One could say that the main steps in the marketing communication plan will be to rightly define how one is going to achieve an output. In a marketing communication plan it has to be supported by the right choice of media. In some cases, direct mail marketing could be the right and effective medium of marketing communication.

Goal Setting

In a plan one has to try and set a goal. In that case also one might be able to reach a certain level of sales. In other words, the marketing plan also keeps an eye on the sales target set by the larger plans of the company and tries to work in tandem with the rest of the departments.

Budget for the Marketing Communication Plan

A consistent and regularly updated marketing communication is the key to success. The budget will specify the funds allocated to each part of the marketing communication plan, such as TV advertisements, print ads, promotional events, and publicity methods.

Choose the Media

Each medium and each vehicle has a set of unique characteristics and virtues. Marketers attempt to select those media and vehicles whose characteristics are most compatible with the advertised brand in reaching its target audience and conveying its intended message. If the objective is to demonstrate product features, TV is the best medium followed by magazines, newspapers, radios and out-of-home adverting. TV is powerful in terms of its entertainment and excitement value and its ability to have an impact on the viewer. Magazines are strong in terms of elegance, beauty, prestige and tradition. Newspapers offer worthiness and low prices; radio allows for listeners' imagination to play a part, while out-of-home adverting is especially appropriate for package identification.

Timing and Scheduling

Marketing communication involves planning how advertising time and space will be used to contribute to the achievement of marketing objectives. Media planning is a

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coordination of marketing strategy, advertising strategy and media strategy. The marketing strategy, i.e. target market identification and marketing mix selection provides the impetus and direction for the choice of good advertising and media strategies.

Evaluation and Follow-Through

Measurement of advertising effectiveness is extremely important. Effective advertisements have a positive impact on the sales of a product. Several clients or advertising agencies may not set stringent standards to measure advertising effectiveness because all the players involved have some vested interests.

Checking how well an advertisement has worked can provide the information necessary to plan future campaigns. Image/attitude changes, statistical analysis of sales data, usage rate and changes in usage are popular TV post-testing techniques. Image/attitude change is a sensitive measure that is a good predictor of behavioural change.

Components of a Promotional Mix

Advertising

Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer.

Massive investments in advertising suggest that many firms have faith in the effectiveness of advertising. Advertising performs critical communication functions.

- **Informing:** Advertising makes consumers aware of new products, informs them about specific brands and educates them about particular product features and benefits. Advertising is an efficient form of communication and is capable of reaching mass audiences at relatively low cost per contact. It facilitates the introduction of new products and increases demand for existing products, by increasing top of mind awareness for established brands in mature product categories.
- **Persuading:** Effective advertising persuades customers to try advertised products.
- **Reminding:** Advertising keeps a company's brand fresh in the consumer's memory. When a consumer feels a need that is related to the advertised product, post advertising impact makes it possible for the advertiser's brand to come to the consumer's mind. Effective advertising increases consumer's interest in a mature brand and the likelihood of purchasing that brand. Advertising also influences brand switching by reminding consumers who have not recently purchased a brand that the brand is available and that it possesses favourable attributes.
- **Adding value:** There are three ways by which companies can add value to their offering: innovating, improving quality or altering consumer perceptions. These three value-added components are completely interdependent.

  Advertising adds value to brands by influencing consumer perception. Effective advertising causes brands to be viewed as more elegant, more stylish, more prestigious and perhaps superior to competitive offerings. Effective advertising can then lead to increased market share and greater profitability.

- **Assisting other company efforts:** Advertising is a member of the marketing communication team. Advertising sometimes scores goals by itself. At other times, the primary role of advertising is that of an assistant that facilitates other company efforts in the marketing communication process. Advertising may be used as a vehicle for delivering sales promotions and attracting attention to these sales promotion tools.

Advertising assists sales people. Advertising pre-sells a company's products and provides salespersons with valuable introductions prior to their personal contact with prospective customers. Sales effort, time and costs are reduced because less time is required to inform prospects about product features and benefits. Advertising legitimizes or makes more credible the sales representative's claims. Consumers can identify product packages in the store and recognize the value of a product more easily after seeing it advertised on TV or in a magazine.

Advertising augments effectiveness of price deals. Customers are more responsive to the retailer's price deals when retailers advertised that fact compared to when retailers offered a deal but did not advertise it. Advertising is an extremely important business function but the importance of advertising varies from country to country not only in terms of advertising expenditures but also in terms of consumer perceptions of advertising.

Benefits of Advertising

In marketing mix

Advertising is one of the promotional tools relied on in a marketing mix. Effective advertising depends on activities in other areas of marketing mix. For instance, allowing customers to sample a product can often win over a customer. Advertising communicates to a target audience the value of a product that a firm has to offer. Consumers also look for value beyond the product that a firm has to offer. Consumers also look for value beyond the product in convenient locations, credit terms warranties, guarantees, and delivery because of consumer's search for value, market mix ingredients to emphasize and how to blend the element in just the right way to attract and serve customers. Firms' advertising effort must complement the overall marketing strategy being used by firm.

In market segmentation

Market segmentation is breaking down of a large, heterogeneous market into sub markets or segments that are more homogeneous. Underlying fact is that consumers differ in their wants and that the wants of one person can differ under various circumstances. Advertising's role in the market segmentation process is to develop messages that appeal to the wants and desires of different segments and then to transmit those messages via appropriate media.

In product differentiation

Product differentiation is the process of creating a perceived difference, in the mind of the consumer, between an organization's product and the competition's. Product differentiation is based on consumer perception. The perceived differences can be tangible, or they may be based on intangible, image or style factors. The critical issue is that consumers perceive a difference between brands. If consumers do not perceive a difference, then it does not matter whether 'real' differences exist or not. In the mind of consumers, there are no differences. If a firm's product is not perceived as distinctive and attractive by consumers, then consumers have no reason to choose the brand over one from the competition or to pay higher prices for the better brand. Advertising helps create a difference, in the mind of the consumer, between an organization's brand and its competitor's brand. The ad may feature performance feature or it may create the differences with imagery. The advertiser has to develop a message that is distinctive and unmistakably linked to the organization's brand.

Positioning

Positioning is the process of designing a product so that it can occupy a distinct and valued place in the target consumer's mind and then communicating this distinctiveness through advertising. Positioning is dependent upon perceived image. Consumers will create a perceptual space in their minds for all the brands they might consider. A perceptual space is how one brand is seen on any number of dimensions such as quality, taste, price or social display value, in relation to the same dimension in other brands.

Positioning comprises two decisions. One, a firm must decide on the external position for brand, i.e., the competitive niche the brand will pursue. Two, an internal position must be achieved with regard to other similar brands a firm markets.

With regard to external position decision, a firm must achieve a distinctive competitive position based on design features, pricing distributors, and promotion or advertising strategies. Some brands are positioned at the top of the product category like BMW, while some seek positions at low end of a category. Effective internal position is accomplished by either developing vastly different products within a product line or creating advertising messages that appeal to different consumer needs. Even when differences among brands are minor, distinctive positioning can be created through advertising.

Role in revenue and profit generation

Advertising communicates descriptive and persuasive information to audience based on the values created in the marketing mix. Advertising's contribution alone cannot be held solely responsible for sales. Sales occur when brands have a well-conceived overall marketing mix. Advertising creates pricing flexibility by:

- Contributing to economies of scale by creating demand
- Creating brand loyalty
- Decreasing price sensitivity of consumers by conveying relevant differentiation

Role in customer satisfaction

Advertising links a brand's image and meaning to a consumer's social environment and to the larger culture and it can thus deliver a sense of personal connection for the consumer. Advertising communicates how a brand addresses certain needs and desires and hence attracts customers to products they will find useful and satisfying.

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Classification of Advertising

Target Audience Classification

Some of the advertisements could be classified according to the targeting activities. In case the target is affluent then a posh ad would be appropriate. Similarly, if the consumers are traditional, then the advertisements should have a traditional look. Also for the product-benefit-based consumers, the advertisement could be benefit based where the advertisement stresses more on the benefits of the product.

Geographic Area Classification

The geographical area is a very big consideration when determining the classification of the advertisement. In case the advertisement has to be done in China, it will have to be made with Chinese models and also be in their regional language.

In India the same will have to adhere to Indian culture and Hindu philosophy. Even within India the advertisements of the regional channels of different states do have different ads presenting the same brand in different regional languages.

Medium Classification

The medium is also very important in classifying the advertisement. In case the medium is only a virtual media like the newspaper, the advertisement colours, models and themes become important. This is because the entire impact would come only from that one look of the newspaper. At the same time when one uses the Television as a medium, then one has to put an element of drama in the advertisement.

Purpose Classification

The purpose of the advertisement is very important while classifying the advertisement. For example, if the purpose of the advertisement is just recall, then the stress would be on the brand name in the advertisement. In case the purpose of the ad is image and positioning change, then it has to be focused more on changing the brand image. This has been done very well in the Coke advertisements.

Forms of Advertising

Advertising could take up a number of forms, which include advocacy, direct mail, comparative, cooperative, informational, persuasive, product, institutional, point-of-purchase, outdoor, reminder, and specialty advertising.

Advocacy Advertising

This would normally be thought of as an advertisement, or a message, or public communication which is related to economic, political, and social issues. So, the advertising campaign would aim to persuade the public opinion on a specific issue for the public arena.

Most of the non-profit groups use this form of advertising to influence the public's attitude to a particular issue. For example, the American Association of Retired Persons (AARP) advertisement to protect social programmes which include the Medicare and Social Security for the senior citizens.

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Comparative Advertising

This kind of advertising includes comparison of one brand with other competing brands. This advertising technique is commonly used by almost every major industry, from airlines to automobile manufacturers. However, comparative advertising makes the customers skeptical about the claims made by a company and doubt the accurate information which then affects the effectiveness of comparative advertising. (Dees, J. G., Emerson, J., & Economy, P. 2001)

Cooperative Advertising

This can be defined as a system which allows two parties to share the said advertising costs. Here these two parties could be the manufacturers and distributors, as they have shared interest in selling the product, and thus the cooperative advertising technique. For example, a soft drink manufacturer with a local grocery store.

Direct-Mail Advertising

Flyers, letters, catalogues and postcards are some of the well-known direct-mail advertising options. The direct-mail advertising has many advantages, like selectivity, detail of information, the personal touch and speed.

Informational Advertising

This is a form of advertising used when a new product is being first introduced, with emphasis on promoting the benefits, product name and possible uses.

Institutional Advertising

This is a much broader approach, which stresses on the benefits, philosophy, concept or idea of a particular industry. Here the companies could promote image-building activities, like environment-oriented programmes or new community programmes which it could sponsor.

Outdoor Advertising

This majorly involves the billboards and messages that can be seen in buildings and are a part of the outdoor advertising that portrays quick and simple ideas. In this kind of advertising, repetition is the key to the success of the promotion.

Persuasive Advertising

This is a form of advertising that can be used after a product has been introduced to customers. The primary goal for a company would be to build a selective demand for its product. A good example of this would be the ads of Coke. (Dees, J. G., Emerson, J., & Economy, P. 2001)

Product Advertising

In this kind of advertising, the stress is on selling a specific product, for example, a regular television advertisement promoting a soft drink. So, the primary purpose of this kind of advertisement would be to promote a specific soft drink, but not the complete soft drink line of the company.

Reminder Advertising

This is used for the products which have entered the maturity stage of the product lifecycle. These advertisements are just to remind customers of the product and thus maintain awareness. For example, in the case of Coca Cola as a brand there is a lot spent for promotion just to keep reminding customers about their products.

Point-of-Purchase Advertising

This makes use of displays and promotional items at the place where the product is being sold. The primary motivation would be to attract customers at the display for purchase of the product. Stores are crucial for point-of-purchase displays and thus help the manufacturer in enhancing sales.

Specialty Advertising

It is a form of sales promotion which aims at increasing the public recognition of a company's brand. Here the company could display a variety of items, like caps, jackets, glassware, gym bags, key chains, and pens. Thus, the essence of the specialty advertising would vary depending on how long have the said items been used.

Publicity

Publicity can be defined as a single message used as a mass method of communication. Unlike advertising, however, it is not paid for by the marketer. This can and does reduce control over both the content and placement of the message. The tradeoff between publicity and the control of advertising is that publicity is considered a more credible form of communication as it is distributed through a third party, usually the media.

Personal Selling

Personal selling is a one of the few communication methods whereby a marketer or salesperson directly speaks with target audience. Personal selling has the advantage of being a two-way communication process which allows the marketer to modify the message to suit the audience and to field questions on the spot if something is not clear.

Personal selling is more expensive on a per person reached basis, however, when using volunteers and partners for personal selling, it can be an effective way of spreading social messages. It is used, for example, in the form of presentations to schools and community groups and is particularly suited to complex messages which require detailed explanations or demonstrations.

Personal selling takes many forms but consists of the seller engaging in some kind of personal contact with the customer or potential customer in order to persuade them to make a purchase (or become a member of a club, or to enroll at a college or become a regular donor to a charity, for example). It differs from advertising in that there is this personal contact, either face-to-face or by telephone, usually. There is an in-built element of flexibility in personal selling because the salesperson can judge the customer's responses to the message as the contact takes place and modify it accordingly.

Personal selling can be used to get far more information across than an advertisement can do, and is widely used in industrial selling where complex

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specifications and technical details need to be discussed. It is also widely used in the financial services sector for similar reasons, and both the customer and seller need to ask many questions and provide substantial amounts of information for the right service offering to be specified. Personal selling has other advantages—it can be aimed at specific target markets and prospects and also provides more direct feedback than other promotional methods.

There are some disadvantages associated with personal selling. There is a very high cost per contact (when compared with advertising and other promotional methods) and setting up and training a sales force represents a significant investment for the organization. Some organizations have developed a very negative image with the public for unethical practices using high-pressure sales techniques. One good example are timeshare holiday companies who have attracted masses of criticism in recent years, as have some areas of the financial services sector, with the result that consumers tend to regard all salespeople with suspicion and distrust.

Telephone selling has also become widespread and while it has a very useful role to play when the consumer has already shown interest, by responding to an advertisement for example, it is often done on a 'cold call' basis and is seen as irritating and intrusive by the consumer.

Web-based Promotion

The internet provides marketers with a unique ability to simultaneously engage in the mass communication of a single message with the option of creating a unique personal interaction. Each visitor to a website will read different levels of information according to their needs, thereby customizing the message and, if necessary, make personal contact via email for further information not otherwise available.

Direct marketing, brochures and pamphlets

Where an issue has a clearly defined target market which is known and relatively easy to access, direct marketing whether by email or traditional mail, is an effective way of getting information to potential adopters. Direct marketing is usually accompanied by some form of print material such as pamphlets or brochures which add to persuasive or reminder messages. For example, the National Pap Smear Register provides a database from which reminder letters can be sent to women throughout Australia when they are due for routine screening for cervical cancer.

Point of 'Sale'

Doctors' surgeries, sports clubs and other venues where marketing campaigns are implemented provide a common meeting ground for the distribution of 'point of sale' materials. Again, the most common materials distributed this way are brochures, posters and information booklets although messages have been distributed via less traditional media also, such as on printed beer mats.

5.4.1 Determining the Communication Objective

Many types of objectives can be adopted for an effective communication strategy. Some of them have been explained below:

Information: The main objective of a business is to pass on information to the customer. For that matter an advertisement activity would also be a way to pass

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information to others. The mode of communication could be verbal, written, visual or any other.

Motivation: Communication is needed to increase motivation in workers. So if carried out effectively, communication could motivate the workers to get work done efficiently and independently, without supervision.

Education and training: Communication could be used to expand the circle of knowledge. The objective of education is achieved by business communication on three levels (a) management (b) employees (c) general public

Types of Marketing Communication Strategies

Generic Strategy

An advertiser employs a generic strategy while making a claim that could be made by any company that markets a brand in that product category. The advertiser makes no attempt to differentiate his brand from competitive offerings or to claim superiority. This strategy is most suitable for a company that dominates a product category. The firm making a generic claim will enjoy a large share of any primary demand stimulated by advertising.

Preemptive strategy

An advertiser makes a generic type claim but does so with an assertion of superiority. This is done in categories when there is not much functional difference among competing brands. It is a clever strategy when a meaningful superiority claim is made as it effectively precludes competitors from saying the same thing. An excellent instance of this is Fevicol that always extols the virtue of its ability to bind anything.

Unique selling proposition (USP) strategy

The advertiser makes a superiority claim based on a unique product attribute that represents a meaningful distinctive consumer benefit. The main feature of USP advertising is identifying an important difference that makes a brand unique and then developing an advertising claim that competitors either cannot make or have chosen not to make. The translation of the unique product feature into relevant consumer benefit provides the USP. The USP strategy is the best strategy for companies whose products possess relatively lasting competitive advantages such as makers of technically complex products, or providers of sophisticated services. The 'Gillette Sensor Razor' used a USP when claiming that it is 'the only razor that senses and adjusts to the individual needs of your face.'

The USP strategy is the optimum creative technique. It gives the consumer a clearly differentiated reason for selecting the advertiser's brand over competitive offerings. But this is not used often because brands in most product categories are homogeneous. They have no unique physical advantages to advertise, and are for advertising strategies that favour the more symbolic, psychological end of the strategy continuum. Whereas the USP strategy is based on promoting physical and functional differences between the advertiser's product and competitive offerings, the brand image strategy involves psychological rather than physical differentiation. Advertising attempts to develop an image or identity for a brand by associating the product with symbols. In imbuing a brand with an image, advertisers draw meaning from the culturally constituted world and transfer that meaning to the brand. In effect, the

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properties of the culturally constituted world that are well known to consumers come to reside in the unknown properties of the advertised brand. Developing an image through advertising amounts to giving a brand a distinct identity or a personality of its own. This is especially important for brands that compete in product categories where there is relatively little physical differentiation and all brands are relatively homogenous (beer, soft drinks, cigarettes, jeans). Thus, Pepsi is the soft drink for the new generation; and Evian natural spring water is for people who live a healthy life.

Brand image advertising is also described on transformations. Transformational advertising associates the experience of using the advertiser brand with a unique set of psychological characteristics that would not be associated with the brand experience to the same degree without exposure to the advertisement. Such advertising is transforming by virtue of endowing brand usage with a particular experience that is different from using any similar brand. By virtue of advertising, the brand is experientially associated with its ads and the people or events in ads. Transformational ads contain two characteristics:

- They make the experience of using the brand richer, warmer, more exciting or more enjoyable than would be the case based solely on an objective description of the brand.
- They connect the experience of using the brand so tightly with the experience of ad, that consumers cannot remember the brand without recalling the advertising experience.

