CLASS: BBA 3RD

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MARKETING MANAGEMENT

Notes as per IKGPTU Syllabus

Faculty of Commerce, SBS College. Ludhiana

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Definition of Marketing

- **Traditional Concept:** The term 'traditional marketing' can be expressed as the business activity through which goods and services directly move from producers to consumers or users.

- **Modern Concept:** The term 'modern marketing' can be expressed as the achievement of corporate goals through meeting and exceeding customer needs better than the competition. According to Philip Kotler, the term 'marketing' is a social and managerial process by which individual groups obtain what they need and want through creating, offering and freely exchanging product and services of value with others.

Nature of Marketing

The Nature of Marketing (or Modern marketing) may be studied under the following points:

1. Human activity: Originally, the term marketing is a human activity under which human needs are satisfied by human efforts. It's a human action for human satisfaction.
2. Consumer-oriented: A business exist to satisfy human needs, hence business must find out what the desire of customer (or consumer) and thereby produce goods & services as per the needs of the customer. Thus, only those goods should be produce that satisfy consumer needs and at a reasonable profit to the manufacturer (or producer).
3. Art as well as science: In the technological arena, marketing is the art and science of choosing target markets and satisfying customers through creating, delivering, and communicating superior customer value. It is a technique of making the goods available at right time, right place, into right hands, right quality, in the right form and at right price.
4. Exchange Process: All marketing activities revolve around commercial exchange process. The exchange process implies transactions between buyer and seller. It also involves exchange of technology, exchange of information and exchange of ideas.
5. Starts and ends with customers: Marketing is consumer oriented and it is crucial to know what the actual demand of consumer is. This is possible only when required information related to the goods and services is collected from the customer. Thus, it is the starting of marketing and the marketing end as soon as those goods and services reach into the safe hands of the customer.
6. Creation of Utilities: Marketing creates four components of utilities viz. time, place, possession and form. The form utility refers to the product or service a company offers to their customers. The place utility refers to the availability of a product or service in a location i.e. Easier for customers. By time utility, a company can ensure that products and services are available when customers need them. The possession utility gives customers ownership of a product or service and enables them to derive benefits in their own business.
7. Goal oriented: Marketing seeks to achieve benefits for both buyers and sellers by satisfying human needs. The ultimate goal of marketing is to generate profits through the satisfaction of the customer.
8. Guiding element of business: Modern Marketing is the heart of industrial activity that tells what, when, how to produce. It is capable of guiding and controlling business.
9. System of Interacting Business Activities: Marketing is the system through which a business enterprise, institution or organization interacts with the customers with the objective to earn profit, satisfy customers and manage relationship. It is the performance of business activities that direct the flow of goods and services from producer to consumer or user.
10. Marketing is a dynamic processe. series of interrelated functions: Marketing is a complex, continuous and interrelated process. It involves continuous planning, implementation and control.

Scope/Functions of Marketing

The term scope of marketing can be understood in terms of the functions of the marketing manager. The major purpose of marketing manager is to generate revenue for the business by selling goods and services to the consumers. It lies in insuring the customer needs and converting them into product or services and moving the product and services to the final user or customer, to satisfy the wants and needs of specific segment of customers with emphasis on profitability and ensuring the optimum use of resources available with the organization. The marketing manager has to perform the research functions and exchange functions. They are discussed below:

Functions of Research

The modern marketing activities start with consumer research. It is referred with the analysis of consumer attitudes, tastes, habits, reactions and preferences to the company's product so that the products may be produced according to the needs of the consumers. The major functions of research are as follows:

Marketing Research: The marketing research is helpful in analyzing the customer's behavior, popularity of product, effectiveness of advertising, pricing policy, etc. In other words, it is the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services. For making correct and timely decisions, the marketing manager analyses all the available opportunities, threats, strengths and weaknesses of the organization and determine the best opportunity to be pursue for it.

Product planning and development: Under modern marketing activities, product planning is determined before the start of actual production. It is the process in which shape, size, color, weight, design, packing, etc. of the product is determined on the basis of information gathered with the help of market research. Product development involves decisions regarding shape, size, color, weight, design, quality, brand, label, etc. as per the needs of the consumer, which will give maximum satisfaction to the consumer and reasonable profit to the manufacturer.

Customer Needs, Wants, and Demands & Strategic Decision Making

Needs, wants, and demands are the three main basic terms in marketing definition, these three terms helps a lot for taking strategic decisions. Marketers should know about needs, wants, and demands in order to identify the target markets and for better positioning. Customer needs, wants, and demands are interrelated and arise on the basis of requirements, willingness, and ability, and all these depend on the requirement, demographic aspects, socio-cultural aspects and income levels.

Why should marketers know about customer's needs, wants, and demands?

- To know the target customers and target markets
- To take strategic decisions and implementation
- To promote the products with suitable advertisements
- To maximize sales and profits
- To know customer's willingness to buy the products
- To know the number of customers who are able to buy their products
- To know the influence of demographic, socio-cultural aspects and income levels on the buying behavior of consumers

Needs

Needs are basic requirements such as food, shelter, clothing, water and safety. Human survival is not possible without fulfilling these needs, here a need show the status of deprivation. According to marketers point of view, human needs can create repeated sales irrespective of wants and status.

In order to fulfill the basic requirements, humans sacrifice their wants, fantasies, and dreams also. So depending on the product category market decides sales and profits. Products related to the agriculture sector, water, textile and fast moving consumer goods etc, comes under need category. customers give very less preference to brands in the case of products related to need category. For example, if a person feels thirsty then he/she simply buy water and fulfills the need but they do not give much preference to a particular brand and they do not wait for longer hours. This is the reason there we can see sales for similar products at the same place. Hence, so many brands are offering similar products in order to satisfy the growing customer needs.

Advantages in producing and marketing needs category products

- Needs are basic requirements, so no need to put extra efforts to maximize sales.
- Competition does not show much influence on sales.
- Customers give primary importance to buy the need category products. Ex food, clothes
- No need to use celebrity endorsement in order to create sales, if do so, it does not show much difference in sales because customers buy need category products without forcing them or influencing them.
- The cost of advertisement is very less.
- Customer’s preferences become very less while purchasing need category products.
- Differences in individual income levels and nations economic conditions do not show much influence in the consumption and purchase of need category products.

Wants

Wants are not basic requirements and these are not essential for human survival, but there exists a relation between needs and wants. If a need arises then it stimulates human tastes and preferences and finally wants arises, because wants are not immediate needs. Wants are not permanent and can change depending on the time, people and location. For example, if a person feels thirsty then he/she can drink water to fulfill the need but the wants force him/her to drink cool drink or fruit juice.

Wants are not mandatory but marketers promote the want category products and services in such a way that these products are a mandatory part of life. In fact, wants are not necessary for human survival.

Human wants are playing a vital role in the production of innovative products and products with different features. Changing tastes and preferences of the customers forces the marketers to create new products and services

In the case of needs, customers do not give much preference to the brands, whereas in the case of wants customers purchase what they want only. These wants are not immediate needs so that customers can spend the time to select the desired color, flavor and features.

Demands

Willingness to buy and ability to pay creates demand for a particular product. Human wants can create willingness and here, buying power can convert these wants into demands. For example, if a person is willing to buy a gold chain then the buying power or ability to pay should support his/her willingness, then only it becomes a demand for the gold chain.

So the marketers should analyze the market conditions and income levels of the target customers. If the marketers do not concentrate on economic conditions of the country and per capita income, then they may not create sales effectively, though their product is highly qualitative and value created.

The Marketing Concept

This is a business philosophy that challenges the above three business orientations. Its central tenets crystallized in the 1950s. It holds that the key to achieving its organizational goals (goals of the selling company) consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its selected target customers. The marketing concept rests on four pillars: target market, customer needs, integrated marketing and profitability.

Distinctions between the Sales Concept and the Marketing Concept:

1. The Sales Concept focuses on the needs of the seller. The Marketing Concept focuses on the needs of the buyer.
2. The Sales Concept is preoccupied with the seller's need to convert his/her product into cash. The Marketing Concept is preoccupied with the idea of satisfying the needs of the customer by means of the product as a solution to the customer's problem (needs).

The Marketing Concept represents the major change in today's company orientation that provides the foundation to achieve competitive advantage. This philosophy is the foundation of consultative selling.

The Marketing Concept has evolved into a fifth and more refined company orientation: The Societal Marketing Concept. This concept is more theoretical and will undoubtedly influence future forms of marketing and selling approaches.

Features of Marketing Concept

The salient features of the marketing concept are:

Consumer Orientation: The most distinguishing feature of the marketing concept is the importance assigned to the consumer. The determination of what is to be produced should not be in the hands of the firms but in the hands of the consumers. The firms should produce what consumers want. All activities of the marketer such as identifying needs and wants, developing appropriate products and pricing, distributing and promoting them should be consumer — oriented. If these things are done effectively, products will be automatically bought by the consumers.

1. **Integrated Marketing:** The second feature of the marketing concept is integrated marketing i.e. integrated management action. Marketing can never be an isolated management action. Marketing can never be in isolated management function. Every activity on the marketing side will have some bearing on the other functional areas of management such as production, personnel or finance. Similarly any action in a particular area of operation in production or finance will certainly have an impact on marketing and ultimately on consumer. In a business firm that accepts the marketing concept as the corner stone of its business philosophy, no management area can work in isolation. Therefore in an integrated marketing setup, the various functional areas of management get integrated with the marketing function. Integrated marketing presupposes a proper communication among the different management areas with marketing

influencing the corporate decision making process. Thus, when the firms objective is to make profit — by providing consumer satisfaction, naturally it follows that the different departments of the company are fairly integrated with each other and their efforts are channelized through the principal marketing department towards the objective of consumer satisfaction.

2. **Consumer Satisfaction:** The third feature of the marketing concept is consumer satisfaction. The objective of the company adopting marketing concept is to satisfy the customers' needs so perfectly that they will become regular or permanent satisfied customer. For example, when a consumer buys a tin of coffee, he expects a purpose to be served, a need to be satisfied. If the coffee does not provide him the expected flavor, the taste and the refreshments his purchase has not served the purpose. Or more precisely, the marketer who sold the coffee has failed to satisfy his consumer. Thus, 'satisfaction' is the proper foundation on which alone any business can build its future.

3. **Realization of Organizational Goals:** Though the organizational goals may differ from firm to firm, though key areas such as innovation, market standings, profits and social responsibility are common to all firms. According to the marketing concept, the right way to achieve these organizational goals is through ensuring consumer satisfaction.

4. **Profit Creation:** A distinguishing feature of the marketing concept is that it considers the creation of profits as an essential requirement for any business concern. The marketing concept is against profiteering but not against profits. Reasonable returns or surplus are essential for the survival and growth of business orgnizations.

Importance of marketing concept
Business enterprises are conducting their marketing activities under the following five marketing concepts.

1. Production concept
Production concept is the oldest concept under which the businessmen produce goods thinking customers are interested only in low priced, extensively and easily available goods. Finishing and the interest of customers are not important for the manufacturers. They focus only on large scale production and try to make it available on large scale. They try to achieve high production efficiency and creating wide distribution coverage.

2. Product concept
Consumers favor those products that offer the most quality, performance and features is the basis of product concept. They believe that consumers are willing to pay higher cost for the goods or services which has extra quality. Companies which concentrate on product concept is focused on product improvement. They constantly improve the product quality and features to satisfy and attract the customers. Too much focus on product may go off the track and fail. For example, a biscuit manufacturer produced a new brand of biscuits with good color, ingredients and packing etc., without taking much importance in consumer tastes and preferences. This may fail in the market if the biscuit does not taste good to the ultimate consumer.

3. Selling concept

In selling concept, producers believe that the aggressive persuasion and selling is the essence of their business success. They think without such aggressive methods they cannot sell or exist in the market. They are focused on finding ways and means to sell their products. They believe that consumer themselves will not buy enough of the enterprises products or service by themselves. Hence they do a considerable promotional efforts to sell their product through advertisements and other means. Sales agents of electrical equipment's, insurance agents, soft drink/health drink companies and fund raisers for social or religious causes comes under this category. That is why we are getting lots of calls from insurance agents, even though insurance is a subject matter of solicitation. In short, selling concepts assumes that consumers on their own will not buy enough of enterprises products, unless the enterprise undertakes aggressive sales and promotional efforts.

4. Marketing concept

Under marketing concept the task of marketing begins with finding what the consumer want and produce a product which will meet the consumer requirement and provides maximum satisfaction. "Customer is the King" concept emerged from this point of view. In the process of evolution many organizations changed their way of thinking to match the marketing concept. Under this concept producers considers the needs and wants of consumers as the guiding spirit and deliver such goods which can satisfy the consumer needs more efficiently and effectively than the competitors. Marketing concept is consumer oriented and look forward to achieve long term profits by making a network of satisfied consumers. When an organization practice the marketing concept, all their activities such as research and development, distribution, quality control, finance, manufacturing, selling etc., are focused to satisfy the consumer needs and wants.