Positioning strategy

Successful advertising must implant in the consumers mind a clear meaning of what the product is and how it compares to competitive offerings. Effective positioning requires that a company be fully aware of its competitions and exploit competitive weaknesses. A brand is positioned in a consumer's mind relative to competition. To be successful today, a company must be competitor oriented. It must look for weak points in the positioning of competitors and then launch marketing attacks against those weak points.

There is a claim that many marketing people and advertisers are wrong when operating under the assumption that marketing is a battle of product. They claim that there are no best products. All that exists in the world of marketing are perceptions in the minds of the customers or prospects. That perception is the reality. This may be overstated, but the important point is that how good (or how prestigious or dependable, etc.) a brand is, depends more on what people think than an objective reality. And what people think is largely a function of effective advertising that builds strong brand image.

Positioning strategy is not mutually exclusive of other strategies; advertising positions brands in consumer's minds in comparison with competitive brands. This positioning can be implemented using USP brand image or other creative approaches.

Resonance strategy

Resonance refers to the noise resounding off an object. An ad resonates (patterns) the audience's life experience. This strategy structures an advertising campaign to pattern the prevailing lifestyle orientation of the intended market segment. Resonant advertising does not focus on product claim or brand image but seeks to present circumstances or situations that find counterparts in the real or imagined experiences of the target audience. It attempts to match patterns in the ad with the target audience's stored experiences.

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Emotional strategy

Products are often bought on the basis of emotional factors. Appeals to emotions can be very successful if used appropriately and with the right products. The use of emotion in advertising runs the gamut of positive and negative appeals, including appeals to romance, nostalgia, compassion, excitement, joy, fear, guilt, disgust and regret. Emotional ads work especially well for products that are naturally associated with emotions (food, jewellery, cosmetics, fashion apparel, soft drinks, long distance telephone), but it can used when advertising any product.

These strategies are not mutually exclusive. There is some unavoidable overlap and it is possible that an advertiser may consciously or unconsciously use two or more strategies simultaneously. An advertiser can position a brand against a competitor's brand using emotional, image or USP strategies.

Some experts believe that advertising is most effective when it reflects both ends of the creative advertising continuum, i.e., by addressing both rational product benefits and symbolic/psychological benefits.

5.5 SUMMING UP

- Marketing communication is a strategy that refers to the incorporated programmes used by the marketers in order to communicate the product and services offered by a company via using various modes of communication and marketing techniques like through various modes of advertisement such as TV ads, banners and pamphlets.
- The aim of a marketing communication strategy is to ensure that the company's image is successfully communicated to the targeted potential consumer out there in the market and developing a brand name for the company that would help it to sustain through a long run.
- For any marketing communication campaign to be a successful, the prime task which the marketer needs to accomplish is to create awareness about the products and services offered by the company in the minds of their target consumer base. The task is to create a *Unique Selling Proposition (USP)* for the product or service which would help the company to stand out from the rest. The company in this case can choose from the varied choices which it has in the communication techniques like personal communication, mass communication, selective communication and a lot more.
- Communication is a vital part of any company's marketing strategy and it is this very communication which is responsible for ensuring that the message of the company about their goods and services are passed on to the target audience in the correct manner.
- It is very critical to target the communication to an appropriate consumer. One parameter which would be crucial in deciding the same would be the culture. Culture could be said to be a way of doing things. Culture can be related to the country that is the national culture and also could be a separate segment of the

Check Your Progress

7. Why is evaluation of marketing strategy carried out?
8. How does advertising help salespeople?
9. What is cooperative advertising?
10. What is pre-emptive strategy of marketing communication?

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society which includes the sub-culture and also relates to the organization which talks of corporate culture.

- When a company creates a marketing communication plan, it is expected to clearly communicate to its employees on what makes the customers distinct and what makes their company different from the competition.
- Promotion is utilized to convey knowledge related to products and facilities to direct market spectators in a way to simplify the trading procedure. It is sometimes argued that effective marketing—offering the right service at the right price in the right locations to meet target customers' needs and wants—should not require extensive promotional activity as the products or services will 'sell themselves.'
- Advertising is the most prominent component in the marketing communication approach. It can be described by its power to spread across masses through a single communication, using either electronic or print channels. It allows the marketer complete authority over the communication and positioning of the ad as he has to pay for it.
- Advertising is a paid-for promotional activity, communicated via diverse media. Some of the advertisements could be classified as a precursor to reaching a particular target audience. In case the target is affluent then a posh ad would be appropriate. In case the consumer is traditional, then the advertisement should have a traditional look.

5.6 KEY TERMS

- **Marketing communications**: It denotes any exchange that happens amid the initiator of the presentation and the people.
- **Communication**: It is an activity through which information is conveyed from one person or a group of people to another person or group of people.
- **Promotions**: It is a method of communication that is meant to influence spectators which could be the viewers, readers or listeners for a purchase of the action on the said products or services.
- **Advocacy advertising:** It is an advertisement or a message or public communication which is related to the monetary, civil and community concerns.
- **Persuasive advertising:** This form focuses on building a select customer base and increasing demand for its service or product.
- **Direct selling**: It is one of the limited messaging systems whereby a dealer or a sales representative openly talks with the focused market associates.

5.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. As per the Lavidge and Steiner Model, the customer goes through the following six phases in making a purchase:
   i. Awareness: Here, the customer gets an awareness of the product.
   ii. Knowledge: Here, the customer gains knowledge about the features and use of the brand or product.

iii. Liking: Here the customers get a favourable opinion about the product.
iv. Preference: Then the customer develops a preference for the product in comparison with the competitive products.
v. Conviction: Here a desire to buy the product gets generated.
vi. Purchase: Now finally the customer goes for the actual purchase.

2. The communication approach stresses more on what is the reaction of the consumers who see the message. Sales might not always be the motive of a communication strategy. It could also be to build a brand image.
3. Some of the components of the communication strategies message could be:
   - Headline
   - Sub-headline
   - Body copy
   - Illustrations
   - Signature
4. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment. Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, (ii) use the product in the same way, or (iii) buy the product in the same way.
5. By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.
6. Organizational purchases are categorized into straight rebuy, modified rebuy and new task. Buy class affects the length of the decision making process, complexity of DMU and number of choice criteria which are used in supplier selection.
7. Checking how well an advertisement has worked can provide the information necessary to plan future campaigns. Image/attitude changes, statistical analysis of sales data, usage rate and changes in usage are popular TV post-testing techniques. Image/attitude change is a sensitive measure that is a good predictor of behavioural change.
8. Advertising assists sales people. Advertising pre-sells a company's products and provides salespersons with valuable introductions prior to their personal contact with prospective customers. Sales effort, time and costs are reduced because less time is required to inform prospects about product features and benefits. Advertising legitimizes or makes more credible the sales representative's claims.
9. This can be defined as a system which allows two parties to share the said advertising costs. Here these two parties could be the manufacturers and distributors, as they have shared interest in selling the product, and thus the cooperative advertising technique. For example, a soft drink manufacturer with a local grocery store.
10. An advertiser makes a generic type claim but does so with an assertion of superiority. This is done in categories when there is not much functional difference among competing brands. It is a clever strategy when a meaningful

superiority claim is made as it effectively precludes competitors from saying the same thing. An excellent instance of this is Fevicol that always extols the virtue of its ability to bind anything.

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5.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Explain the Laivdge-Stenier Model.
2. Explain the DAGMAR model.
3. What is business communication?
4. Briefly explain the importance of promotion in marketing.
5. Write a short note on Direct Selling.
6. Write a short note on Direct Promotion, Flyers and Brochures.
7. What types of objectives can be underlined for an effective communication strategy?
8. Write a short note on designing of a communication strategy.

Long-Answer Questions

1. Explain in detail the Marketing Communications Strategy.
2. How is an effective communication plan developed?
3. State and explain the categories of the process of communication strategy and planning.
4. What are the vital functions of communication in marketing?
5. Explain in detail the eight categories of culture.
6. Write a short note on marketing communication goals.
7. Explain the concept of advertising in detail.
8. What are the various types of advertising?

5.9 REFERENCES AND SUGGESTED READINGS

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UNIT 6 BRANDING

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Structure

6.0 Introduction
6.1 Objectives
6.2 Roles and Functions of Brands
6.2.1 Evolution of Brands
6.2.2 Products Versus Brands
6.2.3 Brand Attributes
6.2.4 Brand Equity
6.3 Devising a Branding Strategy
6.4 Brand Identity and Customer Loyalty
6.5 Brand Image and Personality
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6.6 Summing Up
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6.8 Answers to 'Check your Progress'
6.9 Questions and Exercises
6.10 References and Suggested Readings

6.0 INTRODUCTION

A brand is not just a term, name, symbol, sign, or a blend of them. A brand is an assurance or guarantee that the product will perform as the customer thinks it should, which means that the brand has already shaped the expectations of the customer. The brand embodies some values that remain consistent over a period. The customer expects these values to be delivered to him during each encounter he has with the brand. Therefore, the company must realize that building a brand is not a short-term activity. Consistency is the most valued quality of a brand. It takes a long time to build a consistent brand image, and it is extremely hard to sustain this image. After a period of consistent performance, the brand is in the customer's memory as an accumulation of associations. These associations are summations of the customer's interactions with the brand over a period of time.

Branding is the process by which companies distinguish their product offerings from competition. Marketers develop their products into brands, which help to create a unique position in the minds of customers. A brand is created by developing a distinctive name, packaging and design, and arousing customer expectations about the offering. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand. Buying a brand reduces the risk of the customer and eases his purchase decisions. Branding shapes customer perceptions about the product. Brand superiority leads to higher sales, the ability to charge price premiums and the power to resist distribution power.

6.1 OBJECTIVES

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After going through this unit, you will be able to:

- Describe the roles and functions of brands
- Discuss devising of a branding strategy
- Identify the elements of a brand portfolio
- Explain the concepts of brand identity and brand loyalty
- Explain the concept of brand image and personality

6.2 ROLES AND FUNCTIONS OF BRAND

Brand can be said to be the identity or a promise of a company to its consumers. The American Marketing Association defines a brand as a 'name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers.'

It can be said that a brand can take many forms, in the form of attributes like name, sign, colour combination or symbol and slogan. Like Coca Cola is the name for the particular company. Here the word branding would refer to the brand of the beverage. It would also differentiate it from other brands. The word brand looks at identity and targets the personality of a product, company or service. Thus, it is also a good or bad perception that the customers have about you.

One could say that there could be many advantages of the brand. Some of the major advantages have been outlined as follows:

- Economies of scale: It is true that advertising brings in gains both in production and in distribution by improving the sales of the product. This in turn lowers marketing costs.
- Also, advertising and branding lay a groundwork for future extensions of the given brand.
- Helps in maintaining a consistent image for the product and company.
- Helps in quicker identification of the brand and the integration of innovations.
- Brands become a factor for preempting international competitors in the domestic markets and also restricting the same to other geographic markets.
- Enhances international media reach especially after the advent of the Internet.
- Enhances international business and tourism which is crucial for global marketing.

6.2.1 Evolution of Brands

The word 'brand' came from the Old Norse word '*brand*' that meant 'to burn.' This means that brand is the practice of producers burning their mark to the products. In the 1200s the Italians used brands, first as a form of watermarks on paper. Brands for mass-marketing came up in the 19th century with the coming of packaged goods. Industrialization brought in the production of many items, like soap, from local communities to the centralized factories. When these companies were shipping their items, the factories would brand their logo on the barrels used; thus, emerged the idea of 'brand'.

6.2.2 Products Versus Brand

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It is true that in common language these two terms 'product' and 'brand' are often confused. However, these can be studied on the basis of two different parameters. Products are a set of offerings that add to the choices a consumer has in a category. On the other hand, a brand simplifies that choice by standing out due to its uniqueness. The product is related to the functional territory but the brand is related to the mental and emotional territory. The product is made in a factory but the brand is created in the minds of customers.

Whereas a product can be copied by a competitor, the brand qualities are unique. Also the product can be outdated but a good brand is timeless. While the success of a product is gauged from the volume of sales, for a brand, the parameter would be the attraction of the brand and what defines its value for the users.

Brand management has become an important part of corporate culture today. This is because in a dynamic market like India, it is very difficult to sustain and raise a brand. The competition is fierce and the price wars are intense. Also the innovations among competitors could lure the customer to brand switching very frequently. Thus, brand management becomes an important field.

When we look at the global environment we can understand how it would impact on the marketing communication planning decision. This means that the marketing communication plan cannot be homogenous for marketing communication campaigns meant for different areas, even if it is, for example, north India and south India. So, what one needs is the customization of the plan according to the various regions. For that matter, it would not be wrong to say that the culture-based marketing plan will have to be customize demographically, culturally and also for each and every state differently. However, every brand cannot do that because firstly, it would be expensive, and second, it is not practical. Thus, the brand manager has to come up with strategies that are not region-specific or if they are, they should be customizable for different regions.

6.2.3 Brand Attributes

Brands have many elements. They are as follows:

- **Name:** This consists of the word or words that are used to identify the product, company, service, or concept.
- **Logo:** This is the visual trademark that identifies a brand.
- **Tagline:** 'Taste the Thunder' is a line which talks of Thums Up; 'Just do it' is that of the Nike brand.
- **Shapes:** Here the distinctive shape of the product is/are trademarked elements which identify brands.
- **Graphics:** The ribbon which is a trademarked part of Coca-Cola Company is an example of a graphic.
- **Colour:** It can be said that when a chocolate wrapper in the U.K. is purple, it would be of Cadbury and red would definitely be that of the Nestle brand.
- **Sounds:** This could be set of notes that 'denote' a brand, for example, Airtel or Titan watches.

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- **Movement:** One could take the example of Lamborghini which has trademarked the upward movement of the car doors on being opened.
- **Fragrances:** Some fragrances, like the rose-jasmine-musk which characterizes Chanel No. 5 are trademarked.
- **Taste:** KFC have trademarked their special recipe which consists of 11 herbs and spices in their product fried chicken. This taste is now a typical characteristic of a product of KFC.

6.2.4 Brand Equity

A unique brand name provides the company with a platform to distinguish itself from others and increase awareness to bring in sales. A strong corporate branding strategy brings in value in terms of monetary parameters called the worth of the company or the brand equity in the long-term vision.

Building equity in a strong product brand has to be the part of the company's overall business strategy. The company should be clear on what it aims to achieve so that it can be known in the industry and beyond. This will need a strong vision, values, personality, position and image.

Building good brand equity could help in generating a greater projected income and an increased cash flow by increasing market share. A company could also go for premium pricing, and create an asset that can be sold in the industry, if required.

Aaker (1996) discusses the role of brand loyalty as a component of brand equity and how it creates value for the customer. He advocates that brand loyalty leads to a greater trade leverage and gives a firm time to respond to competitive threats. It also reduces the company's marketing cost since retaining customers is cheaper than attracting new ones. In fact, Rosenberg and Czepiel (1983) have quantified the concept and state that the cost of attracting a new customer is six times higher than the costs of retaining an old one. Aaker's list of advantages of building loyalty is not comprehensive; others have pointed out merits like favourable word of mouth (Dick and Basu, 1994) and reduced price sensitivity among consumers (Krishnamurthi and Raj, 1991; Reichheld and Sasser, 1990).

You will study more about brand equity in the latter part of this unit.

6.3 DEVISING A BRANDING STRATEGY

Portfolio of Brands

A business needs to sustain itself in the dynamic market. The fluctuations in the market force companies to go for new categories and sub-categories along with strategic reforms like mergers or brand extensions. In case the market share is declining then retaining the uniqueness of a brand also needs strong awareness, loyalty and image to be developed among customers. Customers cannot be expected to buy products simply because they are of a good quality and fulfil a requirement. There are many other factors that affect a customer's purchase decision (C. Areni & D. Kim 1993).

A brand portfolio strategy could help solve this problem. Managing brands can be done in a coordinated manner which would not confuse or overwhelm its customers, and also help in avoiding investment in overlapping product category and product development. This saves repetitive marketing efforts and multiplying brands. There are five key elements to consider in managing a brand portfolio:

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Differentiation

Differentiation can be said to be an alternative for the price-dominated competition. It means that a company has to reach a sustainable point of differentiation which is difficult for others to emulate or match up to. Ford has been able to differentiate the Explorer in terms of its design and pick-up. This gives the automobile an advantage over other brands.

Energizer

The energy gap problem is a basic issue for the market-leader firms who carry an enviable reputation of high quality. They are epitomes of trustworthiness and innovation. As a result, these brands always tend to be repetitive and also boring for the customer.

The portfolio solution creates a brand energizer—a promotion technique, a new product, or a sponsorship programme that could enhance and energize the given brand.

Extension

Growth of organizational vitality and the fulfillment of objectives of investors is crucial. In case the sub-market shows an attractive offering then the brand asset will help enhance the growth option.

A portfolio solution will help to create and leverage the brand assets. Thus the brand extension strategy leverages brands to the related product classes. Thus it is easier to build brand platforms that could accommodate many products and also sub-brands rather than just incremental extensions.

Clarity

It is true that the consumers and employees find it difficult to determine what the firm stands for when there are various product-market settings. The lack of brand-building focus could bring in ineffective brand-building budgets. Thus, the portfolio strategy could enhance focus and clarity. When one reduces the number of brands, then it is likely to be well-off strategically.

Consumer Focus

The starting point for marketers is to define categories as a consumer would. The marketers need a disciplined method for evaluating their brands' opportunities, like analysing the *need states*—the intersection between what customers want and how they want it (C. Areni & D. Kim – 1993)

6.4 BRAND IDENTITY AND CUSTOMER LOYALTY

Brand loyalty is a scenario where the consumer fears purchasing and consuming product/s from other brands which he does not trust. Brand loyalty is measured through methods like word of mouth publicity, repetitive buying, price sensitivity, commitment, brand trust, and customer satisfaction.

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The success of any business is based on its ability to attract, acquire and retain customers. In order to move their brands from consumers 'awareness set' to 'choice set' (Kotler, 1999), companies apply marketing and branding techniques. The underlying objective is to build loyalty for their brands since a loyal customer is a competitive advantage for any brand. Customers who are loyal to a brand may be willing to pay a premium for it since they see and value something unique in that brand (Jacoby and Chestnut, 1978; Reichheld,1996), a factor which eventually contributes to higher sales (Ehrenberg et al., 1990).

Definition and Nature of Brand Loyalty

Oliver (1999: 292) defines brand loyalty as 'a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior'. This definition includes both 'commitment' and 'repetitive same brand purchase' in it, which can be attributed to the two dimensions of brand loyalty behaviour and brand loyalty attitude, respectively.

Dimensions of Behavioural Brand Loyalty

Many researchers, more so in the earlier works on the subject, assumed repeat purchase behaviour to be equivalent to brand loyalty. Hence, they have defined brand loyalty strictly from a behavioral perspective. However, others have elaborated on the difference between the two terms, thereby pointing out the inadequacy of the behavioural stand. Mellens, Dekimpe and Steenkamp (1996) assert that commitment is an essential element of brand loyalty and not of repeat purchase. Also, the influencing factors in both cases vary, with loyalty laying emphasis on the brand and its attributes, while repeat purchase could be a result of buyer's inertia (buying the same brand out of habit and not reason) or situational factors like non-availability that amount to 'spurious loyalty' (Day, 1969; Bandyopadhyay and Martell, 2007).

Attitudinal Brand Loyalty

Attitudinal loyalty includes cognitive, affective and behavioural intent dimensions. Many researchers (Dick and Basu, 1994; Baldinger and Rubinson, 1996; Rundle-Thiele and Bennett, 2001; Rundle-Thiele, 2005) have suggested that attitude should be included in loyalty's definition since a positive attitude towards the brand is what differentiates it from other forms of repeat purchasing behaviour. On the other hand, literature also consists of the limitations of attitudinal loyalty. First, there is a lack of understanding of the concept of 'attitude' which is attitudinal loyalty's core component and second, there is an uncertainty of translation of attitude into behaviour. While repeat purchase is an expression of brand loyalty, its continuation can be guaranteed only with a favourable attitude towards the brand. Further, purchase loyalty leads to a greater market share while attitudinal loyalty leads to a higher relative price for the brand. Not only this, attitudinal loyalty measurement also provides an explanation for the consumers' behavioural loyalty. Companies can understand which attributes attract customers and consequently know their brands' strengths and weaknesses from the consumers' perspective and accordingly be more effective in their marketing strategies.

Check Your Progress

1. Which are the forms that a brand can take?
2. Give one difference between a product and a brand.
3. Give one benefit of high brand equity.
4. What is an energizer?

A widely supported definition of brand loyalty that includes both dimensions of loyalty was given by Jacoby and Chestnut (1978: 80). They define the term as 'the biased behavioural response expressed over time by some decision-making unit with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (decision-making, evaluative) processes'. Recently, Rundle-Thiele (2004) suggested a multi-dimensional model of loyalty that extends beyond the behaviour and attitude dimensions. They stated that there are different types of loyalties and a customer can be loyal in various ways. The additional dimensions they used in their research include situational loyalty, price sensitivity, propensity to be loyal and complaining behaviour.

The literature available on branding-related research consists of many studies that have examined the relationship between self-congruity and a variety of consumer behaviour variables. Specifically, prior research that studied the effects of self-congruity on perceived value, satisfaction and brand loyalty have generally established a positive relationship between them. These studies have been conducted across a wide spectrum of products, such as automobiles, hospitality, sponsorship and retail. But there do not appear to be any published research studying self-congruity's effect on consumer behaviour in the smartphone industry, possibly because it is a relatively new industry.

6.5 BRAND IMAGE AND PERSONALITY

Brand image is related to the perception that the customer has about the brand. When a set of beliefs about a specific brand are held together, it is termed as brand image. Brands have a personality or character that can be more significant to the customer than the technical truth about the product. Brand image sums up the impressions that customers get from several sources. This summation forms the brand personality. Several researchers are of the opinion that the brand image describes not just the individual traits of the product, but also the complete impression that the customer forms in his mind. The manner a specific brand is positioned in the market, i.e., the way the customer perceives the product, describes the brand image.

Clearly, consumers form an image of the brand based on the associations that they have remembered with respect to that brand. Brand image is a set of associations, usually organized in some meaningful way. A firm engages in several brand-related activities. Each of these activities lends some meaning to the brand. For the customer, brand image is the sum of all the meanings that can be derived from all such activities of the company. Implicit in all the above definitions is that brand image is a consumer-constructed notion of the brand.

Consumers associate a particular image or persona with a brand on the basis of the subjective perceptions that they have about the brand. For example, Lexus may be associated with luxury and status, while Volvo may have safety associations in the mind of the consumer. McDonald's may be associated with a symbol such as the Golden Arches, or children may link the fast-food giant to a place where they can have fun.

Attributes, attitudes and benefits are the three dimensions of brand associations. Attributes could be both specific and abstract. Attributes such as size, colour and weight are specific, whereas 'brand personality' attributes such as 'youthful', 'durable' and 'rugged' are abstract in nature. Attributes could also be categorized as product related and non-product related. While product related attributes would be unique to the type of product and service, non-product-related attributes would include packaging and user imagery as well as usage imagery. Benefits refer to the consumer perception of the needs that are being satisfied.

The third dimension of brand associations is attitudes. A learned predisposition to behave in a favourable or unfavourable manner with respect to a particular object is called an attitude. Brand attitudes are the overall evaluations of a brand by the customer. Researchers have constructed several models of brand attitudes.

The brand concept is based on the consumer needs that a brand can satisfy. The three broad categories of consumer needs are: experiential, functional and symbolic. A brand possessing a functional concept is so designed that it solves the consumption requirements created externally. Consumers will be motivated to purchase and use functional brands in situations where the product is viewed as addressing utilitarian needs. Symbolic image in a brand represents belongingness to a desired group, self-image or role. Brands with a symbolic concept facilitate the communication of symbolic meaning to the individual and to others. A brand with an experiential concept fulfils the need for stimulation and variety. The primary motivation for selecting certain products is the enjoyment that is derived by consumers from the consumption of these products.

Brand identity originates from the company, i.e., a company is responsible for creating a differentiated product with unique features. It is how a company seeks to identify itself. A company will often use branding strategy as a means of communicating its identity and value to consumers and other stakeholders. The marketing mix strategy plays a significant role in the establishment of a brand identity. The four P's—product, promotion, price and place—contribute significantly to the process. For example, the tangible attributes that comprise the product will send a message to the consumer about the various features of the brand. The dual airbags and anti-lock braking system installed in a particular brand of car communicate the safety benefits inherent in buying the car, to potential buyers.

Brand identity sends a single, unified signal through various elements of the brand such as the name, slogans and products. This is important because the uncontrolled expansion and diversification of the brand leads customers to feel that they are dealing with several different brands rather than just a single one. Through brand identity, a company seeks to convey its individuality and distinctiveness to all its relevant public.

Kapferer has emphasized the brand-focused view of identity. It is through the development of this identity that managers and employees make a brand unique. The brand identity is made up of various components including:

- Presentation style
- Bonds and relationships
- Vision of the brand
- Culture of the brand
- Brand positioning
- Personality

The main objective behind the existence of a brand is embodied in the brand vision. The brand vision represents a set of values that, in combination with brand culture, help to guide and direct. A brand's positioning seeks to emphasize the characteristics and attributes that make it unique. The advantages and benefits on offer are conveyed to the consumers through brand positioning. The emotional characteristics of the brand are represented by personality. It is influenced by positioning as well as the core values and culture of the top management. Vision and culture are also responsible for the evolution of relationships between employees, consumers and other stakeholders. Presentation styles are developed to present the brand identity. This should take into account consumers' needs and aspirations.

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Brand identity can also be examined in terms of brand concept. Brand concept refers to the meanings assigned to the unique combination of the product features, the meanings that are assigned to the arrangement of the features, and the company's efforts to create meanings from the arrangements. Figure 6.1 represents a brand image prism.

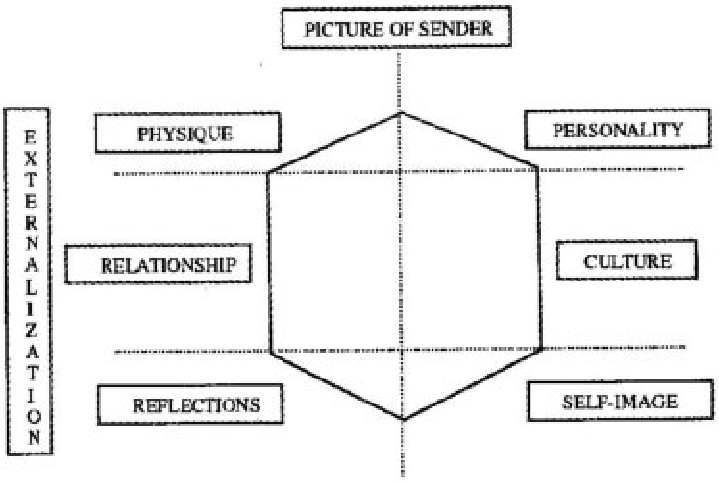

Fig. 6.1 Brand Image Prism

Six sources of brand image

- **Physique:** A brand has physical qualities. It comprises a combination of salient objective features or emerging features. Salient features here refer to the features of the brand that at once come to mind when a brand is quoted in a survey. Physique is both the brand's backbone and its tangible added value. Though physical appearance is not the most important aspect of a brand, it matters.
- **Personality**: Every brand possesses a unique personality. It builds up character through gradual communication. The manner in which the brand portrays its products or speaks of its services reflects the kind of person the brand would be if it were human. Personality has been the main focus of brand advertising for a long time now. One of the ways of lending the brand a personality is by giving it a spokesperson or a figurehead.
- **Culture**: Every brand possesses its own culture which is reflected in the product. The product communicates this culture to the consumers and the media; it represents the culture. Here, culture implies the set of values that inspires the brand. The cultural aspect is the essence of the brand and refers to the basic principles that govern the brand, that is, its external communication and its products. Major brands are not only driven by culture, but they also convey this culture.

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Countries of origin are great cultural reservoirs for brands. Coke stands for America, IKEA for the Scandinavian region, Nokia for Finland, Mercedes for Germany and Toyota for Japan. However, this is not the only factor adding to their value. Culture is what links the brand to the firm, especially when the two bear other common elements. The degree of freedom of a brand is often reduced by the corporate culture, of which it becomes the most visible outward sign. This facet helps the most while differentiating luxury brands as it refers to their sources, to their fundamental ideals and to their set of values.

- **Relationship**: A brand represents a relationship. Brands form the basis of most exchanges, transactions or deals that take place between people. This holds true for the service sector brands as well as retail brands. Services are often defined only by relationships.
- **Reflection**: A brand can be referred to as a reflection. As its communication and most significant products and services build up or grow over time, a brand will always end up reflecting the image of its consumers or buyers. All brands must control their reflection by constantly reiterating what they stand for.
- **Self-image**: Finally, a brand speaks to the customer's self-image. If reflection is the target audience's mirror, self-image is the target's own internal mirror. Through the acquisition of brands, customers develop a certain type of relationship with themselves.

Brand personality is extremely important in positioning brands with non-functional values. Many brand strategy statements refer to the 'character' or 'personality' of the brand. However, brand managers writing these statements often tend to define 'character' for several brands in the company's line in identical terms. For example, for many OTC remedies, the brand character is monotonously described as 'caring' and 'efficient.' From me-too product features, one may end up with me-too personalities. For nutritional products aimed at children, and even for laundry detergents, the character/personality of the 'caring mother' and 'conscientious housewife' is encountered repeatedly.

The purpose of positioning by brand personality is lost if the manager is unable to define the desired 'personality' of the brand which is clearly distinct from the personalities of competing brands and sister brands of the company's product lines.

The brand name is a complex symbol that represents a variety of ideas and attributes. The manufacturer who dedicates his advertising to building the most favourable image, the most sharply defined personality, is the one who will get the largest share of the market at the highest profit – in the long run.

According to David Ogilvy, it is important to decide what image is desired for the brand. Image means personality. The personality of the brand is an amalgam of many things – its name, packaging, price, style of advertising and above all, the nature of the product itself. In many markets, there is no real difference among the competitors. Therefore, managers tend to explore a more emotional level and this is where brand personality comes in.

Some authors consider brand image to be different from brand personality. Brand image refers to rational measurements like quality, strength and flavour. Brand personality explains why people like some brands more than others do even when there is no physical difference between them. Therefore, they consider brand personality as being made up of the emotional associations of the brand and brand image of the physical features and benefits.

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The added values (of a brand) tend increasingly to be non-functional values. However, they will only work if they are blended with the physical and functional values to form an integrated brand personality. The brand image thus represents the essence of all the impressions or imprints about the brand that has been made on the customer's mind. It includes impressions about its physical features and performance, impressions about the functional benefits from using it, impressions about the kind of people who use it, the emotions and associations aroused by it, the imagery and symbolic meaning it evokes in the customer's mind — and this includes imagery of the brand in human terms, as if it were a person.

The brand image is indeed the 'totality' of the brand in the perception of the consumer. It is truly a 'complex symbol' and defies oversimplifications that equate it to one of its bits – like its physical features, for example, or its emotional associations alone. Personality is that aspect of the brand's totality, which brings up in the consumer's mind its emotional overtones and its symbolisms – its characterization. The great operational utility of the brand personality concept is that when the consumer cannot distinguish brands by their physical features or functional benefits, he is invited to look at their human characteristics. It makes his task simpler in judging whether it is his kind of product or not.

The brand image represents the totality of impressions about the brand as selected and adapted by the consumer perceptions. It embraces the brand's physical and functional aspects and its symbolic meanings. The brand personality dwells mainly on its symbolic aspects.

With differentiated products, the functional benefits of the brand plus its imagery or symbolism help the consumer to make the right purchase. In the case of undifferentiated products, the symbolic aspects of the brand – the brand personality must endure the most of consumer persuasion. It must patch the target consumer's self-concept. When a marketer has a clear idea of his intended target segment, it is possible to think of a personality for the brand, which will have congruence with the consumer's self-image.

Differences between Brand Image and Brand Identity

The main difference between brand identity and brand image lies in the fact that brand identity arises from the company or source and the receiver or the customer gets the image. Brand message is presented as brand identity, and received by the customer as brand image. Image signifies customer perception, while the firm's reality is represented by identity.

Brand identity and brand image originated as products of the communication environment where they exist. The strengthening of identity-image linkage helps in the creation and maintenance of brand loyalty. Therefore, the space between 'consumer perception' and 'company reality' has to be reduced or removed.

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	Brand Identity	Brand Image
1	Brand identity is cultivated from the origin or the organization.	Brand image is professed by the recipient or the customer.
2	Brand communication is attached to brand identity.	Brand communication is unattached by the customer by the method of brand image.
3	The basic significance of brand identity is 'who you actually are?'	The basic significance of brand image is 'How market recognizes you?'
4	Its character is that it is matter oriented or planned.	Its character is that it is growth oriented or calculative.
5	Brand identity represents the company's actuality.	Brand image represents the opinion of customers.
6	Brand identity symbolizes 'your wish.'	Brand image symbolizes 'others outlook'
7	It is durable.	It is artificial.
8	Identity looks into the future.	Image is looks into the past.
9	Identity is energetic.	Image is inactive.
10	It represents 'where you wish to be.'	It represents "what you possess".
11	It is an absolute assurance that a firm makes to customers.	It is completely based on customer's opinion regarding the product.

6.5.1 Brand Awareness and Dream Value

A brand is an intangible asset for an organization. The concept of brand equity originated in order to measure the financial worth of this significant, yet intangible entity. Brand equity is the value and power of the brand that determines its worth. The brand equity can be determined by measuring:

- The price premium that the brand charges over unbranded products;
- By assessing the additional volume of sales generated by the brand as compared to other brands in the same category and/or segment;
- From the share prices that the company commands in the market (particularly if the brand name is the same as the corporate name, or customers can easily associate the performance of all the individual brands of the company with the financial performance of the corporate);
- Returns to shareholders;
- Assessing the image of the brand for various parameters that are deemed important;
- Assessing the future earning potential of the brand;

Alternatively, a combination of the above methods can be implemented. Some methods of measuring brand equity involve the formulation of a multiplier by using a combination of the above methods. Such multipliers as brand strength or brand esteem can be determined by combining several variables to ultimately arrive at the brand equity.

Brand equity comprises the following elements:

Brand Awareness

Awareness of the brand name among target customers is the first step in the equity-building process. Awareness essentially means that customers know about the existence of the brand, and recall what categories the brand is in. The lowest level of awareness is when the customer has to be reminded about the existence of the brand name, and its being a part of the category. Thereafter are the stages of aided recall, i.e., upon the mention of the category, the customer can recognize the company's brand from among a list of brands. Then is the stage of unaided recall, wherein a customer mentions the company's brand among a list of brands in the category. The highest level of awareness is when the first brand that the customer can recall upon the mention of the product category is the company's brand. This is called top-of-mind recall.

Awareness of the name acts as an anchor to which everything else about the brand is linked, much like the name of a person acting as an anchor for tying all associations about him. Building awareness involves making the brand visible to the relevant target audience by various promotional methods such as publicity, sponsorships, events, advertising, instigating word-of-mouth promotion.

Brand Associations

Anything that is connected to the customer's memory about the brand is an association. Customers form associations on the basis of quality perceptions, their interactions with employees and the organization, advertisements of the brand, price points at which the brand is sold, product categories that the brand is in, product displays in retail stores, publicity in various media, offerings of competitors, celebrity associations and from what others tell them about the brand. Moreover, this is not an exhaustive list.

Consumers add to brand associations with every interaction they have with the brand. Not all these associations are formed only due to their interactions with the organization. Many associations are formed from what others tell customers about the brand. It is crucial that the company plans each interaction with customers and others (media, shareholders, employees and government) so as to eliminate even the slightest chances of any negative associations that can emanate from any of these sources.

Associations contribute to brand equity, as strong, positive associations induce brand purchases, besides generating good word-of-mouth publicity. Such associations can also help the company in leveraging the brand, creating strong barriers to competitors from gaining entry, giving trade leverages to the company and enabling the company to achieve differential advantage.

Perceived Quality

Perceived quality is also a brand association, though because of its significance, it is accorded a distinct status while studying brand equity. Perceived quality is the perception of the customer about the overall quality of a brand. In assessing quality, the customer takes into consideration the performance of the brand on parameters that are important to him and makes a relative judgment about quality by assessing the competitor's offerings as well. Therefore, quality is a perceptual entity, and consumer judgments about quality vary. Quality perceptions influence pricing decisions of companies. Better quality products can be charged a price premium. Quality is one of the main reasons for consumer preference for a brand in any product category. Thus, superior perceived quality can also be used to position the brand.