5. Societal concept

With the growing awareness of the social responsibility of the business, attempts made successfully to turn the business organizations socially responsible. Environmental deterioration, excessive exploitation of resources and growing consumer movements have necessitated the recognition and relevance of marketing based on socially responsible. Societal concept is the extension of marketing concept to cover the society in addition to the consumers. Under the societal concept the business organization must take into account the needs and wants of the consumers and deliver the goods and services efficiently so as to balance the consumers satisfaction as well as the society's well being.

Benefits of Marketing Concept

The major benefits of marketing concept are described below.

- **Benefits to Firms**: A firm that believes in the marketing concept always feels the pulse of the market through continuous marketing audit and marketing research. It is fast in responding to the changes in buyer behavior. It rectifies any drawback in its product and this proves beneficial to the firm. The firm gives more importance to planning, research and innovation and its decisions are no longer based on hunches but on reliable scientific data and the proper interpretation of such data. The profits for the firm become more certain.
- **Benefits to Consumers:** The concept on the part of various competing firms to satisfy the consumer puts the later in an enviable position. Reasonable prices, better quality and easy availability at convenient places are some of the benefits that accrue to the consumer as a direct result of marketing concept.
- **Benefits to Society**: The practice of marketing concept contributes to better life style, better standard of living and also results in the development of entrepreneurial talents. All these sets the pace for social and economic development.

What does Product Concept mean?

The basic proposition of the production concept is that customers will choose products and services that are widely available and are of low cost. So business is mainly concerned with making as many units as possible. By concentrating on producing maximum volumes, such a business aims to maximise profitability by exploiting economies of scale.
Managers try to achieve higher volume with low cost and intensive distribution strategy. This seems a viable strategy in a developing market where market expansion is the survival strategy for the business. Companies interested to take the benefit of scale economies pursue this kind of orientation.

What is Production Concept?

Production Concept is a belief that states that the customers would always acquire products which are cheaper and more readily available (or widely available). The production concept advocates that more the products or production more would be the sales. In countries where labor is cheap and easily available, the production can be maximized while minimizing the costs, hence increasing the production efficiency.
India and China are great examples of the Production Concept of marketing. China made sure that it increases its overall production through manual labor available by mass producing and distributing products across the world. Today China is one of the biggest exporters of its manufactured product across the globe. What China did in manufacturing, India did with information technology services by mass producing talent for IT. Today India is one of the biggest exporters of IT services. The production concept can easily explain the above two examples. The production concept is one of the few orientations which a company has towards the market. Other being - The Product Concept, The Selling Concept, The Marketing Concept and the Holistic Marketing Concept. In a production-orientated business, the needs of customers are secondary compared with the need to increase output. Such an approach is probably most effective when a business operates in very high growth markets or where the potential for economies of scale is significant. It is natural that the companies cannot deliver quality products and suffer from problems arising out of impersonal behavior with the customers.

What is Selling Concept?

The selling concept essentially mirrors the thought that consumers will not purchase enough of the company's products unless large-scale promotional and selling efforts are carried out by it.

Selling concept is one of the ideologies in marketing like production concept, product concept, holistic concept etc.

Selling concept is used for goods which customers don't buy normally, unsought goods like insurance etc. These goods are aggressively sold by tracking down the target segment and sold on the virtue of the product benefits. The final objective is to increase sales revenue and increase profits.

The focus in the selling concept is more on selling the products of the company to consumers without comprehending the market needs and increasing sales transactions rather than building and enhancing relationships with customers.

The selling concept works under poor assumptions that if customers are coaxed into buying a product then they will necessarily like it. Even if they don't like it, they'll forget their dissatisfaction over a period of time and buy the product again later.

The marketing concept:

The **marketing concept** is the philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs, better than the competition. Today most firms have adopted the marketing concept, but this has not always been the case. In 1776 in the Wealth of Nations, Adam Smith wrote that the needs of producers should be considered only with regard to meeting the needs of consumers. To better understand the marketing concept, it is worthwhile to put it in perspective by reviewing other philosophies that once were predominant. After world war II the variety of products increased and hard selling no longer could be relied upon to generate sales. With increased discretionary income, customer could afford to be selective and buy only those products that precisely met their changing needs, and these needs were not immediately obvious. The key questions became :

1. What do customers want ?
2. Can we develop it while they still want it
3. How can we keep our customers satisfied?

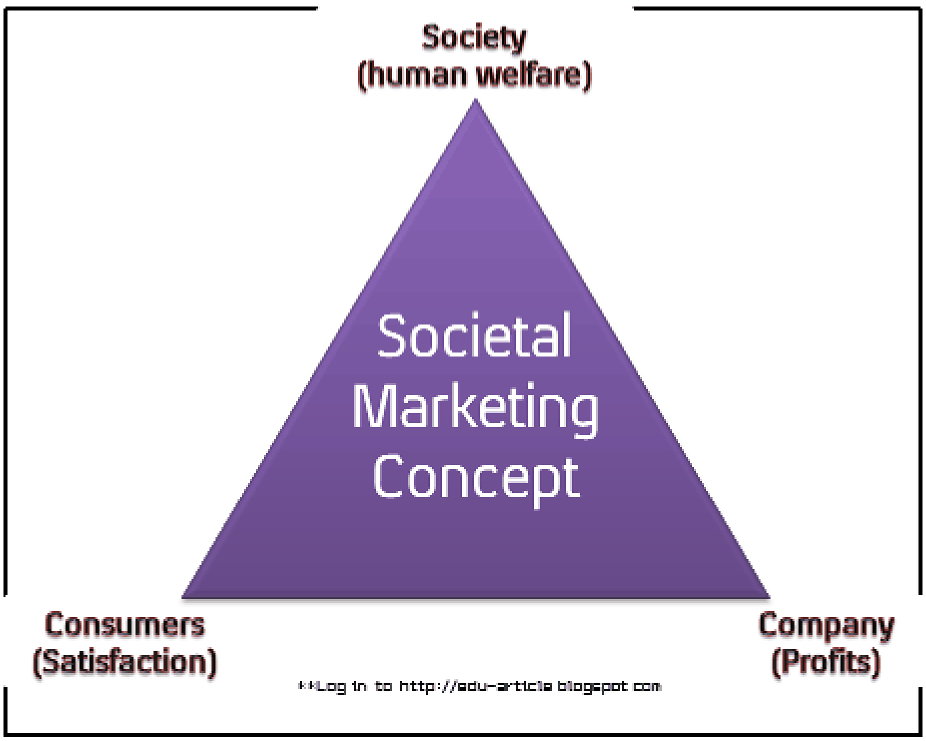
The marketing concept: The marketing concept emphasizes the **"pull" strategy**. This means that a brand is so strong that customers would always prefer your brand to others'. media marketing. It is a term closely related to CSR and sustainable development.

It emphasizes social responsibilities and suggests that to sustain.

It calls for sustainable marketing, socially, and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

The global warming panic button is pushed, and a revelation is required in the way we use our resources. So companies are slowly either fully or partially trying to implement the societal marketing concept.

Three Considerations of Societal Marketing Concept



Companies should balance three considerations in setting their marketing strategies: company profits, the consumer wants, and society's interests.

1. **Society (Human Welfare)**
   Companies must make sure the products, services, actions, investment innovations servers society first.

2. **Consumers (Satisfaction)**
   Products and services should be satisfying the consumer's needs.

Company (Profits)

Building long-term customer relationships, being socially responsible, and providing satisfactory products are important for profit-making and wealth maximization.

Objectives of Societal Marketing Concept

- To maintain a long-term relationship with customers.
- To create a better image in the society for the company than it's competitors.
- To carry out its social responsibilities.
- Developing community awareness towards its brands.
- To carry out its social responsibilities.
- To increase the consumer base and market share.

Importance of Societal Marketing Concept

Societal Marketing is very important to society, the environment, and businesses. This concept was developed to tackle the consumerism and profit only the motive of business.

The societal marketing concept helps to maximize profits for the organization and creates a long-term relationship with customers.

It encourages developing products that benefit society in the long run and satisfies consumers.

Instruments of Societal Marketing

Philip Kotler identified four categories of products based on long-term benefits and immediate satisfaction:

- **Deficient products** bring neither long-run nor short-term benefits.
- **Pleasing products** bring a high level of immediate satisfaction but cause long-term harm long in society.
- **Salutary products** bring low short-term satisfaction, Nut Benefit society in the long run.
- **Desirable products** bring both long-run benefits and immediate satisfaction.

Based on societal marketing, Kotler suggested deficient products must be eliminated from the market.

The pleasing and salutary products need modification so that they can bring both long-run benefits to society and immediate satisfaction to the consumer.

Marketing Environmental Analysis is strategic analysis tool. This process helps to identify those internal and external factors of the environment which affect the organization's abilities to work properly. A business leader develops company's structure, culture and policies to give clear guidelines to employees.

The environmental analysis assesses the business external environment to find out threat and opportunities. After evaluation, the decision makers develop strategies that respond to the environment.

The business market is very dynamic; everyone tries to develop ideas and products which compete in the market but suddenly the whole scenario changes. You cannot control each factor but develop marketing strategies that minimize the risk associated.

There are many business strategic analysis tools out there but the most popular is pestle analysis. This analysis tool is crucial for business success. It is not one-time activity. As I told earlier, market is dynamic and change quickly, that is why analysis should be repeated continuously for competitive advantage and responding to it positively.

Marketing Environmental Analysis Process

Simply, there is **four steps process to know your external environment**.

- **Step 1 – Understand PEST Factors:** Scan the environment find and understand as many factors and forces as possible
- **Step 2 – Identify Opportunities:** Monitor and observe any changes that are positive for your business environment
- **Step 3 – Identify Threats:** To what extent these changes will affect your organization
- **Step 4 – Take Action:** Take advantage of identified opportunities and take appropriate measure to minimize threats

How to Prepare Marketing Environmental Analysis

While preparing marketing environmental analysis, it is important to understand the external environment factors that affect your small business decision-making and performance. These factors are uncontrollable in a business environment, but once identified you can take advantage of opportunities and minimize the threats to your business.

Pestle Analysis is a widely used tool to analyze the external environment. The PESTLE factors consist of Political, Economic, Social, Technological, Legal and Environmental factors. All these factors can create both opportunities and threats which can affect every business industry to some extent.

Mostly small businesses apply only four factors Political, Economic, Social and Technological which are the most general variant among all variants of PEST. There are many other variations of PEST like PESTLEI, STEEP, STEEPLED, LONGPEST. All the additional components are the extension of ethical, Demographic and Industrial factors.

Political Factors

Political factors are set of government regulations that provide guidelines for business operations. Managers not only take into consideration national politics but also International politics that can also affect your business environment. Other factors are

- Government stability in the future
- Our Government foreign policy toward the export partner
- To what extent government is involved in trade unions and agreements
- Import and export regulations
- Freedom of Press
- Tax Laws

Economic Factors

Economic factors include all the important data of both market and economy. For example, business wants to open a new factory and need loan then must analyze the **conditions of credit availability**. While doing marketing environment analysis managers don't need to consider all economic factors but those which can affect negatively and positively. It will help to plan business financial strategy and save time and resources. Some of them are as under.

- Credit availability
- Labor cost
- Interest rate
- Fiscal and monetary policy
- Stock market tends
- Inflation rate
- Exchange rate

Social Factors

When managers planning business strategy they should consider societal changes over time, what is the mindset of communities nationally and internationally? Maybe there are hundreds of socio-cultural factors but find out the relevant factors affect product and services.

There are some social factors you can choose them according to your business needs

- Family size
- Income level
- Buying behavior
- Disposable income level
- Brand conscious or price conscious
- Attitude towards saving and investment

Technological Factors

Over the years traditional businesses are disappearing and new business taking over due to adopt innovative technologies. Those businesses performing environmental analysis on regular basis keep itself fully equipped and adopt new technology. This strategy gives organizations a competitive edge and is always one step forward from its competitors.

- How rapidly technology change
- Budget allocated to research and development
- Basic and communication infrastructure?
- Automation process

- Incentives

Legal factors

Legal factors affect business if not comply with all current and impending regulation and legislation. Companies must identify and analyze legal issues for all those countries they are operating. Regulatory bodies are responsible to regulate the business environment in a country. Organizations must comply with these regulations otherwise these regulations will affect businesses negatively.