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Brand Loyalty

Brand loyalty is said to occur when a customer makes the choice of purchasing one brand from among a set of alternatives consistently over a period. In the traditional sense, brand loyalty was always considered to be related to repetitive purchase behaviour. For some products such as purchasing a house or an automobile, repetitive purchase behaviour may not occur. In these situations, attitudinal brand loyalty, i.e., consumer feelings about the brand that was purchased, and their inclination to recommend the brand to others are measured. Brand loyalty is usually rated as the most important indicator of brand equity.

The reason for this is that loyalty develops post purchase and indicates a consistent patronage of a customer over a long period whereas all other elements of brand equity may or may not translate into purchases.

Brand loyal customers form the bedrock of a company. Higher loyalty levels lead to a decrease in marketing expenditure as such customers act as positive advocates for the brand. Besides, a company can introduce more products in its portfolio that are aimed at the same customers at less expenditure. It also acts as a potential barrier to entry for new players and gives time to the company to respond to competitive threats. The bargaining power of the company with the trade channel members is stronger when there are many loyal customers who would only buy the company's brand. In this case, the retailer merely distributes the manufacturer's products.

Other Proprietary Brand Assets

Proprietary assets include patents, trademarks and channel relationships. These assets are valuable as they prevent competitors from attacking the company, and prevent the erosion of competitive advantages and loyal customer base. Various activities of the firm determine brand equity. These activities may enhance or diminish the brand value. Activities that are synchronous with the overall vision for the brand enhance equity, and any activity that goes against this overall vision reduces brand equity.

6.6 SUMMING UP

- The term 'Brand' originated when used by the Old Norse brand which meant 'to burn.' This referred to the practice of producers burning their mark to the products. In the 1200s, Italians used brands, first, as a form of watermarks on paper.
- It can be said that a brand can take many forms, which could be the attributes like name, sign, colour combination or symbol and slogan. Like Coca Cola is the name for the particular company. Here the word *branding* would tell the brand of the beverage. The word brand looks at identity and targets the personality of a product, company or service. Thus, it is also a good or bad perception that the customers have about you.
- As mass production started and articles were transported from one location to another, the manufacturing units started marking their logos on the containers for identification. This gradually evolved into the use of trademarks.

Check Your Progress

5. What is brand image?
6. What is brand identity?
7. Mention the six sources of brand image.
8. What is brand association?

NOTES

- Brand management has become an important part of the corporate world today. The competition is fierce and the price competition is intense. Considering the global environment one could understand how it could affect the marketing communication planning decision.
- A unique trademark term offers the organization a stage to differentiate itself and increase awareness to bring in sales. Companies can understand which attributes attract customers and consequently know their brands strengths and weaknesses from the consumers' perspective and accordingly be more effective in their marketing strategies.
- Product constancy is a situation where the customer doubts buying and using items of a different label which he does not have faith in. The success of any business is based on its ability to attract, acquire and retain customers. In order to move their brands from consumers 'awareness set' to 'choice set' (Kotler, 1999), companies apply marketing and branding techniques.
- Brand image is the current view of the customers about a brand. It can be defined as a unique bundle of associations within the minds of target customers. It signifies what the brand currently stands for. It is a set of beliefs held about a specific brand. Successful brands try to hold on to their origin and heritage and to remain faithful to its historic positioning or founding or designer which is an effective strategy to maintain the brand's authenticity.
- An organization that does not have a logo fails to make an impact on the target audiences. To make consumers feel the presence of the brand it has to be seen and heard by them. Logos help build the bridge between target audiences and the organization making it the first point of contact with the target group.
- For a new brand to enter into a different market it becomes very important to raise brand awareness among its target group. This can be achieved by various means of promotions. The original idea of creating brands was to help consumers draw a comparison between a firm's brands from that of its competitors.
- A company messages its individuality to the customers during its brand naming and marketing policies. A product is exclusive due to its trademark. Brand individuality involves the following essentials: brand vision, brand culture, arrangement, character, associations and appearance.
- There is a difference among product individuality and product impression. Where the product impression is the personal opinion, the product individuality is the objective perspective which is imprinted on the psyche of the customer by the understanding of all the business built product demonstration. This together develops the product individuality of the brands.
- The brand personality of the products defines the characteristics associated with the brand. These characteristics help not only in the positioning of the brand in the market but also in brand association and perceiving the quality of the brand.
- There is a valid association amid the dream value of a product and the brand awareness along with the purchasing behaviour. Dream values of any product can be explained as the desire of owning that brand.

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6.7 KEY TERMS

- **Brand image:** It is the current view of the customers about a brand.
- **Product constancy:** It is a situation where the customer doubts buying and using items of a different label which he does not have faith in.
- **Branding:** It means establishing a brand in relation to its name, symbol, logo, communication, and design etc.
- **Product personality:** It defines the characteristics associated with the brand.
- **Product:** They are a set of offerings which expand the consumer's choice.
- **Logo:** A pictorial symbol which distinguishes the trademark.

6.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. A brand can take many forms, in the form of attributes like name, sign, colour combination or symbol and slogan.
2. One important difference is that whereas a product can be copied by a competitor, the brand qualities are unique.
3. Building good brand equity could help in generating a greater projected income and an increased cash flow by increasing market share.
4. The portfolio solution creates a brand energizer—a promotion technique, a new product, or a sponsorship programme that could enhance and energize the given brand.
5. Brand image is related to the perception that the customer has about the brand. When a set of beliefs about a specific brand are held together, it is termed as brand image.
6. Brand identity originates from the company, i.e., a company is responsible for creating a differentiated product with unique features. It is how a company seeks to identify itself.
7. The six sources of brand image are: physique, personality, culture, relationship, reflection and self-image.
8. Anything that is connected to the customer's memory about the brand is an association. Customers form associations on the basis of quality perceptions, their interactions with employees and the organization, advertisements of the brand, price points at which the brand is sold, product categories that the brand is in, product displays in retail stores, publicity in various media, offerings of competitors, celebrity associations and from what others tell them about the brand.

6.9 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the various roles and functions of a brand?
2. Compare a product and a brand.

3. Write a short note on brand attributes.
4. Give a brief explanation on brand equity.
5. Explain the importance of a logo.
6. Explain brand identity with examples.
7. Write a short note on product personality.
8. State the instances of characteristics for the various kinds of product personalities.
9. State the elements of brand personality.

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Long-Answer Questions

1. Explain in detail the devising of a branding strategy.
2. Discuss the five main components to deliberate over handling a trademark portfolio.
3. Explain in detail the brand identity and customer constancy.
4. Explain at length the sources of brand image.
5. Differentiate between brand identity and brand image.
6. Explain the concept of brand loyalty. How can it be maintained?

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UNIT 7 DIRECT MARKETING

NOTES

Structure

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7.0 INTRODUCTION

Direct marketing (also known as one-to-one marketing) is a marketing technique used to convey commercial messages to individual consumers. It is different from traditional marketing in a way that it does not place its messages on mass media such as television and newspapers. Secondly, under direct marketing, efforts are made to directly acquire and retain customers and middlemen are taken out of the picture. Direct marketing measures the response of customers through interactive communication by the distribution of products, information and promotional benefits.

The various tools used for direct marketing include brochures, leaflets, print ads, letters, and catalogues and the actual product delivered during one-to-one interaction. A few people consider direct marketing similar to direct mail, but one thing should be remembered that direct marketing also involves direct-response print advertising, telephone marketing (telemarketing), direct-response advertising and infomercials on television, FM channels, and electronic media such as email, fax, and the World Wide Web (WWW). The objective of direct marketing is to get a direct feedback from the customer, which may take the following forms:

- A request for a salesman's visit
- A request for catalogue or sales literature
- A request for product demonstration
- Purchase over telephone or by post (mail) or via the internet

In recent times, direct marketing tools also include promotional campaigns such as trade shows, corporate events, residential marketing, business-to-business telesales, and direct mail distribution. Though these promotional events may not capture existing media's curiosity, they are positive, elastic, individual and offer expected results that are important for projects. The most prominent examples of direct marketing tools are:

i. Direct mail
ii. Telemarketing
iii. Catalogue marketing
iv. Internet marketing

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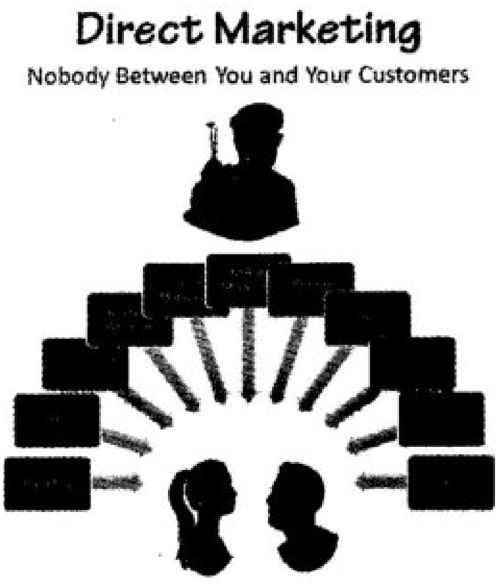
v. E-mail marketing
vi. Mobile marketing
vii. Trade shows/seminars/exhibits
viii. Direct response television/radio marketing
ix. Kiosk marketing
x. Door-to-door selling
xi. Interactive marketing
xii. Relationship marketing



7.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept and significance of direct marketing
- Describe the various techniques of reaching customers directly
- Explain the various types of middlemen and their respective roles
- Discuss the role of salesman in modern distribution networks

7.2 GROWTH OF DIRECT MARKETING

Direct marketing is a key tool of promotional mix in modern business and has assumed immense importance in firms' marketing strategies. Direct marketing includes communication with one or more prospective buyers for the purpose of making sales. Direct marketing plays a very important role in persuading buyers to purchase a product. Direct marketing techniques have experienced growth due to following reasons:

1. Direct marketing is a two-way rather than one way communication. Under modern solution-centred salesmanship, a customer's needs are viewed as problems and problems cannot be properly solved until they are defined. It is

said that if the problem of the prospect is well told, the goods are more than half sold and direct marketing is panacea for all consumer problems and issues or worries.

2. Companies have availed direct marketing techniques like response advertising and telemarketing to increase their sales due to cost of personal selling.
3. Market breakdown has narrowed down the scope of marketing techniques. Increased disintegration has led to the emergence of segments that are smaller in size. Such consumer segments have finer, distinct sets of needs which may not be fulfilled by the existing offerings of the marketer. Therefore, the potential of direct marketing techniques to target discrete consumer groups is increasing in significance.
4. Owing to developments in information technology and business analytical tools, sophisticated tools are easily available that help companies to classify and understand customers better. By using geo-demographic analysis, households can be categorized into neighbourhood types. For instance, neighbourhoods of modern private housing or private houses or single people can be identified. Based on these assessments of product usage, media usage and lifestyle of a particular section can be forecasted.
5. The way consumers' needs and wants are changing and new products are coming into the market due to fast pace of technological advancements, direct marketing has become the essence of the core marketing techniques. It is helpful to keep customers informed about the changes in the product line.
6. To provide advice and assistance to middlemen whenever needed.
7. To provide technical advice and assistance to customers.
8. To seek and acquire new customers.
9. To serve the existing customers in a better way so that they are not easily influenced by the competitor's marketing efforts and attractions.
10. Today there are large amounts of transaction data available with retailers and internet marketing companies that can be used to target individual customers more accurately.
11. Variety of goods and variety within the goods is always considered good for the customers and society as a whole. But sometimes, due to variety of goods and limited knowledge on the part of the customer, he/she finds it difficult to select a particular product to satisfy some inherent need. In this case, direct marketing assists customers in selecting the product that exactly meets one's specifications.

Therefore, direct marketing is direct personal communication between carefully selected prospective customers or companies and sellers to reach a market. To catch a customer's attention, direct marketing campaigns should not only offer something extra but advertise their message in such a way so as to get the desired customer response. It involves all the marketing efforts to locate, get in touch with, offer, and make incentive-based information accessible to the customers. Direct marketing techniques are designed to obtain an instant reaction and also to encourage long-lasting relationships. The immediate response could come in the shape of a request, demo, an order, or a visit to a store or other place of business for purchase of a product. The prominent direct marketing techniques are summarized as follows:

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1. Direct mail

Direct mail marketing, as the name suggests, is a form of marketing where advertising material is sent directly to home and business addresses. The most common ways of direct mail marketing include door-to-door solicitations, samples, foldouts, letters, ads, flyers; curb-side stands, infomercials, FAX broadcasting, telephone sales, voice mail marketing, unsolicited emails, and coupon ads in print media. Most of the subject experts and general public feel that direct marketing is a convenient sales method through which advertisers can approach prospective customers directly with their product offerings. Generally, it has been observed that direct marketing tools are being used to inform customers of goods and services rather than to sell them. Direct mail accounts for more than 23 per cent of all direct-marketing media expenditures and 32 per cent of direct-marketing sales.

The key factor that determines the success of direct mail is the quality of the customers in the list supplied by the company itself, rented or purchased. The customer data in these lists go out of date quickly, and it is better to rent them. A customer list can be acquired from magazine subscriptions, catalogues, membership of organizations, transactions at retail counters and internet sites. Customer lifestyle lists are compiled from surveys based on questionnaire administration. The electoral roll is useful when combined with geo-demographic analysis. Business-to-business (B2B) lists can be obtained from trade magazine subscriptions lists, from exhibition lists, and they are also provided by directory producers like Yellow Pages, circulated in Delhi and NCR area. Past observations prove that company's own customers make the most profitable list because of their relationship with the company. This list also contains the name of potential buyers, enquirers, and references. The company maintains the data of customers interests and their purchasing power. These data can prove beneficial in the long run.

For the success of any direct mail programme, following questions should be framed and answered accurately and carefully:

i. Who

a. Who is the target customer?

b. Who are we trying to influence?

ii. What

a. What response is required?

b. What do they want?

iii. Why

a. Why should the target customer ask about our offerings?

b. Why he/she should take interest in our product offerings?

c. Why people are enquiring/not enquiring about our products and services?

iv. Where

a. Where can the target customer be contacted, home or offices?

b. Can we obtain their home or work address?

v. When

a. When is the best time to reach the target customers? Is it office hours, trading hours, weekends or weekdays?

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The inherent features of a direct mail are as follows:

- Response of a customer can be very low as 1 to 2 per cent compared to the cost per hundred people reached using direct mail.
- Direct mail is very effective in the case of collecting donations and charities for political groups, and other non-profit organizations.
- If a customer group is carefully targeted for recurring business, direct mail can prove to be a beneficial tool in the long term.
- Highly structured personalization is possible and the results are directly measurable.
- It is targeted marketing.
- It is well suited for one-to-one communication.
- The quality of the mailing list has great influence on the success of direct mail.
- There is a huge cost of setting up a database.

2. Telemarketing

Telemarketing is a direct marketing communication system where either trained salespeople contact customers by using telecommunication and information technology to inform about company's products and services or sometimes, customers themselves initiate calls to get specific information and place orders. Compared to door-to-door selling, telemarketing communication is economical and simple. Indian experience reveals that six out of hundred find it difficult to resist a telemarketing pitch. Approximately more than thirty people out of one hundred complained of feeling cheated at some point by telemarketing companies. It is more beneficial for business-to-business marketing rather than business-to-consumer markets. In this case, firstly the cost to contact is very less and, secondly, small customers are able to feel their worth to the company. Well-designed telemarketing offers innumerable advantages such as increased information, purchasing convenience and so on. Though initially telemarketing was applauded by one and all, in the recent years it has become monotonous due to excessive telemarketing by real estate and insurance companies, who have annoyed the general public. The result of this annoyance has been an introduction of new privacy laws where telemarketing companies cannot make calls at odd hours. Besides this, telemarketing firms need to ensure that the persons they want to call are not listed in 'Do Not Call' (DNC) or Do Not Disturb (DND) list.

Those obtrusive calls you used to receive at dinner time have been on the wane since the establishment of 'Do Not Call' legislation. It is likely that this medium is not for you but you may want to use telemarketing to contact galleries and other retailers in your distribution chain. Following are certain tips to use telemarketing effectively and prudently:

- Don't call anyone before having appointment or consent in advance to share your products' offerings.
- Don't try to convince for the expensive products unless they suit customer's requirements.
- Select right person to send marketing material.
- Stop conversation if you find it difficult to sell/convince customer.
- Remember it is not the product but the customer that gives you profit.

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(a) Application of telemarketing

As discussed earlier, in telemarketing, a company's executives make calls directly to the targeted consumers and the concerned product or service is briefly described and features are shared. Telemarketing executives sitting at call centres convince customers to sell products and services on behalf of their clients. Telemarketing is multifaceted and can be used in the following areas:

- **Direct selling**

  When the seller decides to come in direct contact with the potential customer instead of waiting for the customer to approach, telemarketing is used to service the account. Outbound telephone calls are made for inquiring about a possibility of buying and can provide customer response. It also does not require face-to-face selling which may lead to sales arguments. This is commonly known as the direct selling method. It is one of the oldest, easiest and cheapest ways of distributing goods. Under this channel, manufacturers sell their goods directly to the consumers. Consumers' as per their requirements, visit the manufacturer's plant, place the order, pay the money and take the product with them. Direct selling is preferable in the case of perishable goods such as milk, bread, butter, fish, eggs, agricultural produce and ice creams. These goods are sold directly to consumers because these goods cannot be stored for long. If these are stored for long, beside the cost element, goods may become unfit or lose their original flavour.

- **Supporting the sales force**

  A telemarketing department shares and contributes in reducing the workload of sales force through communication. Generating leads, inquiries and even completing orders can give the end user an ease and confidence regarding the product. A customer feels secure knowing that they can call back in case of any problem.

- **Generating and screening leads**

  Outbound telemarketing can be used to develop contact with potential customers and then pass on the details to a salesperson for visit. The salesperson can directly approach the potential customer and make the sale. It can be used to screen leads that have been generated by direct mail or advertising efforts. This department also contacts the customers who have already requested further details for the product. Once the purchasing power and intent to buy has been judged, a salesperson is sent for a visit.

- **Crafting and updating marketing database**

  If a company in the directory satisfies the conditions to include them in the data base of potential customers, telemarketing calls may be required to check that the entries in the directory fulfil other conditions.

Guidelines for telemarketing: Telemarketing may seem to be an easy way to convince, attract, and acquire customers but in reality it is full of risks. At any point of time, you may lose your customer forever. Some general rules should be followed when a telemarketer contacts a customer:

- Identify yourself and the company.
- Don't start straightaway, first establish a rapport, win confidence and then start discussing your product with your potential clients.

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- Deliver your sales message and emphasize benefits over features and let the customer decide about the buying of goods and services. Don't emphasize much about buying.
- Listen to objections and worries.
- When customer is convinced and ready to buy then ask for the order, don't hesitate to ask about delivery terms and place of delivery.
- Express thanks on the behalf of your company.

(b) Advantages of telemarketing

Telemarketing has numerous advantages over other means of marketing. The most prominent are as follows:

- Affordable mobile phones and free incoming has enabled telemarketing companies to contact potential customers, anytime, anywhere.
- Growth in the number of mobile users has increased the access to households. Also, the 'toll free' lines usage has reduced the cost of responding by telephone for customers.
- Sophistication of new communication technology has enabled digital networks to allow seamless transfer of calls between organizations.
- Telemarketing, as compared to other means of marketing, is economical and costs lower per contact than a personal visit by a salesperson.
- Telemarketing is less time consuming than door-to-door selling where an executive has to contact each and every person at their doorstep.
- Telephones retain the advantage of two-way communication.

(c) Disadvantages of telemarketing

Telemarketing is a boon for telemarketing firms and outsourcing firms who are marketing for their clients. Though it is less expensive and less time consuming than many other direct marketing methods, telemarketing has the following disadvantages:

- As compared to direct mail or media advertising, it seems to be an expensive affair.
- If telemarketing is done through electronic pre-recorded computer answering techniques, it seems to be cost effective. Otherwise, in case of personal communication, labour costs is very high.
- In telemarketing, you can talk to your customers but cannot see them, similarly customers can listen and respond to telemarketing executive but they cannot see his face. Therefore, it becomes difficult to gauge reactions of the buyer by observing body language, especially facial expressions. Whether he is a serious buyer or not, cannot be ascertained in advance.
- Usually customers don't take the phone calls seriously even if they are interested in the products and really want to buy. Therefore, it is very easy to be uninterested in the product that leads to increasing rejections. Selling over telephone may disturb people because telemarketing executives do know in advance whether it is the right time to talk. Therefore, when people are busy and get a call, they get irritated and object to these unsolicited telephone calls.

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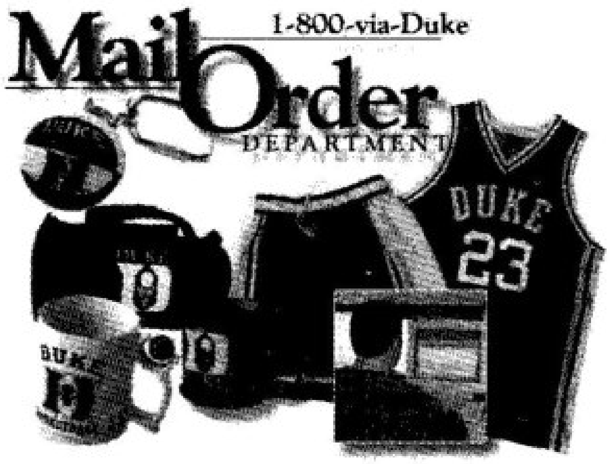
3. Catalogue marketing

Catalogue marketing is a form of direct marketing through print, video, or electronic catalogues that are sent to selected potential customers, distributed in stores, or sent online. Though in India several FMCG companies tried their level best to make it popular but still in India, catalogue marketing did not get much attention. While on the other hand, in Europe, selling goods through catalogue is very common. In the United States, over two-thirds of its adult population order from a catalogue at least once in a year.



Mail-order houses that receive orders for their products from the public through post, mail or e-mail, were considered key innovations in retailing during the late 19th century. This concept of receiving and dispatching the goods through mail was essentially an American concept that proved to be of much importance. The 'wish and order book' lived up to its name for the Americans who used to live in rural settings before the 1920s as they first experienced the emerging national consumer culture through the medium of the mail-order catalogue. The mail-order houses go even beyond the scope of department store in an effort to bring manufacturer and consumer closer together.

In the first half of the 20th century, companies like Aladdin, Sears, Montgomery Wards and others offered mail order homes. For example, Sears (American mid-range chain of international department stores) offered more than 450 designs from 1908 to 1950 and sold almost 80,000 of the homes. In advanced countries like USA, UK, Canada, Germany, and France. 'Retail selling through post' is not uncommon but in India, however, it is gaining popularity only in recent years. Its growth and popularity have been rather slow because of a higher percentage of rural and illiterate population.

Mail order business establishment is a retail business where orders are usually placed by post or telephone and goods are delivered by registered parcel/courier or Value Payable Post (VPP). Under such type of selling arrangement, the manufacturer/ seller of goods advertises his products in the newspaper, magazines, televisions, website, and invites consumers to place the order or request for catalogues and price lists from the seller. These days, sellers provide printed order forms attached with the advertisement. Further, a seller can even directly approach the prospects through mailing list prepared by the selling staff. The names and addresses of the prospective buyers are collected from telephone directories, year book, list of vehicle owners, list of club members, list of lottery winners and many other sources. The prospects are then approached with price lists, catalogues, circulars, leaflets, pamphlets, samples, and booklets usually through post, providing all necessary information and selling terms and conditions. Therefore, under this method of retail selling, a customer has two ways to purchase the seller's goods, (a) Through direct offers received from sellers and, (b) By filling up the order form inserted in an advertisement. All selling is done through mail and orders are dispatched through VPP. Thus, post offices play a significant role in execution of such business deals. This is the reason that this method of selling alternatively is known as 'shopping by post.' Figure 7.1 shows an example of selling through catalogues.

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Fig. 7.1 Selling through Catalogues

Sears, a US-based retailer offers everything from girdles to guitars, baby chicks to barns through its bulky mail-order catalogue. These Sears barn kits have do-it-yourself plans, doors, glass windows, and pre-cut fir, hemlock, and cypress boards that are numbered to make ordering easy. As this ad proclaimed, 'Just as the sickle has been replaced successively by the cradle, the self rake and the binder, so the old time, wasteful, not ready cut system of construction is being replaced by our modern and economical 'Honour Bilt' Already Cut buildings.'

(a) Advantages of catalogue marketing

Following are the various advantages of catalogue marketing:

- Catalogue marketing ensures that only interested customers respond to the company's offer, or visit their retail outlets.
- Catalogues can be useful for new and small firms as the cost of setting up catalogue marketing and selling infrastructure is very less.
- If the customer is planning to buy something, he would like to preserve that catalogue and whenever he will feel like buying that thing, he will place an order through that catalogue. Therefore, the catalogue acts as a constant

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communication link between the company and the consumer, with a one-time cost to the company.

- The catalogue provides a prospective customer with some idea about the company's offerings to stimulate interest in its products.

(b) Disadvantages of catalogues marketing

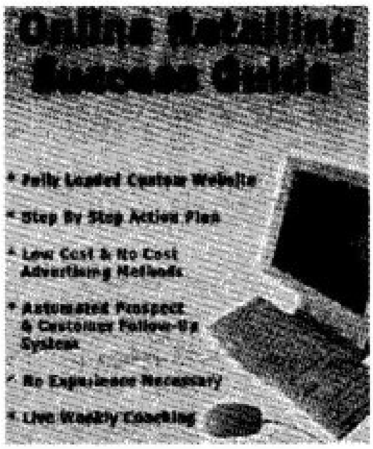
The various disadvantages of catalogue marketing:

- Catalogues are prone to frequent changes with respect to prices, new offerings, and withdrawal of products by the company.
- Competitors can easily copy the products and sales offers therefore, the matter of being different is most of the times not achieved.
- Making a catalogue is an expensive affair.
- Sending and providing catalogue is the first step in selling the product but there is no guarantee of its timely delivery.

4. Internet marketing

Internet retailing, which is also known as electronic retailing, e-tailing, online-retailing, virtual retailing or e-retailing is the sale of goods/services through electronic media. This electronic media, as we all know, is Internet (World Wide Web). But these days due to revolution in electronic communications, besides internet, several other media like digital television, web-enabled mobile telephones (WAP), and tele-conferencing devices are also operational. The main advantage of marketing through the Internet is that it does not require any direct human interaction. Besides this, Internet marketing offers easy accessibility and lower cost. In short, this form of marketing allows the customers to evaluate and purchase goods and services without going to any physical retail store.

Today, most of the large retailers have their own websites, which helps the retailer to reach out to the customers around the globe without time constraint. Providing retail business offers the retailer not only a modern way of getting business but also cost effectiveness. This one time small investment in creating and registering the website on World Wide Web is accessible to everyone irrespective of location, time zone, income level or computer system. The internet also provides the fuel and information about the goods and services through digital images, visual and audio effects. Electronic brochures provide three-dimensional aspects of the goods and services which a shopper can explore any time before taking a decision to buy.



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One of the well-known examples is Amazonbooks.com. Amazon is the largest and the most accessible bookshop in the world. According to Amazon sources, today, 30 per cent of its sales come from online retailing only. Dell, a well-known computer company, claims to sell more than $1 million of its personal computers everyday on the internet. The distinguishing feature of these retailers is that they sell their products through internet and as such do not have any physical store. Under retailing through the Internet concept, the customer visits a website of the store, checks the shown items with regard to size, colour and related features. Convinced with the quality of some items, the customer fills up the form and after entering credit/debit card details and postal address completes the transaction. Once the transaction is complete, the goods are delivered directly to the customer's doorstep.

5. E-mail marketing

E-mail marketing is nothing but an extension of direct mail. Direct mail is subject to postage costs but on the other hand email marketing is free and very fast. Within a fraction of a second, any kind of information is sent from one corner of the world to the other. The main dilemma with email marketing is to cross the line where it becomes spam. When somebody gets junk mail or mail from unknowns like promotional mails, then it automatically goes into the trash by email filter options. Therefore, it is advised to email marketing firms that before sending any promotional email make certain that they have permission from the targets. Therefore, before sending an email message, inform the target that they should add the concerned email address in their address book to ensure timely delivery of the mail, otherwise it may go to Junk Mail folder and stay unread.

6. Mobile marketing

With the large number of smartphone users and their connectivity to the Internet, a new industry has started and is referred to as mobile marketing. Now people need not go to an Internet café or open their email account on their personal computers or laptops. All emails can be received on mobile phones. One can chat online, talk to people, send instant pictures, videos, and MMSs. Therefore, a new way of marketing has emerged and is spreading very fast. According to the Marketing Association has defined,

> *'Mobile Marketing is a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network'.*

But it is imperative for mobile marketers that they should have permission to communicate to its audience in a direct manner. Some prominent applications for mobile marketing are as follows:

- Creating and offering coupons
- Shopping or product purchase
- Announce contests and sweepstakes
- Announce location-based promotions and services
- Aware of entertainment applications such as games, wallpapers, videos
- Inform about special sales or weekends offers
- Inform customers about upcoming events and details of such events

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7. Tradeshows/seminars exhibits

Trade shows like India International Trade Fair (IITF) at Pragati Maidan in Delhi, and Surajkund Fair in Faridabad (Haryana) are a great place to introduce, market, or promote goods and services. The main features of such a fair is that the public footfall is exceptional and always above expectations of the organizers. In IITF where nearly a million people visit on weekends, one can expect the mileage of promotional efforts if done in the right way. These are also the right places to interact with new customers and spend a little time telling them about your products and services. Though tradeshows, seminars, conferences, symposiums, and exhibits are right places to market goods and services, it has been observed that the time and effort marketers put in organizing and running their stalls in such shows is really appreciable. But they forget to select quality marketing staff for such trade shows and in spite of good public response; there is only a slight increase in their revenues. Sometimes, firms participating in trade shows are not able to cover their renting cost out of the trade fairs. Therefore, make certain that you select appropriate marketing staff (permanent and/or temporary). Following things also need to remember while participating in trade shows:

- A well-prepared colourful banner showing the name, address and brand of your company
- A sign-up sheet to collect the names, contacts, email addresses, and queries of visitors
- Pamphlets, brochures, fliers, or other promotional materials
- Business cards of your company
- Small gifts such as calendars, key-rings, pens and so on (If affordable)

8. Direct response television/radio marketing

Under this form of marketing, direct response marketers place their advertisements in various media like television, and on FM radio channels. There they show/describe the various applications of their goods and also invite people who share their experience about company's products and services. The theme is designed in such a way that it attracts/lures people to enquire/purchase displayed goods and services. The theme is so well designed and presented that people start thinking about the benefits enjoyed by the product users. As discussed earlier, direct response marketing can be done through television, print media (such as magazines, trade journals, newspapers) and FM radio channels. The customers are requested to respond to the advertisement by contacting the company. There are various reasons for the popularity of direct response marketing. The ones prominent among them are as follows:

- Direct response marketing is an essential tool to fix appointments with company's executives that further helps in understanding the customer and convincing the customer.
- In very small period of time, a large number of orders can be sought. Products can be delivered (for instance, massage oils, height increasing pills, weight reducing tablets), or they can be mailed to the customer (for instance, magazine subscriptions).
- It is useful to invite further queries and making customers comfortable before buying the products, generally by using toll-free numbers.

- Sales executives and marketing people can be asked to follow-up with those customers who have initiated queries and samples.
- The most widely used formats of direct response marketing are teleshopping networks and infomercials (that describe/provide detailed information about products).

It has been observed that for small and mid-sized companies, direct response marketing proved to be the only sensible option because of its affordability and promptness of results when compared with catalogue marketing, direct mailers or even telemarketing. Some direct marketing experts opine that it is expensive and so, not suitable for small concerns but in recent years, the popularity of teleshopping shows on radios and televisions have again given rise to direct response shows and telecasts.

9. Kiosk marketing

The kiosk is a self-supporting, interactive, electronic computer terminal that displays goods and services on a video screen and permits the viewer to make selections. It offers touch screen to consumers. By simply one touch of the screen, it shows video clips, presentations, and product details immediately on screen or on an attached projector or plasma screen. In malls, video kiosk forms the centrepiece of attraction. Some retailers use video kiosks to enhance the customer service level while other use kiosks to take order from customers, complete transactions, and arrange for goods to be delivered at their doorstep. Video kiosks are used at a large scale where there is shortage of space and retailer is not able to display entire product range. Kiosks can be attached to retailers' computer networks or against existing databases or websites.

These kiosks are versatile and adapt any software or application on the Internet. Technology like computers have helped businesses to have a universal system to communicate with customers, partners and employees. Adaptable to any setting, kiosks are mostly found and used in public areas such as lobbies, retail stores, warehouses, entertainment venues, trade shows, museums and colleges.

The data needed to be displayed on a kiosk are stored on a company's website and then the two are linked together. This helps in providing controlled access. Another way is to store the web data on the kiosk's hard drive and run it to provide the similar result. Advanced kiosks can even display full-motion videos and other large applications.

Kiosks are so technologically sound and user friendly that it can help the end user to enter a public utility (electricity/water) bill account number in order to make the payment online (electronically) or collect cash in exchange for merchandise. Customized components such as coin hoppers, bill acceptors, card readers and thermal printers enable kiosks to meet the owner's specialized needs.

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Video Kiosks

A video kiosk commonly known as all-in-one system, is a self-contained unit that combines software and hardware including a touch screen monitor and computer. Accessories such as credit card reader, printer, and Internet connection are used to promote the available goods and services on self service basis.

Some **video kiosks** provide a free of charge, informational public service, while others serve business purpose. Computer keyboards, Touch screens, trackballs, and push buttons are all usual input devices for video kiosk.

Sometimes **kiosks** resemble telephone booths, but also are used while sitting on a chair or bench. Video kiosks are usually placed in high traffic areas such as airports, hotel lobbies, conference centres, insurance offices or near central parks.

Today's kiosks are small in size, sleeker, light weight and technically advanced than past.

Benefits of having video kiosks in a retail firm

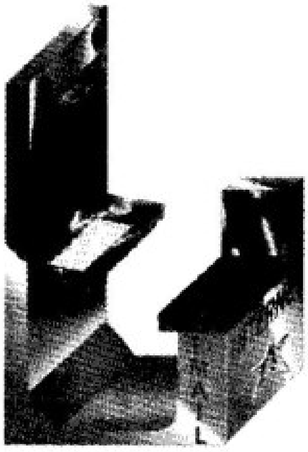
- Anytime anywhere information providers
- Cost-saving device
- Customer savvy
- Self-service device/terminal
- Convenient access to products and services

Types of Kiosks

In India, kiosks are still in a nascent stage. But in developed countries like USA, kiosks are being used for several decades. It is estimated that only in USA more than 13 million kiosk terminals are in existence. The major retailers using such kiosks are Wal-Mart, Northwest Airlines, Future Shop, Jet Blue Airways, GTAA, and The Home Depot. Globally these types of kiosks are used to serve varied purposes.

(i) Building directory and way finding kiosk
(ii) Digital menu board
(iii) Digital order stations
(iv) Financial services kiosk
(v) Instant print stations
(vi) Internet kiosk
(vii) Kiosk manufacturing industry
(viii) Kiosk reliability
(ix) Movie ticket kiosk
(x) Photo kiosk
(xi) POS-related kiosks
(xii) Tele kiosk
(xiii) Ticketing kiosk
(xiv) Vending kiosk
(xv) Visitor Management and Security kiosk

A view of Internet Kiosk



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The usage of kiosks is increasing in most of the retailing formats. Some companies make use of kiosks as a way to market their products or services, while some companies use kiosks for not the purpose of selling something but to educate and inform customers about their product offerings. These days some leading service providers such as airlines, banks, cellular companies use kiosks to rate their service level. Sometimes, customers don't come forward to complain or raise objections about a company's poor offerings; in that case kiosks have been proved to be very useful because the identity of a customer is kept confidential.

10. Door-to-Door selling

Door-to-door selling is an interactive technique where a salesperson walks from one house to another trying to sell a product or service to the general public. Manufacturers using this technique employ a number of salesmen and train them. These salesmen approach the prospective buyers and try to persuade them by demonstration (if feasible) or through canvassing. The products offered under this method include cleaning supplies, toiletries, cooking utensils, cosmetics, magazine subscriptions, and home

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improvement products. Door-to-door selling is usually conducted in the afternoon hours, to target the potential customers, (mostly housewives) at home. Home improvement products like roofs, siding, new replacement windows, and decorative stone are products sold under this method though can be purchased at large discount stores. In country like India and China where most of the population still resides in rural parts of the countries, this method is still in existence and being practised widely by not only the small companies but also the MNCs in both rural and urban areas. But in the western world, it has seen a decline in recent years.