- Consumer Protection laws
- Employees Protection laws
- Law of Health and Safety at Workplace
- Government Procurement Laws
- Product Regulations
- Patent infringement

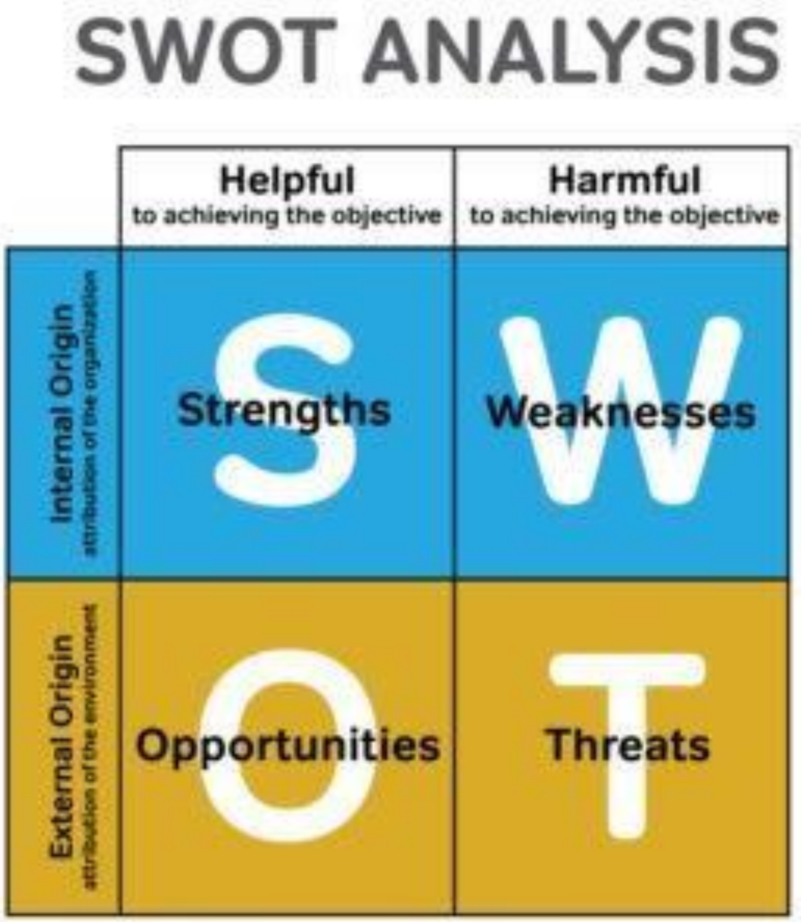
Micro Environmental Factors

Micro environments in retail is anything in the immediate environment including suppliers, customers, competitors, and stakeholders. Any government and other regulating body can be thought of as a stakeholder. Typically the micro environment is local to the business and any business owner should be well aware of those factors affecting the retail business.

Macro Environmental Factors

Macro environments are often outside of the retailer's control and are typically of a larger scale and are usually of an economic and industry viewpoint.

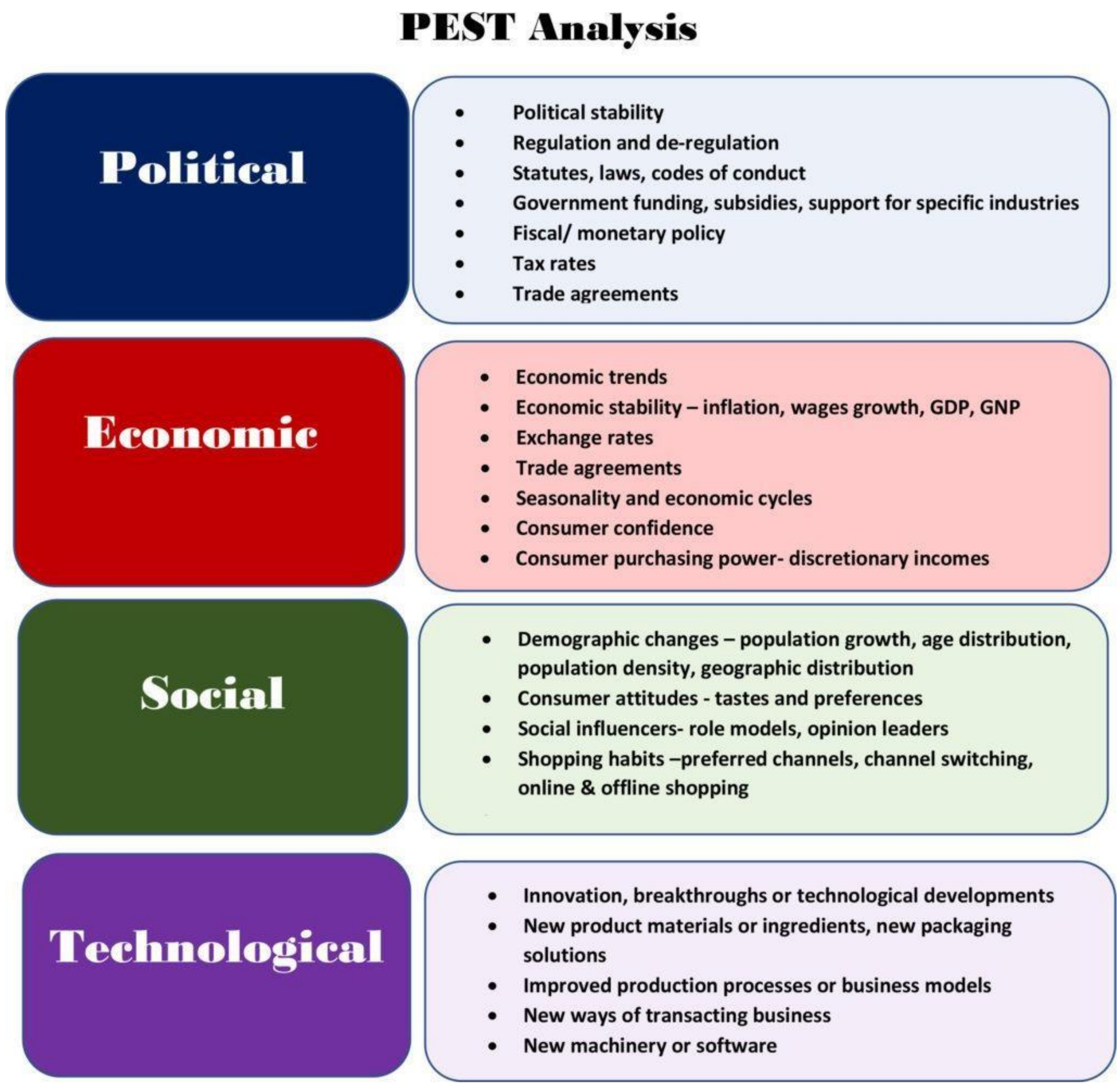
SWOT Analysis



In understanding micro and macro environments a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is commonly used in retail. Strengths and weaknesses are those internal factors impacting an organization while opportunities and threats are external factors that are outside of the organization's control. Look at these slides reporting on a **SWOT analysis of GAP Inc** then let's walk through a SWOT analysis for the GAP below.

Some of the positive internal attributes are franchising opportunities and global brand recognition. Strengths answer question such as: What value do we bring to the customer? What do we do well? What is making a difference? Some of the weaknesses include a dependence on outside vendors as well as long term debt. They also have a dependence on an older consumer. Weaknesses address questions such as: What needs improving? What isn't working? What do our customers dislike? In looking at those external opportunity factors affecting Gap that are positive you can see they have a market for plus size women's apparel and they are growing the online business. There is also an opportunity for growth in Asia. Opportunities address the following questions: What should be changed? What should the company start or stop doing? Finally, threats are those external factors that can't be controlled but are still a consideration. The Gap has strong competition, slow economic recovery, and increased labor costs. Threats answer the following questions: What are the threats to the business? Are there any economic, political, or customer trends? Are there any financial threats such as cost or debt?

In addition, PEST (Political, Economic, Social, and Technological) as well as Porter's 5-Forces analysis is also used as a way to understand new competition, the threat of new competition, the bargaining power of suppliers and customers, and the level of competition.



Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

Why is market segmentation important for marketers?

Market segmentation makes it easier for marketers to personalize their marketing campaigns.

By arranging their company's target market into segmented groups, rather than targeting each potential customer individually, marketers can be more efficient with their time, money, and other resources than if they were targeting consumers on an individual level. Grouping similar consumers together allows marketers to target specific audiences in a cost effective manner.

Market segmentation also reduces the risk of an unsuccessful or ineffective marketing campaign. When marketers divide a market based on key characteristics and personalize their strategies based on that information, there is a much higher chance of success than if they were to create a generic campaign and try to implement it across all segments.

Marketers can also us segmentation to prioritize their target audiences. If segmentation shows that some consumers would be more likely to buy a product than others, marketers can better allocate their attention and resources.

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Need for Market Segmentation (Why Market Segmentation?)

Not all individuals have similar needs. A male and a female would have varied interests and liking towards different products. A kid would not require something which an adult needs. A school kid would have a different requirement than an office goer. Market Segmentation helps the marketers to bring together individuals with similar choices and interests on a common platform.

- Market Segmentation helps the marketers to devise appropriate marketing strategies and promotional schemes according to the tastes of the individuals of a particular market segment. A male model would look out of place in an advertisement promoting female products. The marketers must be able to relate their products to the target segments.
- Market segmentation helps the marketers to understand the needs of the target audience and adopt specific marketing plans accordingly. Organizations can adopt a more focussed approach as a result of market segmentation.
- Market segmentation also gives the customers a clear view of what to buy and what not to buy. A Rado or Omega watch would have no takers amongst the lower income group as they cater to the premium segment. College students seldom go to a Zodiac or Van Heusen store as the merchandise offered by these stores are meant mostly for the professionals. Individuals from the lower income group never use a Blackberry. In simpler words, the segmentation process goes a long way in influencing the buying decision of the consumers.
- Market segmentation helps the organizations to target the right product to the right customers at the right time. Geographical segmentation classifies consumers according to their locations. A grocery store in colder states of the country would stock coffee all through the year as compared to places which have defined winter and summer seasons.
- Segmentation helps the organizations to know and understand their customers better. Organizations can now reach a wider audience and promote their products more effectively. It helps the organizations to concentrate their hard work on the target audience and get suitable results.

Market Segmentation

- Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference.
- A market segment is a small unit within a large market comprising of like minded individuals.
- One market segment is totally distinct from the other segment.
- A market segment comprises of individuals who think on the same lines and have similar interests.
- The individuals from the same segment respond in a similar way to the fluctuations in the market.

Basis of Market Segmentation

- **Gender**

  The marketers divide the market into smaller segments based on gender. Both men and women have different interests and preferences, and thus the need for segmentation.

Organizations need to have different marketing strategies for men which would obviously not work in case of females.

A woman would not purchase a product meant for males and vice a versa.

The segmentation of the market as per the gender is important in many industries like cosmetics, footwear, jewellery and apparel industries.

- **Age Group**

Division on the basis of age group of the target audience is also one of the ways of market segmentation.

The products and marketing strategies for teenagers would obviously be different than kids.

> Age group (0 - 10 years) - Toys, Nappies, Baby Food, Prams
> Age Group (10 - 20 years) - Toys, Apparels, Books, School Bags
> Age group (20 years and above) - Cosmetics, Anti-Ageing Products, Magazines, apparels and so on

- **Income**

Marketers divide the consumers into small segments as per their income. Individuals are classified into segments according to their monthly earnings.

The three categories are:

> High income Group
> Mid Income Group
> Low Income Group

Stores catering to the higher income group would have different range of products and strategies as compared to stores which target the lower income group.

Pantaloon, Carrefour, Shopper’s stop target the high income group as compared to Vishal Retail, Reliance Retail or Big bazaar who cater to the individuals belonging to the lower income segment.

- **Marital Status**

Market segmentation can also be as per the marital status of the individuals. Travel agencies would not have similar holiday packages for bachelors and married couples.

- **Occupation**

  Office goers would have different needs as compared to school / college students.

  A beach house shirt or a funky T Shirt would have no takers in a Zodiac Store as it caters specifically to the professionals.

Types of Market Segmentation

- **Psychographic segmentation**

  The basis of such segmentation is the lifestyle of the individuals. The individual's attitude, interest, value help the marketers to classify them into small groups.

- **Behaviouralistic Segmentation**

  The loyalties of the customers towards a particular brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a particular brand.

- **Geographic Segmentation**

  Geographic segmentation refers to the classification of market into various geographical areas. A marketer can't have similar strategies for individuals living at different places.

  Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season.

  McDonald's in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald's in US freely sells and promotes beef products.

Why Market Segmentation ?

A set-up where two or more parties (also called buyers and sellers) are engaged in transaction of goods and services in exchange of money is called a market.

At the market place the sellers sell their goods to the consumers (buyers) in exchange of money.

Let us go through the following examples:

Nokia offers wide range of handsets for both males as well as females.

The handset for females would be sleeker and more colourful as compared to sturdy handsets for males. Males generally do not prefer stylish handsets.

The organizations can't have similar products for all individuals.

Perfumes and deodorants for females have a sweet fragrance whereas perfumes for males have a strong fragrance.

A marketer can't have similar strategies for all consumers.