11. Interactive marketing

The term 'interactive marketing' was coined by John Deighton at Harvard University, who says that interactive marketing is a form of marketing where we put ourselves in consumers' shoes. We listen carefully to our customers. We remember what customers want from us. What are his preferences? We even remind him of his preferences, past orders, instructions, when he approaches us the second time. Therefore, we serve him in the same way he wants us to treat him and has told us. Interactive marketing is not identical with online or internet marketing though interactive marketing processes are assisted by information technology tools and applications. The capability to remember what the customer has briefed to us is made possible if we preserve his preferences/instructions for a long time and are accessible at the click of the mouse. This is possible when we are online and use the speed of the Internet. Amazon.com is one of the good examples of the use of interactive marketing where each and every piece of information is recorded and kept safely. It asks for customers preferences and displays the list that exactly matches their requirements. It also shows the purchases made by the customers in the past.

Features

- Audiovisual tools like videos and webinars can be used successfully to share the product offerings of your company.
- Interactive marketing is a form of one-to-one marketing.
- It is also event-based marketing.
- It is based on the philosophy that customer comes first, sale comes later.
- It is customer centric.
- It is easier to get target market and broad audience by merely browsing the Internet.
- It is an economical and effective way to market your products online.
- It is from monologue to dialogue.
- It is from push to pull.
- It is two to twelve times effective than traditional form of marketing.
- It reacts and changes based on consumers' preferences.
- Promotional campaigns if done on social media like Twitter and Face book help marketers to get the instant feedback from the prospective customers.
- Through interactive advertising, it is easier to monitor customer requirements, behaviour patterns and needs.

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12. Relationship marketing

Today customers are smart and know what they want. Retailers cannot fool them easily. They are tough critics, selective and practical thinkers. Their purchasing power is good and at the same time, they are ready to spend rather than save. They are loyal till the retailer understands them and provides value for their money. Loyal customers usually buy more, consume less time and are less price-sensitive and share their retailing experience with others. Therefore, retailers have realized that for making customers loyal to them, they need to become loyal to the customer, as customers are the lifeline of the retail business in the real sense.

Relationship marketing (RM) commonly called customer relationship marketing (CRM) is a business strategy built around the concept of being customer centric. CRM values its loyal and old customers and focuses on maintaining them for a long term gain. Direct marketing, however, targets new clients by demographics based upon prospective client lists. Globally, many enterprises have derived great benefit from or customer relationship marketing showing dramatic increase in revenue, higher rates of customer satisfaction and significant savings in operating costs.

Information and Communication Technology (ICT) plays a vital role in carrying out CRM. Through the use of CRM software packages, companies can offer excellent real-time customer service by focusing on meeting the individual needs of each valued customer. The practice of relationship marketing has been promoted by several generations of management software that allow tracking and analysing of each customer's preferences, activities, tastes, likes, dislikes and complaints. For example, a fast food supplier maintaining a database of how often customers choose him over others, is in a comfortable position to develop one-to-one marketing offers and product benefits. To fully comprehend and develop a competitive advantage plan, sales people must build a customer database and data mining applications to detect trends, segments, and individual customer needs. CRM skills require a better understanding of the environment in which they are operating and allow the company to gain advantage over competitors.

(a) Essentials of relationship marketing

Before implementing interactive marketing, four basic essentials should be considered:

(i) Customer base (target market)
(ii) Level of customer service
(iii) Customer satisfaction
(iv) Customer loyalty

These are explained as follows:

(i) Customer base (target market): Since customers' habits, liking, disliking tend to change frequently with the passage of time, marketers must regularly analyse their customer base/target market in terms of changing trends and attitude of loyal customers towards the store.

In India, teenage population is more, death rate is declining due to efficient medical facilities, joint families are breaking into nuclear families, the middle class is fast growing, people from rural areas are migrating to towns and cities, and middle class income is increasing year after year. Thus, the market structure is changing, per capita income is high and market segments are expanding.

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People instead of buying from local '*kirana*' stores, prefer visiting a mall or super bazaar where they can get variety of goods under one roof in varied brands. Therefore, marketers besides attracting and concentrating on new customers must take care of existing ones and loyal customers, due to low acquisition costs. Further, a marketer's desire mix of old versus new customers depends on the firm's position in its lifecycle, amount of resources, objectives and its policy towards meeting competition. If a retail firm has growth as its main objective, then besides concentrating on existing and loyal customers, a marketer must focus on new customers too.

(ii) **Customer service**: It is the sum total of all the marketing activities that enhance the value customers receive when they shop and buy merchandise. For relationship marketing to work, marketers must build and maintain a distinctive image among consumers. This image is created and sustained by efficient customer service that strongly affects the total retail experience. Customer service is the level of service that customers expect to receive from any marketer against their payments. Therefore, a marketer should develop a comprehensive customer level strategy that answers what all services are expected and what all services are significant for him. The philosophy behind developing a customer service strategy is that the expected customer service is an essential part of a retail strategy and therefore, it must be provided without any question.

(iii) **Customer satisfaction**: Successful marketers believe that customer satisfaction should be the main motto of each retail business. Customer satisfaction persists when the value offered and customer service provided meet with each other or exceed customers' expectations. In case the expectations and level of customer satisfaction do not move hand in hand, there are chances of consumer complaints or dissatisfaction. Customers want proper value for their money and if their expectations are not met, they tend to share their unhappy experience/s with their friends and family. Unsatisfied customers take away three to five customers but conversely do not make any new customer in case he is satisfied. Therefore, marketers should consider the following:

- Customer's expectations continuously increase with the passage of time.
- Meaning of 'customer satisfaction' for a marketer.
- Usually customers change their place of shopping in case they are unsatisfied rather than informing and complaining.
- Review of customer satisfaction programs is essential for building long term relationships with them.
- Don't buy merchandise for your store according to what you like, but put yourself in customer's shoes and understand their perspective.

Typical Customer Services

Essentials	Miscellaneous
• Information/education	Try rooms
• Credit	Rest rooms
• Delivery	Parking
• After sales service	Water
• Packaging	Trolleys
• Handling complaints	Home delivery
• Trial purchases	Babysitting
• Special offers for regular customers	Caring for seniors
• Flexible store hours	
• Ease of bill ordering	

(iv) **Customer loyalty:** The objective of the customer loyalty programme is to reward the best consumers in terms of their purchases, faith and staying intent. It is the base for developing long-term relationships with the customers. Customer loyalty programmes not only reward loyal and best customers but also tend to find defection (the point of dissatisfaction). By studying and analysing such defections, a marketer can have the best picture of the strengths and weaknesses of their loyalty programmes.

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Six building and sustaining relationship strategies

- Communicate frequently with channel partners
- Reward loyal members of the distribution chain/customers
- Know the importance of two-way communication
- Payment on time
- Equitable profit distribution
- Trust, fairness and reliability in relations

7.3 E-MARKETING

Placing advertisement and promotion online is a form of Internet marketing. It is also known as online marketing or e-marketing. With the expansion and acceptability of trade and commerce on the Internet, newer methods of marketing, selling and payment are developing. The digital world gives an advantage to the companies to acknowledge the needs of the customers and customize and deliver the product accordingly through advertising and promotion. Success on the web depends upon many factors, such as, personalized automated services offer businesses the potential to increase revenues, lower costs and establish a customer and partner relationship, offer access to local and international markets and wider choice of products and services.

The primary objective of IT-based retail applications is to make the most of returns with the minimum investments with the help of a user-friendly interface that allows the customer to interact openly using technology like computers on different software platforms. Internet is the channel to communicate with customers and partners. It is fast, reliable and universally acceptable. WWW is a platform for IT-based retail applications that focus on the processes and transactions that support online buying and selling. Due to fall in Internet and personal computer prices, marketing products and services through internet is increasing at an unprecedented rate. The main advantage of e-marketing is that is uses the internet and World Wide Web (WWW) to post marketing messages to broad audience. Typical examples of e-marketing include contextual advertisements on:

- Advertising networks
- Banner ads
- Blogs
- Cross-platform ads
- Dynamic banner ads
- E-mail marketing
- Interstitial ads
- Online classified advertising
- Rich media advertisement

Check Your Progress

1. Define telemarketing.
2. What is a 'DNC' list?
3. What is direct selling?
4. What is the role of telemarketing in sales?
5. List five types of kiosks.

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- Search engines
- Social network advertising

E-marketing can be a powerful marketing tool if used properly. It is a fact that today business users receive more e-mail messages as compared to when there were only traditional contacts such as telephone, and voice-mail messages. Marketing goods and services through online methods is affordable, faster and more effective to market than any other direct mail method. E-marketing is the direct marketing of a promotional or commercial message to a selected group of customers with the use of email. To make it simpler, in the world of marketing, each email sent to a prospective customer is known as e-marketing. It involves the use of emails for sending advertisements, business proposals, donations, and so on. E-marketing is also used to build long lasting relationships with customers, brand building, and trust. For e-marketing, marketers use either the cold lists or present customer database. As per industry estimates, American companies spent nearly $2 billion on email marketing alone and the figure is expected to reach $3 billion by 2015. E-marketing can take various forms over Internet but broadly the term is used for:

- Sending emails for the purpose of attracting new customers or motivating the existing ones to purchase/book something instantly.
- Sending emails for the purpose of retaining customers through frequent reminders and latest promotional offers.
- Adding promotional ads to the emails sent by other companies to their customers.

7.3.1 Guidelines for E-Marketing

If the marketers are doing marketing through emails, the following rules/best practices should be remembered:

1. Appropriate subject line

Before sending any promotional email, marketers should carefully consider the subject line. It has been observed that in practice, marketers are sending emails with misleading subject lines so that customers should open it instead of deleting without reading it. Though by misleading subject lines a marketer may confuse customers initially to open it but today customers are so smart that just after the first glance at the email text, they will delete it immediately. Therefore, it is suggested that marketers should use a subject line as informative as possible that should encourage the reader to open and read it. Therefore, the subject line neither should be too short nor too long. It should not be in all capital letters, or contain several exclamation marks or unnecessary symbols. Try to avoid misleading/deceptive words like 'absolutely free,' 'Big Offer,' 'free,' 'guaranteed' or 'approved' within your subject line.

2. Be creative

It is significant to know in advance what sort of email message is best suited for your target group of customers. It has been observed that most of the customers prefer HTML-based emails. Knotty/complicated emails may not reach some users due to firewalls, or individual's Internet service provider. Text however is not blocked often and entirely supported by all the users of the Internet; it is also not as appealing.

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3. Opt-out option

Marketers should remember that with each email, an opt-out option should be given to readers so that if they don't want to receive such mails, it can be honoured. And marketers should update their database and should not send such mails in future to the customer. The opt-out option should be active at least up to one month of sending such an email so that if somebody was not able to open his mail box, should also be able to avail the facility/option of opt-out. After receiving such requests, marketers should take it strictly and ensure that no message should be sent to that address in future though they can take 3–4 days time to update their database.

4. Mention the sender's details

Before sending any mail, make certain that it is addressed to the correct name. The sender's name must be clear and without any error. Remember people may mind when they see a wrong name, address, and/or surname. Therefore marketers should ensure that each email contains valid name and physical address of the sender.

5. Mention the theme

If in an email, marketers are sending any type of advertisement, then they should clearly mention within the subject that it is an advertisement. Let the customers decide if they want to read it or not.

6. Honour suppression list

If marketers have sent any mail in the past, then obviously there will be a 'suppression list' of the recipients who requested not to send such mails in future to that particular mailing address. Therefore, marketers should compare this list with the present list so that those non-interested people should not get those mails again. Make certain that their names have been removed and no one is left.

7. Maintain frequency

Remember that frequency attracts people and people even wait for the mails. It simply means that being a marketer; you should stick to a schedule and follow it strictly whether it is once in a month, once in a week or twice in a day. The more consistent you are in sending emails, more are the chances that your customers will wait for them or become familiar to receiving them.

8. Maintaining customers' Data

One of the disadvantages of e-marketing is the poor collection of consumers' data. This results in a high number of complaints that creates difficulty in approaching customers and reaching the exact target market becomes nearly impossible. Therefore, appropriate precaution should be taken while collecting consumers' details over phone or personally.

7.3.2 Ethical issues in e-marketing

The present economy is morphing faster than ever. The way the usage of e-marketing is increasing, there is a need for enforcing ethical issues. The ethics are basically cultural and professional values that describe what is right and what is wrong in the given circumstances. With the adoption of information technology tools in the business, the use of Internet is growing in multiple ways. The things written and published

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online will remain intact here forever. With the introduction and popularity of wireless enabled cell phones, internet is affecting human lives more than ever before. The issue of privacy and security will become dominant with the spread of e-business. It is becoming difficult to understand who is reliable over Internet and who you cannot trust; facilitate and promote e-communication by means of secure information system and by reliable electronic records.

When a product is purchased or a service is availed over the internet and found to be defective/insufficient, liability becomes an issue. Who is liable and for what reason? If a product turns out to be the wrong solution which causes injury to the others, the resulting damage often leads to litigation. Each entity involved in the process (e-merchant, shipper, manufacturer) is potentially vulnerable to legal action. Tort law and product liability are the major areas of concern for e-commerce operations. The main objectives of maintaining ethics in e-marketing are as follows:

- To remove barriers in e-commerce resulting from uncertainties over writing and signature requirements.
- To facilitate a legal infrastructure for authenticating any document or information by way of digital signatures.
- To encourage and develop legal and business infrastructure necessary to implement secure e-commerce.
- To grant legal recognition to transactions carried out by means of EDI or e-commerce in place of paper-based transactions.
- To implement secure e-commerce through legal recognition of e-records and contracts.
- To establish rules and standards for authentication and integrity of e-records.
- To promote and provide legal sanction to transfering funds electronically to and between banks and financial institutions.
- Managing cyber crimes at the national and international level by enforcing laws.

(a) Ethical issues in the case of B2C marketing

The issue of security and integrity of the transaction on the internet is a major problem. It is believed that Internet has no security and once you access it, you are allowing 30 million connections to have access to that computer with more getting added every month. Several security measures are available today to protect confidential data such as passwords, encryption, firewalls and virus protection.

It is a fact that e-marketing is full of uncertainties and challenges. When marketing takes place through online resources, the marketer will face some security and privacy issues. Two types of security systems can be followed to help online customers build their confidence. These are as follows:

- **Access Security**: It is the type of security that is to be provided to prevent an unauthorized user from accessing your computer or computing resources and ensuring that the computers are available to authorized users only.
- **Transaction security**: It consists of services such as privacy, authenticity and message integrity in the transactions over the Internet.

(b) Ethical issues in case of B2B and B2C marketing

While dealing with ethics in B2B and B2C customers, there remains a high degree of trust and responsibility which is passed on to a person or outsourcing company that

Check Your Progress

6. What is e-marketing?
7. What are the key features of e-marketing through emails?
8. What is access security?

handles the website. There are several legal and information technology issues involved. Electronic commerce, e-copyright, credit card policies, digital media offers, privacy concerns, tariffs, and safety and security are some prominent concerns to be considered while dealing with B2B and B2C clients.

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7.4 SUMMING UP

- Direct marketing is one of the oldest, easiest and cheapest ways of marketing and distributing goods. In this channel, marketers sell their goods directly to the consumers.
- Direct marketing measures the response of customers through interactive communication by distribution of products, information and promotional benefits.
- Under direct marketing, marketers themselves approach a market (both existing and potential customers) on a personal (cell phone calls, SMSs, e-mails, private mailings) basis, or mass-media basis (brochure, catalogues, magazine ads, etc.).
- Few subject experts opine that direct marketing is preferable in the case of perishable goods such as milk, bread, butter, fish, eggs, agricultural produce and ice creams, because of their perishable nature.
- With the information and technological tools, direct marketing has become the need of the day.
- Direct mail, telemarketing, catalogue marketing, internet marketing, email marketing, mobile marketing, trade shows/seminars/exhibits, direct response television/radio marketing, kiosk marketing, door-to-door selling, interactive marketing, and relationship marketing are the major tools. There is no doubt that e-marketing is increasing gradually, but if marketers follow ethics and remain fair and honest, it will give great mileage to the e-marketing and build customers' faith.

7.5 KEY TERMS

- **B2C**: Business to Customers.
- **Blog**: A web site on which an individual or group of users record opinions and information, on a regular basis.
- **Catalogue**: A book where products are displayed for sale.
- **CRM**: Customer Relationship Marketing.
- **Database**: A structured set of data held in a computer, especially one that is accessible in various ways.
- **Kiosk**: A small open-fronted hut or cubicle from which newspapers, refreshments, and tickets, are sold.
- **Middlemen**: A person who arranges business or political deals between other people.
- **Potential**: Latent qualities or abilities that may be developed and lead to future success or usefulness.

- **Toll Free**: Having no toll levied for its use.
- **WWW**: World Wide Web.

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7.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Telemarketing is a direct marketing communication system where either the trained salespeople contact customers by using telecommunication and information technologies to inform about company's products and services.
2. DNC is a 'Do not call' list wherein people registered in this list cannot be called for marketing or selling of a product.
3. When the seller decides to come in the direct contact with the potential customer instead of waiting for the customer to approach.
4. A telemarketing department shares and contributes in reducing the workload of sales force through communication. Generating leads, inquiries and even completing orders can give the end user an ease and confidence regarding the product.
5. There are five types of kiosk. These are as follows:
    - Photo kiosk
    - POS-related kiosks
    - Tele kiosk
    - Ticketing kiosk
    - Vending kiosk
6. In the world of marketing, each email sent to a prospective customer is known as e-marketing.
7. The key features of e-marketing through emails are as follows:
    - Subject line
    - Creativity
    - Options
    - Sender's detail
    - Mention Theme and Frequency
    - Maintain Customer Data
8. It is the type of security that is to be provided to prevent an unauthorized user from access are your computer or computing resources and ensuring that the computers are available to authorized users only.

7.7 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Explain the significance of direct marketing.
2. Describe some prominent tools of direct marketing with examples.
3. Why has marketing through trade shows/seminars not gained popularity?
4. Illustrate the advantages of relationship marketing. Explain some success factors of direct mail marketing.
5. Mention some advantages and disadvantages of catalogue marketing.

6. Mention some areas where door-to-door selling is successful.
7. Explain some ethical issues in e-marketing.

Long-Answer Questions

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1. Critically explain the limitations of kiosk marketing.
2. Explain the significance of interactive marketing.
3. Discuss some e-marketing guidelines to boost customers' confidence in online trading.
4. What are the various applications of telemarketing?
5. Differentiate between mobile and Internet marketing.