The process of creating small segments comprising of like minded individuals within a broad market refers to market segmentation. Market segmentation helps in the division of market into small segments including individuals who show inclination towards identical brands and have similar interests, attitudes and perception.

Need for Market Segmentation (Why Market Segmentation?)

Not all individuals have similar needs. A male and a female would have varied interests and liking towards different products. A kid would not require something which an adult needs. A school kid would have a different requirement than an office goer. Market Segmentation helps the marketers to bring together individuals with similar choices and interests on a common platform.

- Market Segmentation helps the marketers to devise appropriate marketing strategies and promotional schemes according to the tastes of the individuals of a particular market segment. A male model would look out of place in an advertisement promoting female products. The marketers must be able to relate their products to the target segments.
- Market segmentation helps the marketers to understand the needs of the target audience and adopt specific marketing plans accordingly. Organizations can adopt a more focussed approach as a result of market segmentation.
- Market segmentation also gives the customers a clear view of what to buy and what not to buy. A Rado or Omega watch would have no takers amongst the lower income group as they cater to the premium segment. College students seldom go to a Zodiac or Van Heusen store as the merchandise offered by these stores are meant mostly for the professionals. Individuals from the lower income group never use a Blackberry. In simpler words, the segmentation process goes a long way in influencing the buying decision of the consumers.

  An individual with low income would obviously prefer a Nano or Alto instead of Mercedes or BMW.

- Market segmentation helps the organizations to target the right product to the right customers at the right time. Geographical segmentation classifies consumers according to their locations. A grocery store in colder states of the country would stock coffee all through the year as compared to places which have defined winter and summer seasons.
- Segmentation helps the organizations to know and understand their customers better. Organizations can now reach a wider audience and promote their products more effectively. It helps the organizations to concentrate their hard work on the target audience and get suitable results.

Steps in Market Segmentation

1. **Identify the target market**

   The first and foremost step is to identify the target market. The marketers must be very clear about who all should be included in a common segment. Make sure the individuals have something in common. A male and a female can't be included in one segment as they have different needs and expectations.

   Burberry stocks separate merchandise for both men and women. The management is very clear on the target market and has separate strategies for product promotion amongst both the segments.

   A Garnier men's deodorant would obviously not sell if the company uses a female model to create awareness.

   Segmentation helps the organizations decide on the marketing strategies and promotional schemes.

   Maruti Suzuki has adopted a focused approach and wisely created segments within a large market to promote their cars.

   > Lower Income Group - Maruti 800, Alto
   > Middle Income Group - Wagon R, Swift, Swift Dzire, Ritz
   > High Income Group - Maruti Suzuki Kizashi, Suzuki Grand Vitara

   Suzuki Grand Vitara would obviously have no takers amongst the lower income group.

   The target market for Rado, Omega or Tag Heuer is the premium segment as compared to Maxima or a Sonata watch.

2. **Identify expectations of Target Audience**

   Once the target market is decided, it is essential to find out the needs of the target audience. The product must meet the expectations of the individuals. The marketer must interact with the target audience to know more about their interests and demands.

   Kellogg's K special was launched specifically for the individuals who wanted to cut down on their calorie intake.

   Marketing professionals or individuals exposed to sun rays for a long duration need something which would protect their skin from the harmful effects of sun rays. Keeping this in mind, many organizations came with the concept of sunscreen lotions and creams with a sun protection factor especially for men.

3. **Create Subgroups**

The organizations should ensure their target market is well defined. Create subgroups within groups for effective results.

Cosmetics for females now come in various categories.

- Creams and Lotions for girls between 20-25 years would focus more on fairness.
- Creams and lotions for girls between 25 to 35 years promise to reduce the signs of ageing.

4. Review the needs of the target audience

It is essential for the marketer to review the needs and preferences of individuals belonging to each segment and sub-segment. The consumers of a particular segment must respond to similar fluctuations in the market and similar marketing strategies.

5. Name your market Segment

Give an appropriate name to each segment. It makes implementation of strategies easier.

A kids section can have various segments namely new born, infants, toddlers and so on.

6. Marketing Strategies

Devise relevant strategies to promote brands amongst each segment. Remember you can't afford to have same strategies for all the segments. Make sure there is a connect between the product and the target audience. Advertisements promoting female toiletries can't afford to have a male model, else the purpose gets nullified.

A model promoting a sunscreen lotion has to be shown roaming or working in sun for the desired impact.

7. Review the behavior

Review the behavior of the target audience frequently. It is not necessary individuals would have the same requirement (demand) all through the year. Demands vary, perceptions change and interests differ. A detailed study of the target audience is essential.

8. Size of the Target Market

It is essential to know the target market size. Collect necessary data for the same. It helps in sales planning and forecasting.

❖ Target Marketing

Target Marketing refers to a concept in marketing which helps the marketers to divide the market into small units comprising of like minded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.

Kellogg's K Special mainly targets individuals who want to cut down on their calorie intake. The target market in such a case would be individuals who are obese. The strategies designed to promote K Special would not be the same in case of any other brand say Complan or Boost which majorly cater to teenagers and kids to help them in their overall development. The target market for Kellogg's K Special would absolutely be different from Boost or Complan.

Jordan, a college student went to a nearby retail store to purchase a shirt for himself. The retailer tried hard to sell a nice formal shirt to him, but somehow could not convince Jordan. Jordan left the store sad and empty handed.

Where do you think is the problem ?

The problem is neither with Jordon nor the shirt. The retailer in this case failed to understand that Jordan, being a college student, was not the target audience for the formal shirt. No amount of convincing helped as the retailer was targeting the wrong audience. The target market for a formal shirt would be office goers or professionals. Funky T shirts, casual shirts would have worked better for Jordon.

The target market for Zodiac Clothing Company Limited or Louis Philippe would be the office goers whereas the target market for Levi's would be the school and college kids.

The target market for Cat moss or Giny and Jony would be kids.

In simpler words, target market consists of like-minded individuals for whom an organization can afford to have similar strategies, promotional schemes and advertisements to entice them and prompt them to purchase the product. Once a company decides on its target audience, it implements various promotional strategies to make a brand popular amongst them.

Basis of Target Marketing

- Age
- Gender
- Interests
- Geographic location
- Need
- Occupation

Why target marketing? (Need of Target Marketing)

- Organizations can use similar kind of strategies to promote their products within a target market.
- They can adopt a more focussed approach in case of target marketing. They know their customers well and thus can reach out to their target audience in the most effective way.

How to create Target Market

- The organization must first decide who all individuals would fit into a particular segment. A male and a female can't be kept in the same segment. The first and the foremost step is to decide on the target market.
- The next step is to identify need and preference of the target market. It is essential to find out what the target market expects from the product.
- Once the target market is decided, organizations can decide on the various strategies helpful to promote their product.

❖ Marketing Mix: Components of 7Ps

Product policy is concerned with defining the type, volume and timing of products a company offers for sale. The product policies are general rules set up by the management itself in making product decisions. Good product policies are the basis on which the right products are produced and marketed successfully.

A product policy generally covers the following:

1. Product Planning and Development

2. Product Line

3. Product Mix

4. Product Branding

5. Product Positioning

6. Product Packaging

Product policy is concerned with defining the type, volume and timing of products a company offers for sale. The product policies are general rules set up by the management itself in making product decisions. Good product policies are the basis on which the right products are produced and marketed successfully. Product policies are the objectives and guide lines which determine the nature of the product or services to be marketed.

1. Product Planning and Development: Product planning means an attempt to establish the product in line with market needs. It is defined as the act of making out and supervising the search, screening, development and commercialization of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items. The planning and development of new products, though a vital necessity for all progressive enterprises, constitute a costly process. They involve risks and hazards also.

In order to reduce the risk, a few logical steps are followed in a new product planning and development. These are as follows:

Exploration: The first step is the generation of ideas. Ideas about new products or improvement of old products or processes may come from:

(a) internal sources like salesmen, non-marketing employees, middle managers and top management,

(b) external sources like customers, distributors, advertising agencies, laboratories, private research organisations, trade associations, government agencies and the like.

Some techniques have also been developed over the years which are useful in generating ideas. Among them are gap analysis, attribute listing and brain storming, forced relationships, morphological analysis, problem identification and synectics.

Gap Analysis:

Gap analysis attempts to find out gaps in the market where there exist unsatisfied consumer demand and opportunities for a new product.

Attribute Listing:

Attribute listing involves the preparation of a list of the attributes of a product and formulation of methods to modify them in order to see if a new combination of attributes can be evolved for the improvement of the product.

Brain Storming:

Brain storming in an organised group exercise like a stormy meeting of about six to eight creative personnel specially convened to stimulate new ideas. The chairman of a brainstorming session which generally lasts about an hour and a half leads saying, “Remember now, I want each one of you to come out with an idea of new product or an improvement of an old product. The wilder the idea, the better.” Freewheeling is welcomed, combining and improving ideas is encouraged, quantity is encouraged and criticism is ruled out.

Forced Relationships:

Here several objects are listed and each product is considered in relation to every other object.

Morphological Analysis:

Morphology means structure and this method calls for identifying the structured dimensions of a problem and examining the relationship among them.

Need/Problem Identification:

Need or problem identification starts with the consumer. Consumers are asked about needs, problems and ideas. The various problems would be rated for their seriousness, incidence and cost of remedying to determine which product improvements to make.

1. Synectics: For the development of sufficient number ofperspectives, Gordon has developed this method. Gordon decided to define the problem so broadly that the group would have no inkling of the specific problem.

Gordon described five principles underlying the synectics method:

Deferment, autonomy of object, use of the commonplace, involvement or detachment and use of metaphor.

2. Screening: The purpose of idea generation is to create a large number of ideas. The purpose of succeeding stages is to reduce the number of ideas to an attractive, practicable few. The first idea- pruning stage is screening.

In screening the ideas, the company must avoid two types of errors:

A DROP error occurs when the company dismisses an otherwise good idea. If a company makes too many DROP-errors, its standards are too conservative. AGO-error occurs when the company permits a poor idea to move into development and commercialisation. The purpose of screening is to spot and drop poor ideas as early as possible.

3. Conceptualisation:

It would be the height of folly to develop all the ideas generated in the first step into concrete business proposals. Many of these can be eliminated just on the basis of theoretical evaluation. So only those ideas that survive screening are taken up for expansion into concrete business propositions in terms of costs, idea, manpower requirement and the like, It is quite possible that at this stage of conceptualisation some ideas may just fall through because they cannot be turned into concrete proposals which are viable enough.

4. Comparative Evaluation:

The limited numbers of product concepts that have come out of the third stage are now subjected to close scrutiny. This takes place with an eye to profitability and other cost-benefit analysis. All the available talents in the concern are brought together. In some cases, the different product concepts may even be sent to a cross section of possible customers and their opinion sought about the acceptability of the particular production.

5. Product Development:

During this stage the ‘idea on the paper’ is turned into a product on hand’. In other words, the idea is converted into a product that is producible and demonstrable. This stage is also known as ‘Technical Development’. During this stage all the developments of the product, from idea to final physical form take place.
Once the management decides to go ahead with the product idea, the proposal is now turned over to the engineering or production departments for the making of a product. But to start with, it is made only in small quantities.

6. Test Marketing:

Under test marketing, the product is introduced in selected areas often at different prices in different areas. These tests would provide the management an idea of the amount and elasticity of the demand for the product.

The objectives of tests marketing are:

(a) To evaluate a complete marketing plan including advertising, distribution, sales, pricing and others;

(b) to determine the promotional media mix, channels, etc.; and (c) to forecast the likely sales volume.

7. Commercialisation:

In this stage, the product is submitted to the market. Commercialisation is also the phase where marketing is most active in connection with the new product. This stage is considered to be a critical one for any new product and should, therefore, be handled carefully.

The following activities are usually undertaken during this stage:

(a) Completing final plans for production and marketing,

(b) initiating coordinated production and selling programmes, and

(c) checking results at regular intervals.

8. Market Entry:

Generally, a company does not put a new product into full national distribution from the beginning. In commercialising a new product, market entry timing can be critical.

The company faces three choices:

(a) First Entry:

The first firm entering a market usually enjoys first mover advantages consisting of locking up some key distributors and customers and gaining reputational leadership.

(b) Parallel Entry:

The firm must time its entry with the competitor. If the competitor rushes to launch the product, the company does the same. On the contrary, if the competitor takes its time, the company also takes time, using the extra time to refine its product.

(c) Late Entry:

The firm might delay its launch until after the competitor has entered.

2. Product Line:

The product line is a group of products that are closely related either because they satisfy a class of need or are used together or sold to the same customer groups or marketed through the same type of outlets or fall within given price ranges.

According to Stanton, A broad group of products intended for essentially similar uses and possessing similar physical characteristics constitutes a product line. For example, Bajaj Electricals turns out fans, electric lamps, cables, electric irons, heaters, transformers and so on.