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CASE STUDIES

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Case Study-1 Problems in Handling Customer Complaints

Pioneer Electronics Store, one of the leading electronic stores in Hyderabad, sells batteries of all shapes and sizes, all voltages and prices. One particular battery sells for ₹ 300 for a package of three. Mohit, a salesperson at Pioneer electronic store, sold a package of these batteries to a customer on Monday this week. He paid cash for them and left the store, headed home. The next day, on Tuesday morning, the customer returned to the store, holding the battery packet in his hand, and told Rohan (different salesperson as Mohit was on leave) that he had purchased these batteries the day before, and they are not working. Rohan tested the batteries and found the batteries actually dead.

Customers started shouting things like *you wasted my time, you are a fraud*, and so on. It put Rohan in trouble. He was caught in a dilemma. In the last five years at Pioneer store, he had never heard such complaints. But he was quiet because the batteries looked new. How do we resolve such customer complaints? To begin with there is no way to determine that the battery the customer has in hand are indeed the batteries he bought the previous day. Since most batteries show no external sign of wear, for all practical purposes they may all have been the older set, the set that the new one replaced. Second, the nature of batteries is such that the customer may have accidentally drained them himself, and now wants to pass the responsibility to the store. In either case, the salesperson Rohan standing in front of the customer who claims he was sold defective batteries and now wants the situation resolved as soon as possible.

Questions for Discussion:

Suppose, you face the same complaint while working as the same sort of sales store:

1. Examine the case from the store's and customer's point of view.
2. Suggest a solution that has a win-win solution for both the parties concerned.

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Case Study-2 Indian Toy Industry Vs Cheap Chinese Import

Besides those from India, Chinese exports are competing with goods produced by industries in several countries. Cheap imports from China are posing a threat and giving stiff competition to many of India's small-scale industries. A wide range of consumer products (electrical goods, batteries, toys, watches, pharmaceuticals) and intermediates (chemicals are manufactured by these industries) are under threat. Indian toy industry has also been facing stiff competition from the cheap Chinese imports in soft and hard toys. Many Indian toy retailers have reduced their selling prices by downsizing the floor staff. Kinder Garden (an Indian toy retail chain) on the other hand, has instructed its marketing and sales promotion staff to make frequent calls to its retail and wholesale buyers along with personal visits. The selling staff is promised a share of the additional profit that comes due to their personal efforts. Appropriate commission on a sharing basis will be offered for sales figures over and above routine targets. The company feels it is a fantastic way to satisfy the management's desire to increase its market share without huge spending. Further, company also plans to promote the efficient employees.

Questions for Discussion:

1. What role can personal selling play in the toy industry? Do you think the strategy of motivation by additional commission and promotion is actually fruitful?
2. Do you believe that promoting efficient employees will satisfy the management's desire to increase market share?

Case Study-3 Customer Empowerment through Empowering Employees

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It can be a very difficult task to provide great customer service every time. However, it is true that you must treat your customers as you would like to be treated and you will understand the key behind delivering exceptional customer service. Customers who remain loyal to the company forever and put in a good word to every person they know are happy customers and a testament to great customer service. These customers will tell you the truth about the company even if it is not sweet, giving you opportunity to improve. They provide the best 'word of mouth' advertising which cannot be bought but made through happy customers and happy employees.

Just as it is not easy to make customers happy, it is the same with employees. Trusting people, giving up some of your control and empowering your employees to be the face of your business, may not be an easy coin to turn. Inculcating a sense of pride and ownership in the company in those same people goes a long way toward making them want to go that extra mile when it comes to serving the customers.

If customer service representatives were to be given such privileges it is necessary for you to ensure that you hire intelligent people who want to do an excellent job and strive towards the success of the company rather than just earning their salaries. Providing your support in the form of training, education, supporting tools is the least you can do to provide them with the confidence in order for them to do an excellent job and ensure success for the company.

When a customer calls to complain, they are typically angry, upset, and frustrated. Resolving their issue on the first call is critical to retaining them as a long-term customer and this requires that your customer service representatives have the authority to make decisions on the company's behalf. You have to trust them to make appropriate decisions within the guidelines prescribed. Representatives need to feel and act like business owners and assume accountability for outcomes.

Empowering customer service representatives is a key to success in today's world. Time constraints are driving customers to seek immediate resolution to issues. Retaining current customers is a company's topmost priority and the customer service experience contributes heavily to that goal. Give your representatives the tools, training, and support they need to succeed. You'll find that everyone benefits when you trust them to do their jobs effectively!

Questions for Discussion:

1. Do you think that loyal employees make customers loyal as well?
2. What do you mean by empowering employees?
3. Describe the benefits of loyal and happy customers.

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Case Study-4 What Affects Consumer Behaviour?

Adam Retail was a retail company running 27 stores in the NCR area. The company sold groceries, clothing, cosmetics and items made of leather. The company was doing well without following any marketing gimmicks. The basic policy was to cater to loyal customers first. Company executives were of the view that it takes much less to retain a customer than to attract a new one. Therefore, company efforts were primarily concentrated on (a) Their ability to produce and provide, (b) What could be sold by their sales executives, and (c) Identifying the items on which company was getting maximum profits. Since its inception in 1983, the company followed the same business philosophy. But with the entry of new domestic and international players, the company started facing the problem of shrinking profits and decreasing turnover.

To overcome the impact, the company thought of recruiting management graduates from India's leading B-School. Mr. Adesh Shrivastava, a fresh management graduate (Gold Medalist), joined the company. After thoroughly studying the business philosophy of Adam Retail, he was surprised that a company can survive without applying the basic marketing concepts like understanding consumer behaviour, market segmentation, brand positioning, and SWOT analysis. As per his knowledge, he advised the company executives to alter the products and services offered due to change in customers' needs and wants. He also advised the company to stress socio-cultural and income factors and consider rapid growth of the earning Indian middle class. Company executives were also convinced with his plan and were impressed by the reasoning he gave behind such policy changes. Further, he modernized the goods and services offered by the company and invested approx ₹ 2.75 cr. Company executives were happy and optimistic about company's future growth over its competitors. But after nine months of such alterations, the company did not find any proportionate increase in sales turnover.

The management was forced to call an emergency meeting of all 27 store managers in the same week. The managing director (Sales) after few rounds of meeting with various store managers, constituted a three-member team to oversee the amendments and directed then to submit their report within a week's time. Meanwhile, the company decided to continue Adesh Shrivastava's marketing philosophy.

As decided, on June 21, 2008 an enquiry team headed by the (senior regional manager) submitted its report to the M.D (Sales). The report highlighted that as such there was nothing wrong with the new marketing policy but remarked that some basic factors related to consumer behaviour were ignored.

Questions for Discussion:

1. What should the company do in the situation mentioned above and why?
2. Where did the gold medalist, Mr. Adesh Shrivastava, go wrong?

Case Study-5 Malls Rentals: The Big Price Mania

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Since the industrial policy, 1991, retail in India has evolved to support the unique needs of our country, giving its size and complexity due importance. Today, retailing in India has emerged as the largest industry, accounting for over 10.5 per cent of Indian GDP and around 9 per cent of the employment. A whole new phenomenon of shopping has emerged in terms of format and consumer buying behaviour. A recent study by ASSOCHAM estimates the size of the Indian retail market at ₹ 6 million cr. This sector due to tremendous growth opportunities and good returns has attracted real estate developers resulting in sky touching rents at specialty malls.

It is exciting to know that the going rate in general malls is between ₹ 150-350 per sq ft wherein, rents for the ground floor today stand at ₹ 550 per sq ft , almost 200 per cent higher rental in malls like the Gold Souk, making them the most expensive in the country. Souk today commands a rental of ₹ 22,000 per day, or ₹ 6,60,000 a month for an average shop of 1,200sq ft plus a maintenance charge of ₹ 20 per sq ft and the salaries of the staff. The poor tenant ends up shelling out ₹ 1.25 L–1.50 L per month as petty expenditure.

Malls in cities like Jalandhar, Jaipur and Kochi, charge ₹ 200 per sq ft on the ground floor while the rate on the upper floors in such malls is ₹ 450 per sq ft (as compared to the prevailing ₹ 100-150 per sq ft in the general category. Consider this with the ₹ 55 per sq ft rental (for the ground floor) that Gold Souk started its operations in 2003.

Most of them, like Omaxe's Wedding Mall in Gurgaon, the Furniture Mall by Crown Plaza in Faridabad, an Auto Mall and a Women's Mall in North Delhi, under construction, property experts say do not charge more than ₹ 45-80 per sq ft. 'It is only when they become fully functional that the rates start shooting up and can reach a maximum of ₹ 300 per sq ft,' says Rajiv Agnihotri, senior business analyst, propertiesindia.com. On the other hand, most specialty malls coming up in the country do not exceed the ₹ 300 per sq ft figure, that too when they are fully functional.

However, the big question is that with these kinds of expenses, how are the tenants able to sustain themselves. The answer lies in the product that they deal in–jewellery. 'The profit margins are so high that they are able to sustain themselves as well as agree to pay such high rents,' says Ashish Gupta, VC and JMD, Aerens Gold Souk Group. The conversion rate in specialty malls is 80 per cent as compared to the 8-10 per cent in general category malls. For instance, it is estimated that the big and branded jewellery outlets in Gold Souk earn a whopping ₹ 30-50 L per day. Figure 1 gives an idea about mall economics i.e. approximately how much budget it takes to construct a mall—undoubtedly an expensive affair.

Land: ₹ 600 to ₹ 1,000 per sq. ft.
Mall size: 400,000 sq. ft. (4 floors of 1 L sq. ft. each)
Construction cost (bare shell): ₹ 800 per sq. ft.
Interior fit-out (including AC) cost: ₹ 1,500 to ₹ 3,500 per sq. ft.

Equipment Cost:
6 Escalators: ₹ 15 L
4 Elevators: ₹ 10 L
2 Air-conditioning plants: ₹ 1 cr.
2 Gensets: ₹ 1 cr.
Approval fees/Misc. expenses: ₹ 150-200 per sq. ft.
Marketing cost: ₹ 150/200 per sq. ft.

***Fig. 1** Mall Economics: What it costs to Build a Mall*

Source: http://www.indianexpress.com/iep/sunday/story/235670.html

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In most metropolitan and cosmopolitan cities land price have escalated to the extent of five to ten times since 2005 and have become the biggest challenge for mall developers. The fully functional malls turn out be expensive and higher rentals hurt the bottom lines.

Developers are still holding on to something and many are looking at solutions to get around this problem. The Sunday Express spoke to developers and brokers on how they're coping with this unexpected and unrelenting rise in the price of the most precious commodity in the business and found six strategies for land management. Figures 2 and 3 will give you an idea about prevalent mall rentals in the country.

Section	Average Rentals
Metros	₹ 150-400 Sq. Ft
Tier I Cities	₹ 80-100 Sq. Ft
Tier II Cities	₹ 60-80 Sq. Ft

***Fig. 2** An Overview of Mall Rentals*

Source: www.imagesretail.com

Mall	Location	Average Rentals in Rs. Per sq, ft. approximately
Unitech	Noida	₹ 400-600 per sq. ft
DT City Centre	Gurgaon	₹ 250 per sq. ft
Metropolitan	Gurgaon	₹ 300-350 per sq. ft
Shipra Mall	Ghaziabad	₹ 175-200 per sq. ft
Ambi Mall	Gurgaon	₹ 250-300 per sq. ft
Select Citywalk	Saket	₹ 350-400 per sq. ft
Viva College	Jalandhar	₹ 125-400 per sq. ft
Centre Mall	Chandigarh	₹ 200-225 per sq. ft
Silicon Square	Zirakpur	₹ 130-150 per sq. ft

***Fig. 3** Average Rentals by Mall*

Source: Balaji Properties, Noida/www.imagesretail.com

How to keep the mall rentals under control?

1. Adoption of retailer-centric philosophy

According to this approach, builders should provide or construct the malls considering the retailers' budget, choices and preference. They should not buy any land which is inexpensive and can hamper the retailers' profitability. Further, they should know which retailer enjoys how much margin. Jewellers, for example, usually make a higher margin than shoes or garment retailers. Therefore, builders should decide the rentals accordingly.

2. Need for joint ventures/tie-ups with landlord

In order to maintain and keep the land cost reasonable, now mall developers are forming joint ventures with land owners at a large scale. The benefit of such tie-ups is that the landlord offers the land at a price which is genuine and comparatively less as per the market rate so that the mall should be rented to retailers easily without causing them high preliminary expenditures.

3. Shifting to tier II cities/towns

Overpriced land in big cities has led many developers to move to Tier II and Tier III cities/towns. Such a shift normally has two benefits which most of the developers admit. These are: first the land is affordable, and second these Tier II cities have a lot of growth potential as the per capita income is increasing every year.

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4. Moving towards sub-urban areas

In the last few years, it has been observed that suburban areas are becoming the first choice for land developers. Be it Narela (a sub-urban area of Sonipat, Haryana), Ghaziabad or NOIDA all of them are becoming hubs for mall culture. But it requires utmost care with regard to the selection of locality where transport and other basic infrastructural facilities should be developed.

5. Positioning right

It means as per locality and cost of land, developers should offer products that enjoy high margins. For instance, in Greater Kailash, Vasant Vihar, or Saket in Delhi, where land is very expensive, prices are suitable for luxury or jeweller items where the profit is high. Only such retailers will be able to afford the high rentals of these locations. On the other hand, in the case of developing a mall at a marginal location, value-for-money kind of goods are more suitable to sell.

6. Location

There is no doubt that the right location and right catchments does wonders in the world of retailing. For example, the average number of visitors/shoppers at Great India Place (NOIDA) is over 60,000 per day. Because of its superb location, footfalls remain consistent throughout the week, otherwise in most of the malls, footfalls is usually more on weekends or during festival days.

How to beat high land cost for malls

- Always avoid land that is expensive and make certain that rent-to-revenue ratio is not very high.
- Always divide the long-term profitability of the mall with other investors or developers.
- Shift to the outskirts or to smaller cities instead of developing malls in busy and congested areas.
- Twist expensive areas into high-end premium malls and affordable areas into value-for-money malls.

Concluding remarks

In the world of business, normally it is said that any healthy sales graph has a levelling off stage. It is also true that recession comes after every boom. In the real estate sector where the land prices and mall rentals are too high, it seems that this sharp increase in rentals will come down in the years to come. It will not be the fashion of the day as demand will rationalize. Even according to market experts, the initial mall ecstasy that had elevated countrywide mall rentals to idealistically high levels seems to have come down with markets such as Gurgaon, Noida, Kondli, and Ghaziabad witnessing a price correction. Even in the last quarter of 2007, it was found that many parts of the National Capital Region, Hyderabad and Mumbai saw rental stabilization. As per a study conducted by property consultants Chesterton Meghraj, the shopping mall rentals for primary tenants would continue to decline in coming days though the contribution of smaller retailers to mall rentals is relatively higher than the anchors' collective contribution. Therefore, we hope that the mall rentals for primary tenants like retail outfits (anchors) will decline in the country and they will be invited to take positions in malls at affordable rates.

Questions for Discussion:

1. The retail boom in the country has resulted in a huge leap in rentals at specialty malls. Ground floor rentals today stand at ₹ 550 per sq ft when the going rate in general malls is between ₹ 150-350 per sq ft. This is almost 200 per cent higher rental in malls. Discuss a few reasons for making the malls the most expensive in the country.

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2. According to Financial Daily (a leading newspaper), the initial mall euphoria that had pushed nationwide mall rentals to unrealistically high levels seems to have ended with markets such as Gurgaon now witnessing a price correction, even as parts of the National Capital Region and Mumbai see rental stabilization. Comment.
3. In the real estate sector the steep increase in rentals seems to have a negative effect on the retailers' profitability. Considering that the position will continue in the next few years to come, how will the tenants be able to sustain themselves?

Case Study-6 Marketing Strategies and Leadership Redefined

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Two years down the line, the dream is a pleasant reality. But there are many who believe that if the dream run has to indeed be a long-term success story, then there are several issues that the textile-magnate-turned-aviation entrepreneur will have to address urgently. For one, there is virtually no management structure in place. 'If Paramount has to be a long term player it needs to have a clear team in place that oversees not just the day-to-day operations, but strategies on the long term vision. The vision of the founder sometimes simply is not enough.'

Perhaps that is reason why Thaigarajan is slowly putting people in place. He recently hired two experts to look at key areas–operations and maintenance–of the company's business. He is also looking at hiring others although those who have known him well and interacted with him believe that it is unlikely that there will ever be 'a hands-off approach' as far as Thaigarajan is concerned. Their logic is simple: he is passionate about the airline business and loves to dabble in every aspect of it. Interestingly, of the 36 pilots on board Paramount, 23 are foreign (primarily Thai, the Director–Operations is also one). And, his cabin crew has a pan-Indian flavor right from the plains of Punjab to the distant drums of the North East.

Considering the Paramount announcement to move to the west in 2008 and then slowly, pan out across the rest of the country, it makes sense to get his team in place. Not just that, Thaigarajan states that in daring to dream bigger to make Paramount Airways a truly national airline in four years, he will continue to constantly upgrade his product. So for starters, his jets will continue with the 'no middle seats' concept, the cuisine will continue to be eclectic and varied (Thaigarajan prefers the word gourmet). But he is adding a huge dose of in-flight entertainment with personalized TVs, telecasting current programmes and a mobile link from the sky. All this will cost a lot of money and will the passengers pay? Thaigarajan thinks they will, considering his fares even today are more than the so-called full carriers Jet and Kingfisher charge on similar routes (Thaigarajan says his prices are about 10-15 per cent higher). And to make sure that he was able to fill the aircraft, the airline apparently signed a bulk deal with scores of companies. The Paramount chief claims that closer to 90 per cent of his passengers belong to this segment and this is not a 'price sensitive, but price inelastic band'. Nonetheless, it won't be a cakewalk as his fleet grows and the market expands. Most recently, the Southern head of Jet Airways stated that 40 per cent of Jet's business was generated in the South and it was growing. Soon Silk Air of Singapore will be flying direct to Coimbatore from the city-state in South-East Asia besides increasing the frequency of SIA to Southern cities of India. Malaysia is planning to increase its frequency to Southern cities.

Perhaps, he sees an opportunity in all these threats. For instance, his Brazil-made all-Embraer can fly non-stop for four hours and can reach Singapore and KL from his Southern stations. Perhaps, once he completes five years in the flying business or if the government reduces it to three years, he will be ready to fly out.