The important advantages are:

(a) It provides for fuller utilisation of productive capacity.

(b) It facilitates entry into new items without extra marketing expenses.

(c) It enables the marketer to consolidate his advertising and promotional strategy.

(d) It promotes consumer satisfaction.

(e) It acts as a deterrent to competitors who try to step in.

(f) It increases the profitability of the company.

(g) It also satisfies the dealers.

(h) It reduces the risk.

(i) It avoids seasonal fluctuations in sales.

Product Line Decisions:

In fact, decision about adding a new product is not different from other managerial decisions. Taking decision of the product line depends upon a number of factors:

(a) Company's objectives

(b) Product specialisation

(c) Product influences

(d) Elimination of unsought goods

(e) Marketing influences

(f) Buying habits

(g) Changes in market demand

(h) The distribution net-work

(i) The company's cost structure

(j) The availability of raw material

3. Product Mix:

It is a broad term which refers to the total assortment of different commodities marketed by a firm. It is, however, treated as a composite. According to Stanton, "The product mix is the full list of products offered for sale by a company". It may range from one or two product lines to a combination of several product lines or groups.

Characteristics:

There are four principal characteristics:

(a) Length:

Length of the product mix refers to the total number of items in its product mix.

(b) Depth:

Depth refers to average number of items sold by a company within a single product line.

(c) Width:

Width is judged by the number of different product lines dealt with by a company.

(d) Consistency:

Consistency means how many product lines are closely related in production requirements, distribution process, end use, etc.

These four characteristics of the product mix provide the handles for defining the company's product strategy.

Advantages:

1 More products mean choice for customers and thereby more consumer satisfaction.

2. Costs of maintaining the sales force are reduced if more products are distributed through the same outlets.

3. Advertising of a wide range of products is likely to yield better results.

4. It may be possible to overcome inefficient middlemen and set up direct distribution to consumers and end users.

5. Production of items with a few minor changes in the model results in lowering cost per unit of production.

Factors Influencing Change in Product Mix:

Product mix is affected by several factors and particularly changes in the product may be due to the following factors:

(a) Goodwill of the company

(b) Competitors' attitude

(c) Financial position of the company

(d) Change in company's plan

(e) The purchasing power of consumers

(f) The change in demand of a product

(g) The introduction of by-products

(h) Possibility of adding new product with least cost

(i) The existing marketing capacity

(j) Advertising and distribution factors

Strategies of Product Mix:

The following strategies are generally employed by the producer of the product:

(a) Expansion of Product Mix:

Under expansion of product mix, a company may expand its present product mix by increasing the number of product lines or increasing the number of product items. It is also known as product diversification. The diversification may be concentric diversification, horizontal diversification or conglomerate diversification.

(b) Contraction of Product Mix:

Under certain circumstances, the management has to drop the production of non-profitable products. The company's product line managers periodically review items for product line contraction. Sometimes the company may either eliminate an entire line or simply the assortment within a line. After that, the manager should concentrate on producing the higher margin items.

(c) Alteration of Existing Products:

Instead of developing a new product, the management should take a fresh look at the company's existing products. Very often improving an established product can be more profitable than introducing a new one. The alterations may be introduced in the colour, design, packaging, etc.

(d) Positioning the Product:

Positioning is an attempt to distinguish the particular product from its competitors along real dimensions in order to be the preferred product for certain market segments. Positioning aims to help customers to know the real differences between competing products so that they can match themselves and thereby satisfy their needs best.

(e) Trading Up and Trading Down:

Trading up refers to the adding of higher priced and more prestigious products to their existing line in the hope of increasing the sales of existing low priced products. Trading down refers to the adding of lower priced item to its lines of prestigious products in the hope that people who cannot afford the original products will want to buy the new one, because it carries some of the status of the higher priced product.

(f) Product Differentiation:

Products are assumed to be homogeneous under perfect competition. Today the markets are no more perfect. We live in a world of monopolistic competition where there are competing monopolies. Here products are similar but not identical. Products are close substitutes for one another. For instance, in the case of toothpaste there are several brands such as Colgate, Signal, Binaca, Forhans, Close-up, etc.

The purpose of product differentiation is to make their goods look superior. It is this product heterogeneity which provides monopoly power to the firm.

E.H. Chamberlin has mentioned two types of differentiation:

(i) Differentiation based upon the characteristics of the product itself. This includes real and imaginary differences.

(a) Real differences—Materials used, design and workmanship.

(b) Imaginary differences—Advertising, packaging and brand names.

(ii) Differentiation based upon the conditions surrounding the sale of the product. Theyare convenience of location of the shop, courtesy, reputation for fair dealing, etc.

Porter identifies 'differentiation' as one of the three generic strategies a firm can adopt to secure its competitive advantage in an industry. The other two are 'cost leadership' and 'focus'. According to Porter, "Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price".

Models of product differentiation tend to be of two types:

(a) Address Type Models:

Here goods are characterised by their attributes. Address type models seek to characterize the degree of product differentiation in equilibrium.

(b) Non-Address Type Models:

Here, there is a set of goods that can be produced, and consumers have tastes over the range. Consumers like variety.

(g) Market Segmentation:

The concept of market segmentation is an outgrowth of the marketing concept. Its main thrust is to give separate attention to the distinctive characterisation of each segment. Market segmentation has been defined by Stanton as, "The process of taking the total, heterogeneous markets for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects."

Conditions for Effective Segmentation:

The four important conditions are:

(i) Measurability:

The characteristics of the market segment or the buyers comprising it must be such as to be physically determinable. They must be measurable or quantifiable.

(ii) Accessibility:

The market segment must be accessible through the existing channels of distribution, advertising media, sales force and so on, but all at reasonable cost.

(iii) Substantiability:

The segment must be large enough to be profitable. Conceptually, a firm treats each customer like a separate segment.

(iv) Responsiveness:

It is also necessary that the segment must be willing to react favourably to an appropriate marketing programme. The degree of willingness may vary, but some amount of willingness must be a basic condition.

Basic Approaches:

When a marketer decides to adopt a segmentation strategy, he can adopt either of the two basic approaches or he can combine both into a kind of grid.

These are:

(i) Consumer Characteristics Approach:

This is the oldest form of approach. It consists in identifying established groups of consumers, about whom many things are already known, analysing their characteristics and finding out how these groups differ from others according to their common characteristics.

(ii) Product Approach:

This is a recent origin. It takes up a product and studies its buyers to determine what differences exist between them and its non-buyers. Thus a study may be made on how buyers of brand X differ from those of brand Y.

(iii) Product-Consumer Grid Approach:

This approach is more refined and analytical. It consists in developing a grid on the basis of two important factors, namely, possible products and possible consumer groups and then finding out which particular combination in the grid fits the company's position.

Advantages:

The advantages of market segmentation may be summed up as follows:

(a) To determine what promotional approach will be most effective for the company.

(b) To design products that really matches market demands.

(c) To direct money and effort to the potentially most profitable markets.

(d) To choose advertising media more intelligently and determining how to allocate better the budget among the various media.

(e) I o set the timing of the promotional efforts so that they are heaviest during those times when response is likely to be at its peak.

(f) To provide various types of information which are useful in marketing research, product development and evaluation.

Disadvantages:

The disadvantages of market segmentation are as follows:

(i) Production costs rise because runs are shorter and variations are introduced into the assembly process.

(ii) Media discounts may be lost, as varied advertising campaigns are employed.

(iii) Research expenditures rise because more and more market segments are investigated.

(iv) Sales in one market segment may be sacrificed as another segment is served.

4. Product Branding:

Branding is a major issue in product strategy. On the one hand, developing a branded product requires a great deal of long term investment spending, especially for advertising, promotion and packaging. On the other hand, those manufacturers eventually learn that the power lies with the brand name companies. Branding is the process of identifying the name of the producer with the product. The essence of branding is identification of particular product from among rival products.

Branding is a general name describing the establishment of a brand name, a brand mark or trade mark for a product.

According to American Marketing Associations:

i. Brand is a name, term, symbol or design or a combination of them which is intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors.

ii. Brand name may be in the form of words, letters or numbers which may be localised.

iii. A brand mark is that of a brand which appears in the form of a symbol or design or distinctive colouring or lettering.

In short, brand name refers to the product, trade name refers to the company, trade mark refers to the brand name with legal protection. In certain cases, brand name and trade name are combined. Trade mark should be registered with the authorities specified under the relevant law.

Branding Process:

Branding is done normally in the following way. A brand name is selected. It then becomes a part of the product. Whenever it is put in the market, it carries the said name. In course of time, the impression spreads. The branded product is generally marketed independently. If a new name has been adopted, it has to be followed by intense advertising and promotional efforts to develop consumer awareness and acceptance. Thus branding has almost the same effect as monopoly in marketing.

Branding Objectives:

The main aim of branding is to build an image about the product which is associated with the brand. A powerful brand name is said to have consumer franchise. This is evidenced when a sufficient number of customers demand that brand and refuse a substitute even if the price is somewhat lower. Distributors want brand names as a means of making the product easier to handle, identifying supplies and increasing buyer preference. Customers want brand names to help them identify quality differences and shop more efficiently.

Types of brand name:

(a)	Company name	Glaxo
(b)	Coined name	Krackjack
(c)	Dictionary word	True biscuits
(d)	Descriptive name	Ponds face powder
(e)	Geographical	Bombay Dyeing
(f)	Historical names	– Taj mahal Tea
(g)	Personal name	– Tata
(h)	Suggestive name	Quick fix

Types of Brands:

(i) According to their origin or nature, brand names may be classified as follows:

(a) Symbols— H.M.V's dog

(b) Letters — I.T.C for India Tobacco Company

(c) Name of the founder or family — Tata Steel

(d) Company name — IBM Computers

(e) Words having some relation to the product — Quick fix (Resin)

(f) Words or figures which have no relation to the product — 501 Bar Soap

(g) Words which have originated as brand names — Aspirin

(ii) Brand may be classified as:

(a) National or manufacturers —Dalda Vanaspati

(b) Private or middlemen — Roebuck and Company

(iii) Brand may also be classified as:

(a) Family brand — A firm adopts for a variety of products, i. e. Johnson and Johnson

(b) Individual brand — A firm adopts for each of its products

(c) Combination device — Products have individual name and company brand e.g. Tata's Taj.

Different Degrees of Branding:

(a) Brand Insistence:

The customers may insist on a particular brand and refuse to accept the substitute. It is called brand insistence.

(b) Brand Preference:

The customers may prefer a particular brand to a number of other brands available. It is called brand preference.

(c) Brand Recognition:

It is the least loyalty which makes the consumer buy that brand when the preferred brand is not available.

Basic Requirements of Branding*:*

(a) There must be enough and more demand for the product.

(b) There must be widespread supply of the product.

(c) The quality of the products should be ensured.

(d) There should be effective distribution of the product.

(e) The product should be distinctive.

Characteristics of a Good Brand:

A good brand should possess the following characteristics:

(a) A brand should suggest a few benefits about the product such as its use, quality, content and mode of action.

(b) The brand should be neither descriptive nor deceptive.

(c) The name should be easy to pronounce, spell and remember.

(d) A brand name should be short and simple.

(e) A brand name should be distinctive.

(f) A brand name should be versatile so that it can be applied to new products.

(e) A brand name should be adaptable to any advertising medium.

(f) A brand name should be capable of being registered and protected legally.

(g) A brand name should be selective so that it can be suited to the specific market.

(h) It should not be obscene or offensive.

(k) A brand should not resemble other brand name.

Advantages:

A brand is advantageous both for consumers and manufacturers.

(i) To the Consumers:

(a) Consumers find it easy to identify the product.

(b) Producers maintain quality throughout so that consumers get quality goods.

(c) Consumers are protected as the brand identifies the firm.

(d) Branding ensures reliability, standardisation and quality.

(e) Many people get satisfaction in certain brands.

(f) It saves time in his shopping.

(ii) To the Manufacturer

(a) It works like a cumulative force, promotes repeat sales and stabilises the sales volume.

(b) It establishes an image of the product and the company.

(c) It helps in introducing the new products.

(d) It enables a manufacturer to eliminate middlemen.

(e) It assists him in withstanding price competition.

(f) It helps in reducing selling cost.

(g) It distinguishes products from rival firms.

Disadvantages:

The disadvantages of branding are:

(a) The product price tends to go up.

(b) It involves heavy expenditure and sustained effort to establish a brand.

(c) It imparts a sort of rigidity to the product.

(d) Manufacturers taking advantages of the popularity may reduce the quality gradually.

(e) The selection of a proper brand name also creates problems.

5. Product Positioning:

Product positioning refers to a brand's objective attributes in relation to other brands. It is a characteristic of the physical product and its functional features. Position is the art of selecting, out of a number of unique selling propositions, the one which will get you maximum sales. Product positioning is so central and critical that it should be considered at the level of mission statement. It comes to represent the essence of a business.

Components of Product Positioning:

There are four important components of product positioning and they are:

(i) Perpetual Mapping:

Perpetual mapping technique identifies the two dimensions that differentiate consumer perceptions of products and the positions of existing products on these dimensions. Perpetual mapping is usually represented on two dimensional scales so that the marketing manager can readily see where his own brand is positioned in the mind of his prospective buyers and in relation to other brands. In short, measuring the perception in mathematical psychologists way is known as perpetual mapping.

(ii) Product Benefits:

Product benefits facilitate consumers in their decision making. It also reduces uncertainty in their minds. Product benefits can be offered through branding because the brand owner is able to earn an easy recognition and image compared to owners of unbranded products. Product benefits can be converted into brand benefits to achieve prestige, legal right, basis for successful demand, creational activity, sales stability, widening the market area, and innovations. It constitutes the heart of product management.

(iii) Market Segmentation:

In market segmentation, consumers are grouped in terms of market dimensions and the firm attempts to match the need of different consumer groups through compatible marketing inputs. The different types of segments are geographic segmentation, demographic segmentation, socio-psycho- logical segmentation, product segmentation, benefit segmentation, volume segmentation, marketing factor segmentation and life style segmentation.

(iv) Product Categories:

Products are generally categorised into consumer and industrial goods. The category of consumer goods is still too broad to formulate specific market strategy.

So consumer goods may be further subdivided into:

(a) Convenience goods,

(b) Shopping goods,

(c) Speciality goods, and

(d) Impulse goods.

(a) Convenience Goods:

Convenience goods are those goods which are brought with the maximum of convenience such as ready availability and satisfaction of immediate and frequent requirements, low unit price and more or less standard quality and uniform price.

(b) Shopping Goods:

Shopping goods are those goods which are bought by consumers after some shopping, i.e., making comparisons about their price, style and suitability in general in a number of shops.

(c) Speciality Goods:

Speciality goods are those goods to get which significant number of consumers is habitually willing to make special purchasing efforts. Examples of speciality goods are home appliances, wrist watches, automobiles, etc.

(d) Impulse Goods:

Impulse goods are those goods that are purchased by the consumers on the basis of sudden emotions or impulses.

On the basis of benefits provided to the users, consumer goods may also be divided into:

(a) Durable goods, and

(b) non-durable goods.

Durable goods are all those goods that last long or they can be used again and again. In the process of consumption, they suffer some depreciation. Examples are: motor car, furniture, clothing, etc. Non-durable goods are those goods which cannot be used for long. They get exhausted after one or few uses. Examples are food items, medicines, toiletries, etc.

Industrial Goods:

Goods which are used for production or used in producing other products are industrial goods. The industrial goods are further classified into:

(a) Raw Materials:

Raw materials are the basic materials entering physically into the final products. Examples are raw cotton, raw jute, oil seeds, etc.

(b) Fabricated Materials:

Materials of this category will enter physically into the final products, but some type of processing is already undergone. Examples are leather, yarn, bricks, etc.

(c) Component Parts:

Such type of parts are already undergone some processing and more or less the parts can be called as final products, that is, assembly of several component parts makes the final products. The components are visible in the final product such as tyres, speedometer, spark plugs and spare parts.

(d) Installation:

Machines, buildings, equipment's, etc. do not enter into final products and are durable for a long period. They are essential for production. Examples are gas, power installation, etc.

(e) Accessories:

They are light machines or tools which are used for the operation of a business. They are not used for manufacturing a product. Examples are hand tools, type-writers, calculators, etc.

6. Product Packaging:

Packaging is an important tool for face lifting of a product. Packaging is intended to protect, identify, differentiate, improve handling, convenience, and promote the sale of the product. Package, therefore, has become virtually a part of the product. The package has been rightly described as the 'silent salesman.'

According to Louis C. Baril, "Packaging may be defined as the protection of materials for all kinds of means of containers so designed as to prevent damage to contents by outside influences". Stanton defines packaging "as the general group of activities in product planning which involve designing and producing the container or wrapper for a product". According to the Indian Institute of Packaging, "It is the embracing function of package selection, manufacture, filling and handling."

Kinds of Materials Used for Packaging:

The following materials are generally used for packaging:

(i)	Paper —	Soap
(ii)	Tin —	Biscuits
(iii)	Plastic —	Oil

(iv)	Glass —	Medicine
(v)	Card Board —	Fragile articles
(vi)	Straw Baskets —	Vegetables
(vii)	Gunny Bags —	Grains
(viii)	Wooden Boxes —	Apple
(ix)	China Jars —	Products need protection against light
(x)	Earthenware —	Liquor

Functions of Packaging:

The following are the important functions of packaging:

1. Protection:

The packaging is intended to give protection to the product against the following:

(a) Damage by machine handling

(b) Product loss from spilling and evaporation

(c) Pilferage

(d) Contamination

(e) Moisture

(f) Heat

(g) Light exposure

(h) Insect or fungus attack

(i) Rain

(j) Chemical transformation

(k) Loss of freshness

2. Convenience:

(a) Convenience of storage in warehouses, shops and house-shelves

(b) Convenience in use

(c) Convenience in handling

(d) Convenience in opening

3. Identity of the Product, Firm and Brand:

Package helps to identify the products, through colour, lettering, size, shape, material and text.

4. Package acts as the Carrier of Message: It provides product information. Wherever possible some message or information is printed or embossed on the package.

5. Re-use or Scrap: Packages are prepared in such a way that can be used for storing other articles. Some packages are so designed that refills can be bought at an economic price and the same product can be used in the original container. Even if the package cannot be re-used very well, it can be used as a scrap.

6. Reduces Transport Cost: The most important factor in packaging is the cost. Bulky cotton or fabrics are compressed into bales. By the use of light weight and at the same time strong materials for packing, transport cost can be reduced. So package must be strong enough to undertake the strain of the journey.

7. Product Differentiation: Products with narrow differences can be differentiated easily with the help of packing. Washing soaps like 555, Rin, Wheel, Henko, etc. can be identified only with the help of the wrapper. Changing the package is the easiest and inexpensive way to practice product differentiation.

8. Sales Promotion: The use of package provides the product a prestige. Attractive package induces sales. Package provides an extra attraction to affluent buyers who may buy the product just to get its special package.

Characteristics of a Good Package:

The package to be effective should have the following characteristics:

1. Attract attention

2. Clean and sanitary

3. Establish identity

4. Develop and sustain interest

5. Convenient to handle

6. Enhance the image of the product

7. Instil itself in the memory of the consumer.

Factors involved in the Development of a Package:

The development of packaging is the sum total of the talents of the designer, the researcher, the technician, the advertising man, the marketing expert, the sales department and top management. The important factors or considerations involved in the development of a package are size, shape, colour, material, text and cost.

The size of a package should be handy and convenient. Identification of the product is accomplished through the shape. Shape is also more a factor of convenience. The colour of a package should be such as to attract the eye of the purchaser. Packaging is intended to protect the product.

A protective package has to be made of metal which is widely used in packing medicines. Package should also act as a carrier of message. To suit this purpose, some special type of material may be used by a packager. The packager should also keep down the cost of packaging to the minimum.

Kinds of Packaging:

The following are the types of packaging:

1. Consumer Package: It refers to the package which holds the required volume of product for household consumption. For example toothpaste.

2. Family Package: The different products of a particular company are packed in a uniform way. Application of the same material and method of packaging for all products is called family packaging. For example, Tata oil and Shampoo.

3. Dual Use Package: It is also known as reuse package. It refers to package that could be reused after its contents are fully consumed. For example, glass jars, plastic containers and cotton bags.

4. Multiple Packages: The method of placing several units in one container is known as multiple packaging. For example, Baby's care set, cosmetics and perfumes set.

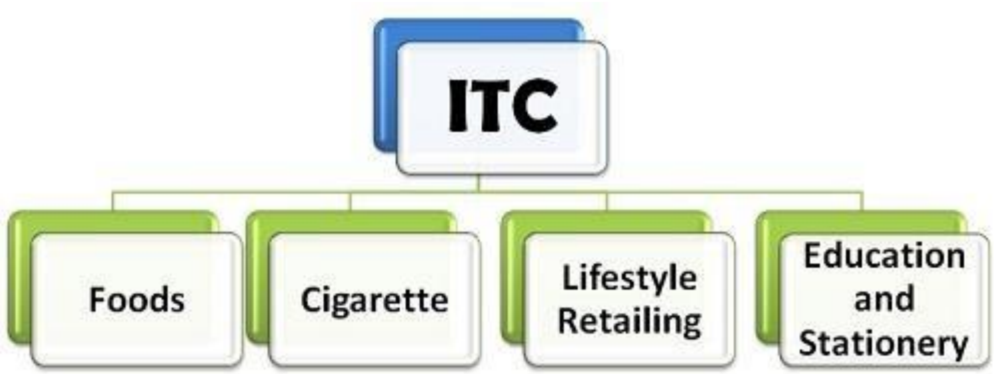
5. Bulk Package: Bulk package is useful for supplying the product to the industrial consumers in large quantities. Similarly, bulk package is used for loose dispensing by the dealers.

❖ Product Mix

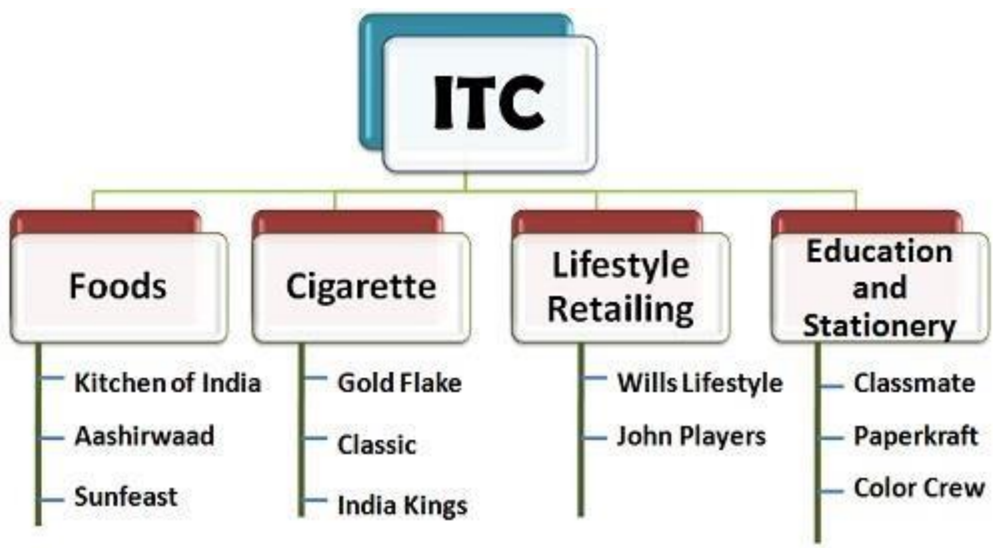
Definition: The **Product Mix** also called as **Product Assortment,** refers to the complete range of products that is offered for sale by the company. In other words, the number of **product lines** that a company has for its customers is called as product mix.

The Product Line refers to the list of all the related products manufactured or marketed by a single firm. The number of products within the product line are called as the items, and these might be similar in terms of technology used, channel employed, customer's needs and preferences or any other aspect. For example, the product lines of ITC are FMCG, Hotels, Paper Board and Packaging, Agribusiness.

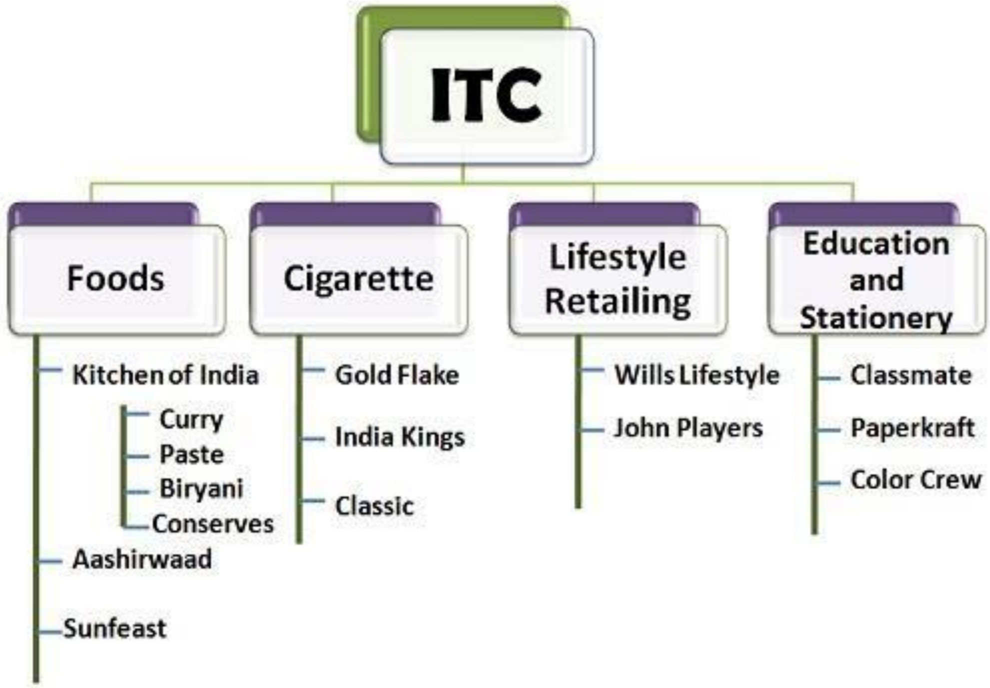
The product mix has four dimensions: **Breadth**, **Length, Depth**, and **Consistency**. The **Breadth of a product mix** shows the different kinds of product lines that firm carries. Simply, it shows the number of items in the product line. This dimension of the product mix represents the extent to which the activities of the firm are diversified. In the example below, there are 4 product lines that show the width of the ITC.