As on date, Paramount has five leased Embraers of which two are E-170 type with all 70 business class seats and 3 E-175 aircraft with 75 seats comprising 11 first class and 64 business class seats. The airline prides itself for not offering a middle seat to anyone as it does not have one in its aircraft nor is planning to have one in any of its 40 Embraer aircraft it is planning to acquire over the next 4 to 5 years at a MoU declared value of US $2 billion. The deliveries of these 40 aircrafts will be between mid 2008 and 2011. US $2 billion in Indian rupees before it appreciated in early 2007 was equivalent to ₹ 8800 cr. Today, it is ₹ 7900 cr. So, even before he begins to buy, Thiagarajan is lucky that his same

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rupee earnings will fetch him more dollars. So, where is the money coming from? From the promoters and debt.

As the fleet strength grows over the next four years, Paramount will add 280 Indian and 120 expat pilots adding up to 400 pilots. There has been no pilot attrition from his airline. Though one may say nobody flies Embraers in India other than Paramount, so where would they go, the fact is that they seem happy with the company and have not left for better pastures overseas. Thaigarajan is proud of this: 'Our attrition rate is zero,' he claims in a matter-of-fact tone.

Another favorite phrase of the Paramount MD is 'boutique brand'. So what do you mean by that? Clearly what Thiagarajan means that is being different and classy, the fares are higher, the planes–the only ones of its kind in the country–and the food. Well 'gourmet'.

'We have marketed some of our city pair flights such a way that businessmen can have their breakfast on board, then attending meetings and return by afternoon to have lunch on board or if they wish dinner, depending upon when they choose to end their business meetings,' he says.

The Paramount argument for managing all this is the huge focus on costs. Fuel costs are only 20 per cent of its total operational cost as against 30-35 per cent for other airlines including big dads. Moreover, as his jets are configured to carry less than 80 passengers he also enjoys all the concessions that are available to regional carriers including the crucial exemption from the payment of landing charges.

There is also a bit of tough negotiation and bargaining. Just two weeks back, Thaigarajan was in Kerala to meet with the top brass of the State government. He told the CM that Paramount was ready and keen to connect the three important international airport cities of Kochi, Thiruvananthapuram and Kozhikode provided the Kerala government assure him that 30-40 per cent seats per flight would be booked by the state government for its official travel between the three cities.

Knowing Thiagarajan, one can, perhaps, speculate that he must be having at the back of his mind complete parking arrangement so that he may use his Embraers to tap the Gulf-rich business from Kerala once the Ministry of Civil Aviation takes a final call on who all can fly overseas. But there are some areas of his business That Thiagarajan is unwilling to talk about. 'I do not want to speculate,' he said plainly. But those in the know state that financial institutions have been talking to him among who are some who hold nearly 62 per cent in Delhi-based Spice Jet. Asked if his intention was to only take over the parking bays and slots, will it not be too high a price to be paid as realized by Naresh Goyal of Jet for taking over Sahara, Thaigarajan grins and then slowly answers: 'This is no reference to Spice Jet. I am not taking any names. But the answer is obviously not. It will be based on valuation and association'. Clearly, he does not want to talk any further on the issue, though his appetite for a bigger share of the pie is evident. Similarly, he is non-committal when it comes to a little more insight on his plans to acquire both narrow and wide body aircraft made by Boeing and Airbus. He says blandly, 'We are looking at it'. He has actually been talking to both and tossing the options.

In essence that really sums up the man and his mission. Keep the powder dry, keep tossing the options and keep pegging away. If you have a good business plan, you will walk away the winner!

Paramount's Fleet Plans

Thiagarajan is looking at the bigger Embraer jets for the simple reason that like the Airbus family there is a huge amount of commonality in the cockpit and the engineering. So, it is easy for the engineers and the pilots to migrate back and forth. At the moment, while two are owned, three are on lease. One more aircraft–

Embraer 175 – will join the fleet by end October/early November. Paramount is looking at the total of nine aircraft to service the Southern market. All the five aircrafts are parked at Chennai at the moment and the airline has permission for three more. Beyond eight, they are looking at Hyderabad and Bangalore as possible options. The airline has committed for 20 more Embraer 175s to join the fleet, although they have 40 aircraft on order. Some of the balance could be bigger aircraft from the same company. 'Embraer has bigger aircraft and the fleet commonality is an advantage. We will automatically evolve. By 2011, our fleet strength will be close to 40 aircraft. Our aircraft will start arriving from the middle of 2008,' said Thaigarajan.

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Source: Cruising Heights, October'07

Questions for Discussion:

1. In two years, Paramount Airways has quietly built a steady reputation as a quality business class carrier out of Chennai. Is it a flash in the pan or is M. Thaigarajan a marathon man? Comment.
2. Outline the potential cost savings associated with Paramount and other airlines.
3. Comment on the pros and cons of Murugesan Thigarajan's leadership, administration and future plans.
4. What factors could account for any airline retailer's requiring to re-engineer its operations?

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Case Study-7 Contacting Customers: A Case of Marketing Communication

Jai Bharat Cinema is located in the cantonment area of Delhi Cantt. It is a 20-year-old air-conditioned theatre catering to cine goers mostly in Hindi and English movies. It has got a sitting capacity of 500 and as such large audiences are required to run it profitably. This problem does not arise for regular shows as mostly popular hits are screened.

The cantonment area comprises people from all parts of the country and speaking different languages such as Telegu, Bengali, and Punjabi. The theatre has made it a practice to show regional language movies on Saturday evenings. The problem, which they face, is that not always it is profitable venture. As the booking for the regional language movie is made at least one week in advance and as the theatre has a choice, the management was wondering if they could get some kind of feedback from the respective communities about the popularity of the movie and probable large audience before they book it.

Someone suggested to them that they could have opinion poll by telephone interviews so as to reduce the risk of failure.

Questions for Discussion:

1. Do you think the use of telephonic interview will be a wise decision?
2. What are the other goods and services for which the telephonic interview technique can be used?

Case Study-8 Future of E-marketing in India

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Today most of the people are so busy in their day-to-day working schedule that they don't get the time to go to market and shop. Further, due to decline in the nuclear family concept, there is no elder member or other support to help the working class. Therefore, paying utility bills, depositing and withdrawing money from banks, income tax filling are cumbersome. For example, filing income tax return means a full day affair plus a loss of one day leave or salary. That is where e-commerce plays an important role. It means, for paying utility bills such as telephone bills (landline and mobile), electricity bills, house tax, water bill, paying insurance premiums, one need not to go to their respective counters/ bill sections, standing in queue, and wait for one's turn, everything can be done with a mouse click only. Transferring money to anybody (irrespective of any bank) in any part of the world is possible through mobile banking (for example, ICICI bank I-Mobile) and Western Union Money Transfer.

Understanding the competition and need of the hour, retailers started turning their stores into e-stores and the online stores which were already using technology, started using technology and websites in order to make consumers use their mobile devices such as smartphones, iPhone, iPad, and Microsoft windows enabled devices and Android enabled phones to shop. Besides this, Business to Employee (B2E), Government to Business (G2B) and Government to Citizen (G2C) are other types of e-commerce practices. All the above-mentioned business models may or may not use all the online business techniques, but they are dependent on one or the other form of technology in their retailing activities.

Questions for Discussion

1. What is this case about?
2. Explain the future of e-marketing in India.
3. Suppose it were retail outlet and retailer besides regular goods of daily use, want to sell things used on regional festivals like Onam and Durga Puja. Which method do you think would be suitable to collect the views of local people before entering into a new business line?

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Case Study-9 Flipkart Present, Past and Future: A Case of Sales Planning

About Flipkart.com

Flipkart.com is India's one of the popular and biggest online retailers for most types of the physical goods. Though it started its business with the delivery of books, it has now branched to consumer electronics, mobile phones and so on. It was very difficult for the company to establish a foothold in the already established market but with the introduction of innovative marketing and sales promotion strategies such as cash on delivery, 30 days replacement guarantee and its own reliable delivery network it tasted success utmost immediately. At present, its portfolio has spread to more than 20 categories–from books to mobiles, music, home appliances, consumer durables, consumer electronics, TV and Home theatre systems, health care products, stationery items, and lifestyle products. In addition to this, the company is also planning and has made arrangements to enter into emerging digital information technology market with the launch of Flyte, Flipkart's own digital music store.

Due to wider acceptability and increasing loyalty, the company has been spreading its network of procurement operations, distribution centers, warehouses, and customer support teams. The Unique Selling Preposition (USP) of the company is to have its own delivery network and excellent consumer interaction. The company is recruiting employees in most of its business operations areas. The company has well-established training and development centres to train its people in a unique way. Company offers handsome remuneration to its employees and takes care of its employees by way of giving incentives and other perks from time to time. Today having an employee base of more than five thousand members, the company operates from offices and warehouses in seven Indian cities.

Factsheet

- Book titles available–11.5 million
- Cumulative funding raised–$31 million
- Current manpower–Approx. 4800
- Items shipped per day–30,000
- No. of employees–4,500
- Own delivery network–37 cities
- With the launch of Flyte, the digital music store the portfolio spreads across 12 categories and has recently made its way into the digital content market
- Ranks in the top 20 websites in India
- Registered users–3 million
- Flipkart registered users–2.6 million
- Revenue of ₹. 2.5cr per day
- Titles available on Flipkart (Books)–11.5 million

Milestones:

- Flipkart was launched on 5th September 2007
- Website went on air on 15th October 2007
- First 'official' sale made on 22nd October, 2007, 10.28 pm.
- Ventured into first new category on 7th June, 2010

Started 'Cash on Delivery' on 14th April, 2010

Flipkart's USP

- Customer first
- Cash on delivery

- Logistics is a menacing challenge: own logistics
- Depth in a category before breadth in categories
- Investing in technologies
- Make it easy to find and discover products
- Competitive prices
- Convenient payment options
- Procurement from suppliers (just in time)
- Thorough inspection before sending any item
- Tamper proof packing
- Take care of their returns
- Follow up for timely delivery
- Listen and respond to customer complaints carefully

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Locations

Flipkart's headquarters is located in Bangalore's Koramangala neighborhood but it has offices, warehouses and customer service centres across India. Its warehouses are located in the following cities, mostly near airports.

- Bangalore, Karnataka,
- Chennai, Tamil Nadu,
- Delhi
- Kolkata, West Bengal
- Mumbai, Maharashtra
- Noida, Uttar Pradesh
- Pune, Maharashtra
- Kochi, Kerala

Financial Results

Sr. No	Year	Sales
1	2008-09	40 Million
2	2009-10	200 Million
3	2010-11	750 Million
4	2011-12	5 Billion
5	2012-13	50 Billion

Source: enwikipedia.org/wiki/flipkart

Questions for Discussion:

1. Critically examine the success mantras of Flipkart.com that made it popular in a short span of time.
2. Understand the value propositions adopted by e-retailing ventures with special reference to Flipkart.com.
3. What future you predict for Flipkart.com?

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Cass Study-10 Selling in the New Era

E-retailing has opened new possibilities in the world of shopping. Gone are the days when customers used to visit 'brick and mortar stores' for every purchase. But today customers are smart and high-tech. They need not go outside. Simply sitting at then personal computers at homes, they visit websites of the retailers and buy what they want.

The top three reasons people use online shopping are for convenience, to save time, and the ability to comparison shop. As per a survey conducted by Nielsen in the past customers were limited to the stores they shopped at or the items available for purchase based on what was locally available (http://www.articlesalley.com).

Earlier the means of transport were limited. Even in the presence of transport at certain places, customers had a limited choice and were dependent on nearby stores. But now due to developments in the field of information technology and software applications, online shopping has made consumers' buying a memorable experience. A click of a mouse can open a worldwide store for consumers any time they want. They can find unique or specialty items by simply using an online search engine. Online shopping is not only a convenient way of shopping but also offers better pricing and incentives. From a Blackberry smartphone to a laptop, one can not only compare prices but also search the lowest price with best services provided by the site. In the past, retailers had to compete with their nearby retail outlets but now they have to face competition with domestic as well as foreign retailers.

Sometimes, a retailer is neither interested in implementing information technology at his retail store nor there is as such requirement for it. But because his immediate competitors or nearby retailers have been using technology, he will have no option except to implement it. Otherwise, your competitors many hurt you in the long run. It is a fact that most of the retailers are selling same sort of merchandise in a particular area. Therefore, it is not the product but the customer service that will give you the profit. Further, in addition, if your suppliers and buyers are online, how you can keep yourself aloof ? In short, retailers sometimes have pressure from external sources such as rivals, suppliers and buyers.

Convincing and turning visitors into customers seems to be an easy task but it is one of the difficult areas that retailers are unable to understand. The way the consumer preferences, liking and disliking are changing, the established rules and practices to hold customers are becoming ineffective. One of the key factors to attract and retain customers is the use of technology as an enabler. Information technology is the answer to a retailer's worries. IT applications can improve customer satisfaction, profitability, store efficiency, and customer service. IT applications make retailing transactions wireless, cashless, and seamless. With a single mouse click, retailers can know the customers' history and can understand the buying patterns. Retailers who have pan India presence can easily find out what is happening in his retail outlets, which product is in demand and which has shortage in one or more outlets.

Therefore, to fully understand and develop a competitive advantage plan, retail managers/owners must have a better understanding of the environment in which they are operating. An understanding of retail formats, ongoing technological developments and managing e-resources effectively allow the retailer to gain competitive advantage over other online retailers. Further, a competitive analysis approach gives retailer a detailed understanding of the competition they face in their normal course of operations. But merely implementing e-retailing facility is not enough, it also requires having up-to-date knowledge of competitors' movements and developing internal strengths (unique merchandise, managing human resources effectively and high level of customer service) which will give consumers a reason to select their stores.

Questions for Discussion:

1. What is this case about?
2. What suggestions would you give to traditional *kirana* stores to cope with the technological developments in the field of retailing?

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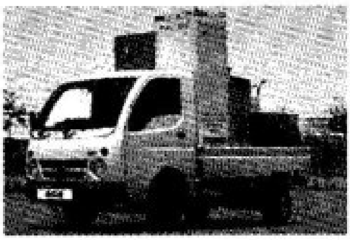
Case Study-11 Tata Ace: The Making of the Small Truck

Tata Motors Ltd. commercially launched a long awaited, mini truck—India's first indigenously developed sub-one tone capacity vehicle in May 2005. After a research found that Indian customers wanted a last mile-distribution vehicle that had low maintenance costs, higher driver safety, and better driving comfort on Indian roads TATA decided to manufacture the 'Ace'. Understanding the customers' real requirements, the company developed and launched the Ace, which created a new segment in the market for four-wheel commercial vehicles—the small commercial vehicle (SCV) segment, which was earlier the province of three-wheel cargo carriers like Mahindra, Bajaj and Vikram. The inner and outer design was developed to achieve higher top speeds than that of the other three-wheelers. The cargo bed was also made larger. The product was designed with low turning radius to easily steer it in the narrow lanes and bylanes of towns and villages. The muscular, car-like features ensured comfort in ride and handling.

The overall look, style, fitting and finishing differentiated the vehicle from the existing three wheelers and at the same time, gave social prestige to the owner as well as the driver of the vehicle. The mini truck was advertised using the symbol of a baby elephant with the tagline '*small is big*'. Tata Ace was launched with a 15-20 per cent higher price tag than that of a comparable model of a three wheeler. Positioning Ace as a replacement for the three-wheelers that predominated as small category commercial vehicles in India enabled Tata Motors to access a new market segment.



Ace received a huge response from the commercial market, despite being priced higher than the three-wheeler alternatives. And when customers felt that it looked and performed better than the existing alternatives, it became one of the prime reasons for the success of the vehicle. Besides this, Tata's own brand name and success of other Tata's automobile products, such as Indica and Tata 407, fueled confidence in Indian dealers and customers. The company improved the service network by training automobile garages that were branded as Tata-certified service points to fulfill the repair and service needs of Ace. Within less than two years of its launch of Ace, the company rolled out 1 Lac trucks, surpassing the company's optimistic targets.

Market experts expected the Ace to face stiff competition in the coming days. After witnessing the successful response to the vehicle, all the market experts were surprised at the ease with which Ace captured markets. It was such a revolution that it urged the major Indian three-wheeler manufacturers and light commercial vehicle (LCV) makers to roll out sub-one tonne, four-wheel vehicles for the SCV segment.

Questions for Discussion:

1. What will be different with Ace if, in the future, competitors launch such mini trucks?
2. You are contacted by Mahindra and Mahindra (M&M) to help them develop a design for entering the four-wheel vehicle market where at present Tata's Ace has the dominant market position. As a leading consultant to M&M, what would you do?

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Case Study-12 The Prospective Rural Market

Rural marketing in India is experiencing good demand. Not only the small-sized companies but multinational companies have set up their separate marketing unit, and sales force for rural areas. This is because of the increasing income of rural areas and increased consumer durables demand from these areas. Consequently, every company wants to establish its foothold in these areas and grab the lion's share. The reason for the popularity of rural marketing may be linked with saturation in urban markets that has been adversely affecting the revenues of urban companies.

Marketers and subject experts believe that it is inexpensive to market a product in rural areas as compared to urban as 'word of mouth' has a vital role to play in the success of a product. Besides this, opinion leaders play the most influential role in rural marketing. The Indian companies which are well established have the advantage of doing better in the area of rural marketing while multinationals will find it difficult to approach the much talked about but less understood Indian rural market.

Some Facts for Marketers

- India (more than 65 per cent population) still resides in the rural part of the country.
- Rural areas are not advanced and have less connectivity with roads and cities.
- The main source of income is still agriculture.
- Agriculture is entirely based on monsoon.
- Literacy rate is not impressive in rural parts of the country except for states like Kerala, Haryana and Punjab.
- Unemployment rate is increasing every year.
- Government is trying its level best to stop migration in urban areas and provide employment in rural areas with schemes like NREGA.

Hurdles for the Indian Rural Market

The Indian rural market or the idea of it is in its primary stages and has a lot to overcome. Marketers face a number of problems like circulation costs and non-availability of retail outlets when it comes to developing the rural markets. Like other natural aspects as rain, draught and storm, the success of Indian rural market is also unpredictable.

The main problems in rural marketing are:

- Shortage of basic amenities
- Logistics issues
- Lack of promotional activities
- Shortage of skilled workforce
- High illiteracy rate
- Lack of confidence in marketers
- Take more time to think and decide to buy goods

Thus, it seems that in rural areas, the income of people is increasing because of more than one earning members but marketing in rural areas is also full of challenges. Though state and Central governments, through Five Years Plans, are trying their level best to connect rural areas with nearby cities and towns, a lot of effort has to be made. Besides this, a fundamental change in the attitude of the marketers is also required. It also requires good training and development of its sales force.

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Questions for Discussion:

1. Why are the Indian companies focusing on rural areas?
2. What benefits do you think a company will get if it decides to go invest in the rural sector?
3. What are the common problems in rural markets?