The **Length of a Product mix** refers to the number of items in the product mix. In the example below the length is 11. As in the foods line, the number of items is 3, in cigarettes is 3 and so on.. On adding all the items, we get the length of a product.



The **Depth of a product mix** refers to the variants of each product in the product line. For example, in the example below, curry, pastes, biryanis, conserves, etc. shows the depth of the foods product line.



The **Consistency of a product mix** shows the extent to which the product lines are closely related to each other in terms of their end-use, distribution requirements, production requirements, price ranges, advertising media, etc. In the above example, it is clear that ITC's product lines are less consistent as these perform different functions for the buyers.

These terms in a product assortment help the firm to take a decision regarding the addition or removal of the product items in the product lines. Generally, the firms introduce a new product item into the existing product line as it is easy to gain the customer support for the new product due to the customer's familiarity with the existing product line.

❖ <u>Product Planning</u>

Why is a Product Important?

A product is a bundle of utilities consisting of various product-features and accompanying services expected to yield satisfaction or benefits to the buyer. According to William J. Stanton,

A product is a complex of tangible attributes, including packing, colour, price, manufacturer's prestige, service and retailers' prestige and service which the buyer may expect as offering satisfaction of wants or needs.

The word goods is also used frequently to mean product.

It is said that nothing happens in our economy unless there is sale or purchase of a product. Product is the soul of all our marketing activities. Without a product, marketing cannot be imagined. Product is a tool in the hands of the management through which it gives life to a marketing programme. So, the main responsibility of the management should be to know its product well.

In short, the importance of the product can be judged from the following facts:

1. Product is the central point for all Marketing Activities

Product is the pivot and all marketing activities revolve around it. Marketing activities, selling, purchasing, advertisement, distribution, sale promotion are all useless if there is no product. It is a basic tool by which profitability of the firm is bargained.

2. Product is the starting point of planning

No marketing programme shall be prepared if there is no product because planning for all marketing activities price, distribution, sales promotion, advertising, etc., is done on the basis of the-nature, quality and the demand of the product. Product policies decide the other policies.

3. Product is an End

The main objective of all marketing activities is to satisfy the customers. Various policy decisions are to provide the customers benefits, utilities and satisfaction through a product. Thus, product is an end (satisfaction of customers) and the producer, therefore, must insist on the quality, size, etc., of the product so that it may satisfy the customers' needs. Though low-quality products are available, their life will be very short as they fail in satisfying the customers' needs.

Definition of Product Planning

Product planning is to decide a particular product or products which will be produced or distributed by an enterprise. The object of product planning is to earn maximum profits, to provide maximum satisfaction to the consumer and to make the best possible exploitation of the available resources of the enterprise. Some of the important definitions of product planning are as under:

Product planning determines the characteristics of product best meeting the consumer's numerous desires, characteristics that add saleability to products and incorporates these characteristics into finished products.

– **Johnson**

The planning, direction and control of all stages in the life-cycle of a product from the time of its creation to the time of its removal from the company's line of product known as product planning

— **Mason & Rath**

Product planning may be defined as the act of making out and supervising the search, screening, development and commercialization of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items.

— **Karl H. Tietjen**

According to William J.Stanton Product planning embraces those activities which enable producers and middlemen to determine what should constitute a company's line of products. Ideally, product planning will ensure that the full complement of a firm's products are logically related, individually justifiable items designed to strengthen the company's competitive and profit position.

On the basis of analytical study of above definitions, it can be concluded that product planning involves taking decisions with regard to:

- Which products must be produced or distributed by the enterprise?
- Which new product must be developed?
- What kind of improvements and developments required in the product? What kind of expansion or contraction must be made in the product mix of the enterprise?
- What must be the quantity of production?
- What must be the price of the products?

Elements of Product Planning

1. Research prior to production

Before making a decision to manufacture a new product, market research should be carried out extensively. The company must know beforehand what should be produced and for whom? It must decide on the characteristics of the product that can meet the requirements of the people.

2. Possibility of production method

What kind of production method would be followed and is it practicable to develop exactly what the consumer wants? This possibility should also Ъe examined before taking a decision of producing a new product.

3. Modification in existing lines

The existing producing lines should also be diagnosed to ascertain whether they can be improved upon to meet the new requirements of the consumer or a new product to be developed. If it is possible to modify the existing line, then to what extent it should be done?

4. Elimination in the product

Product planning involves the decision of elimination of unprofitable product line so that the resources may be used to some products profitably.

5. Improvement in the product

Product planning includes decision regarding the improvement of existing product in terms of quality, packing etc., taking into consideration the competitors' strategies in the market.

6. Price Determination

Determining the price of the product is one of the main elements of the planning. Would the price be fixed based on the basis of the prices of competitors for the same product or on the basis of cost of production or on the basis of the forces of its demand and supply in the market? This is an important decision to be taken by the management concerning product planning.

7. Commercialization of product

Product planning includes products commercialization and sale of product which can earn a good profit for the company on one hand and satisfy the needs of the consumers on the other. It also provides for the attractive introduction of new products in the market.

8. Coordination

Product planning also attempts to coordinate the various products and their efforts so that the company can maintain or improve its competitive position. It can be achieved by taking timely decisions from time to time. Thus, it is clear from the study of various elements of product planning that every decision from the start of an idea of producing to its execution from the product line forms the part of the product planning.

Importance of Product Planning

1. Starting Point for Marketing Programme

All the decisions made of an enterprise are directly or indirectly affected by product planning. For example, if a marketing programme is prepared without considering product planning, it cannot be expected to be successful. Therefore, it is necessary that product planning must be completed before preparing marketing programmes.

2. Symbol of Managerial ability

Product planning is a process which embraces allthe other efforts of an enterprise to forecast different aspects of product planning such as:

- Can the product satisfy the needs and wants of consumers?
- Can the product face competition?
- Can the consumers pay the price for the product?
- Can the enterprise earn desired profit?

If the reply to all the above questions is affirmative, a decision is taken to produce it, or else, it is decided otherwise. Therefore, the process of planning is considered a symbol of managerial ability. If an enterprise does not undertake the process of product planning, it implies managerial bankruptcy in the organisation.

3. To meet Social Responsibilities

It is true that the ultimate objective of every business and industrial enterprise is to earn maximum possible profits but at the same time it is also true that this cannot be the sole objective of an enterprise. Every business bears a great deal of responsibility of meeting and fulfilling the social requirements and expectations. Moreover, the objective of earning maximum profits can also be achieved only by fulfilling these social expectations. Such a fulfillment is possible only through product planning because the process planning decides upon the nature and characteristics of products that may fulfill these expectations. Thus, it can be said that product planning is a tool of meeting social responsibility.

4. Helpful in facing the Competition

Product planning is regarded as a competitive weapon because the success of marketing efforts of an enterprise depends upon the extent to which its products can face stiff completion in the market. Many decisions are taken in the process of product planning for improvements and changes in products so that the challenges in competitive situations may be met successfully.

5. Wide Scope

Product planning is important because many decisions are taken in the process of product planning. These decisions are — development of a new product, expansion or contraction of product mix, improvement in the product, determination of brand, label, packing, color, design, size and price, etc. Thus, the scope of product planning is very wide.

The above discussion makes it clear that product planning is of great importance for an enterprise and the success of all the marketing efforts of the enterprise depends upon it. Therefore, it can be concluded that product planning is the foundation of the production and marketing programmes.

Process of Product Planning

Some of the major process of product planning are as follows: 1. Exploration 2. Screening 3. Detailed Business Analysis 4. Development 5. Test Marketing 6. Commercialization.

1. Exploration:

Product planning begins with the generation and formulation, of ideas or concepts for new products. The product ideas may come from sales persons who are in constant touch with the needs and desires of consumers.

Middlemen, research and development department, trade and technical journals, consumers, trade associations, chambers of commerce, government agencies, research laboratories and executives can be other fruitful sources of product ideas.

New ideas may also emerge from individual innovators, suggestion schemes, marketing research, cost studies, service organisations, etc. At this stage, the products of competitors, institutes and allied products should also be considered.

2. Screening:

This stage involves a preliminary comparison and evaluation of product ideas to select the most promising idea which warrants further consideration. A large number of ideas may be available. It is necessary to eliminate the ideas which have no potential. Careful screening helps to avoid wastage of time and resources in impracticable or uneconomical ideas.

A clear understanding of company objectives and facilities is essential for successful screening. This will help to reject the ideas which are inconsistent with the strategy and resources of the enterprise.

In recent years, leading companies have developed specific criteria for screening. Such criteria consist of:

(a) profitability requirements over a period of time;

(b) annual value of production;

(c) unit profit margin;

d) new capital required;

(e) use of existing distribution network, etc.

3. Detailed Business Analysis:

Those ideas and concepts which survive the screening stage are put to rigorous economic evaluation. The technical and economic factors involved in the ideas are analysed in sufficient detail to judge the commercial viability and technical feasibility. A statement of expected costs, sales and profits over a period of time is prepared. Business analysis may also involve some preliminary testing and analytical studies which is known as concept testing.

Business analysis is made to answer the following questions:

(a) Is the product idea technically feasible?

(b) Is there an adequate market demand?

(c) Is it necessary to obtain patent right?

(d) What is the raw material position?

(e) Will machinery be imported?

(f) Are the production facilities suitable?

(g) How much will it cost to produce and sell?

4. Development:

At this stage, a design or specification of the product is prepared. The product idea is given a practical shape in the form of a working model or prototype. The idea on paper is converted into a physical product. The prototype is tested in the laboratory to ensure that it meets all technical specifications.

5. Test Marketing:

A sample of the product is then tested in a selected market to find but the reactions or responses of consumers. The working model or prototype is produced in a limited quantity and it is tested in the market before starting full scale production.

On the basis of the feedback from consumers, necessary improvements (redesigning) arc made in the product. Test marketing is a vital phase of product development as it helps to "tie up the loose ends" before launching the product in the market.

6. Commercialization:

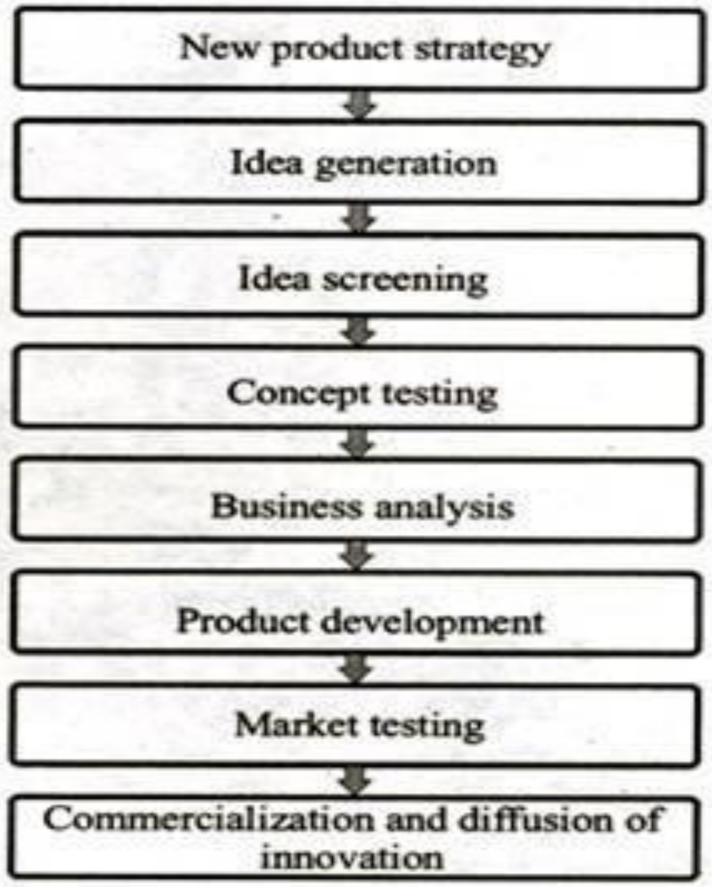
In this final stage, the product is actually introduced in the market on a full scale. The pricing, channels and promotional methods are finalised. The product is fully integrated into the company's normal operations and it no longer remains a new product.

❖ Product Development Process

Product development process is expensive, risky and time consuming. Though world-shaping innovations have emerged from the 'garages' and will continue to do so, companies cannot depend solely on flashes of brilliance and inspiration to provide their next bread earner or even their next blockbuster.

It is too frightening. In absence of any better method to bring out new products a formal process with review points, clear new product goals, and strong marketing orientations underlying the process is being relied upon by companies to achieve greater success.

An eight step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization. New products pass through each stage at varying speeds.



New Product Development Process

New product strategy:

Senior management should provide vision and priorities for new product development. It should give guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which idea generation should take place.

By outlining their objectives, for instance, market share, profitability, or technological leadership for new products, the senior management can provide indicators for screening criteria that should be used to evaluate these ideas.

A development team is likely to achieve better results if it concentrates its resources on a few projects instead of taking shots at anything that might work. Since the outcome of new product development process is unpredictable, a company might believe that it is taking a risk by working on only a few new ideas.

However unpredictable the new product development process may be, chances of success will definitely improve if the team knows precisely what it wants to achieve from the process, puts its best people in the project, and has enough resources to commit to the project.

Idea generation:

Developing an innovative culture that kindles imagination is a prerequisite. In such an environment every employee is alert to new opportunities. Great ideas come in a period of quiet contemplation, uninterrupted by bustle of everyday life and work.

Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, salespeople, designers can be rich sources of new ideas.

Companies use brainstorming to stimulate creation of ideas and financial incentives to persuade people to put forward ideas they have. Though anyone can come up with a brilliant idea, a company can work systematically to generate great ideas. A company can follow the following practices:

i. A company can look outside markets that are currently being served. It may not be manufacturing the precise product which the new market requires, but it may realize that it has the competence and the technology to serve the needs of the new market.

When a company scrutinizes its core competences, it may discover that its various core competences may be combined in a new way to serve a new market.

Apart from people who specialize in various technologies, it is important that a company has a few market savvy people who understand all its technologies. These people will combine technologies to serve customer needs in interesting ways.

ii. For too long, companies have viewed a market as a set of customer needs and product functionalities to serve these needs. But they should begin to ask as to why the product has to be like this. Can the customer needs be satisfied with some other product form?

Companies will realize that their products have shaped consumer expectations about the appropriate solution to their needs but if the companies become bold and persistent, customers will accept new solutions to their needs.

iii. A company should question conventional price and performance relationships. It should explore the possibility of providing the same value at lesser price or try to make the customers pay more by serving their needs in a new or better way. A more rigorous market research may reveal more sophistication in customers' needs which the company can serve with a novel product.

A company should reject the idea that an existing product is the only starting point for new product development. The greatest hindrance to development of novel products is the existing product. Developers keep making mental references to the existing product in terms of how their new product will be different or better than the existing ones.

Having some people from outside the industry will help the development team in distancing themselves from the existing product. A development team comprising solely of outsiders can be tried if the company desperately wants a novel product.

iv. Customers rarely ask for truly innovative products. A company can try to lead customers by imagining unarticulated needs rather than simply following them. It involves a blend of creativity and understanding the needs, lifestyles and aspirations of people.

The developers have to have an in- depth talk with customers and observe closely a market's sophisticated and demanding customers. But an innovation need not always be more sophisticated than the current products. Customers might be using sophisticated products because they do not have a choice but may be looking for a much simpler solution.

In quite a few markets companies have to reduce the sophistication of their products. Customers are not using a quite a few features of the current products and it is a nightmare to use some of these products. The customers need to acquire quite a few skills to use such products. They would be happier using a simpler product at a lesser price.

v. A company should examine competitors' products at frequent intervals. Though copying competitors' products may not inspire many developers, a company can use competitors' products to identify features and benefits that its product lacks.

If a competitor's product is more advanced or sophisticated the company can use the competitor's product as a base and develop the product further.

vi. Retailers deal in the company's customers and can give very useful ideas. Retailers experience the anguish and glee of customers firsthand and handle both repeat purchases and product returns. These experiences of retailers can provide very useful information about customers' experience with the company's offerings.

A company's salespeople and even the top executives should be in constant interaction with retailers so that they are able to glean customers' opinions about their product from the retailers. Retailers are also in contact with customers of competitors' products and the company can get feedback about the competitors' product from the retailers.

vii. Customers are the original sources of new product ideas. Lead users, who are the most sophisticated users of a product, are excellent sources of ideas for new products, as they are most likely to encounter new problems due to the increased sophistication of their needs.

Business customers who are innovators and market leaders in their own marketplace are sources of new product ideas, as they have advanced needs and are likely to face problems before other product users.

But companies who focus on lead users may develop products which may be too sophisticated for the average users of the product. It may contain features and benefits that the average customer may not need, but will have to pay for.

viii. Customers can give feedback about the products that they are familiar with, and these inputs can be used to drive innovations which will be incremental in nature. But for breakthrough innovations, ideas must come from other sources such as the R&D team.

This is because the customer cannot talk beyond his realm of experience, which is constricted. Therefore, if a company wants to launch a radical innovation, it has to look beyond existing customers as a source of idea.

Idea screening:

Screening of ideas is done to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products being developed fit in with the company's strategy and resource availability.

Simultaneously, the company also evaluates the market potential for the new product by evaluating criteria such as projected sales, profit potential, extent of competition and return on investments. Unique designs that lower costs or give performance advantages are also considered.

Though it is difficult to accurately forecast the success of an idea at this stage, the process helps the company to check if the idea is in alignment with the company's objectives and competencies, and that the idea has reasonable chances of success.

The process helps the company to wean out fanciful ideas. But some such fanciful idea may entice the management at this stage and the originator of the idea may get permission to go ahead with it.

Concept testing:

At the developmental stage, every idea can be developed into several product concepts. Each concept is then tested with a small sample of customers from the target market to know their degree of acceptance. A product concept is a particular combination of features, benefits and price. Alternate product concepts are evaluated by customers.

Though it may still be a description rather than the actual product, customers have something tangible to react to. This process allows customer feedback to seep into the new product development process early enough for marketers to evaluate the degree of acceptance of the potential new product.

As the physical product may not be available at this stage, companies go in for a verbal or pictorial description of the product to let customers have an idea about the actual product. Prospective customers present feedbacks regarding the attractiveness of the features and benefits offered by the potential product.

Usually, the intention of the company is to gauge the most desirable combination of benefits that customers are willing to pay for.

An instrument such as a questionnaire is used to know the likes and dislikes of customers, which customers are likely to find the product most attractive, what price point would best suit the customer, what trade-offs is the customer willing to make while evaluating the product, the immediacy of the product requirement and how frequently he would buy the product.

These features or benefits are then incorporated into the product development process, which is likely to lead to competitive advantage for the company.

Business analysis:

Estimates of sales, cost and profits are made. The company identifies the target market, its size and projected product acceptance over a number of years. The company considers various prices and their implications on sales revenues. Costs and breakeven point are estimated.

Sensitivity analysis is done in which variations from given assumptions about price, cost, customer acceptance are checked to see how they would impact on sales revenue and profit.

Optimistic, most likely and pessimistic scenarios can be drawn up to estimate degree of risk attached to the project. The idea is to test if the proposed product will generate enough revenues and profits to justify the expenses that its development and marketing will entail.

Though it is not possible to draw reliable conclusions from such futuristic analysis, it does force company's executives to peep into what the proposed product can or cannot achieve for the company.

If they decipher that the proposed product has huge potential they can pump more resources and expedite the project. The process permits the commercial instincts of the executives to be put to test.

Product development:

The product concept that has found the best acceptance is then developed into a physical product. Components have to be designed in terms of length, width, diameter, angle etc., and arranged to be assembled in a manner which provides the features and benefits of the selected product concept.

Multidisciplinary project teams are established to bring the product to the marketplace. The product development process is faster and results in the development of better, high quality products when engineers, technicians, marketers, finance and production specialists work together in a synergistic fashion.

This also allows the company to let various departments work simultaneously than work in stages using 3D solid modeling, CAD, CAM, thus reducing the time to market, while also reducing the cost of innovations.

R&D would focus on functional aspects of product whereas marketing would keep the project team aware of psychological factors. Marketers need to understand and communicate the important attributes that customers are looking for in the product, even as the product is being developed. Marketing may brief R&D on product concept and the latter will be responsible for the task of turning the concept into reality.

At this stage, the product is tested to analyse its functional performance and the degree of customer acceptance. Paired comparison tests are used to compare the new product with existing or potential competitors in order to give a realistic feel to the consumer decision making process.

Customers compare and judge the overall preference for the product, as well as preference for specific features or benefits offered by various choices available to them.

In monadic placement tests, only the new product is given to users for trial. Experts can also be used. When testing products in business markets, products may be placed with customers free of charge, to check preference.

Products are set up to fail during this stage of innovation process. It is important to exercise certain precautions during this stage.

i. Developers are left to their own devices during this stage. They feel relieved that marketers and other commercially minded people have finally got off their back. They feel that they can finally get in their laboratories and on their workstations and do the real things of getting a blockbuster product to the market. They feel that they can now work in solitude and in isolation.

This is dangerous. Developers have to be kept in the loop in this stage, as they may commit the company to a product that was never envisaged or discussed in any of the earlier stages. It is important to remember that the real and concrete innovation takes place only at this stage. In all prior stages only ideas were being discussed, analyzed and evaluated.

However rigorously defined a product concept may be, it is only a description after all, and the developers can interpret the description very differently from what other players think it should have been.

And since developers give physical form to the idea, they have something more tangible to show and prove their point when other people protest that the physical form is not really a replica of the idea that they had endorsed.

Developers may claim that the physical form has turned out to be better than the idea itself and since they have something tangible to show for their claim they will look more credible than the people who will insist that the original idea was better.

Developers should not be allowed to run amok at this stage as they are capable of coming up with a physical form that will nullify all the hard work of market research and commercial analysis that the company might have put in.

ii. Developers are wary of showing their incomplete designs to other people in the organization because they fear that anybody and everybody will have a suggestion to make, and if they went about incorporating those suggestions there would be nothing in the product that they could call their own. They insist on releasing only their final design.

And when this final design reaches manufacturing people, they may express their inability to produce the design or at least not at a reasonable cost. The design is relayed back to the developers who have to modify the design to make it fit for production.

This may happen many times and lot of time is wasted before developers and manufacturers settle on a design fit for production.

But more dangerously, since the developer is modifying his original design to enhance its reducibility he may lose sight of the customer needs that his original design was meant to serve.

So the modified design may be more easily produced but it may have digressed so much from the original design that it may not be serving the customers' needs truthfully. This often happens because the focus of design modification is reducibility and not customer needs.

It is important that developers share their design with manufacturing before they freeze it, so that they get feedback about the producibility of the design. It often happens that by agreeing to make minor changes in the design, cost of manufacturing is reduced drastically.

It is possible to avoid buying new and expensive equipments and make the design on the existing machines, to use less expensive material, to use components that the company is already incorporating in some other model, or simplify manufacturing, if developers pay heed to the suggestion of manufacturing people.

The irrefutable suggestion is that manufacturing people should be closely associated with developers during the product development stage and should be provided preliminary designs and be allowed to comment on its producibility. A good developer will keep a manufacturer as his conscience keeper.

iii. A developer sets out to serve defined customer needs with available set of technologies. But both customer needs and technologies are likely to change during the development process itself. The developer has to anticipate these changes and allow them to be incorporated in the final design.

The developer has to set up mechanisms by which the changing customers' needs and technologies are allowed to creep in and the design process forced to pay heed to them. The developer can delay freezing those parts of the design which are likely to be impacted by changing customer needs and technologies.

At some point in time the developer has to stop taking cognizance of changing customer needs and technologies as it may delay the project by an unacceptable period. But a developer has to realize that it is futile rushing to the market with a product, which is already obsolete at the time of its launch to serve customer's needs which no longer exist.

iv. Product concept has already been tested with customers but a description of the product can never match the physical product in eliciting real reactions of customers. Before the developer freezes the design he has to get it approved by customers.

The physical product has to tested by the customer in actual use, if true worth of the design has to be known. It is undeniably costly and cumbersome to make limited number of products before manufacturing facilities are set up, but companies have to manage it if they do not want to set up manufacturing facilities for products, that customers would not like and would have told them so if they had been given the opportunity to use the product.

To get the real product in as many customer hands as possible and keeping the option to redesign the product in a wholesome manner based on customer feedback, rather than just tweak it, is absolutely imperative to get a successful design.

Developers of information products like software routinely get customers' feedback on their design. There is an urgent need to replicate the concept in development of physical products.

It is also important to note that while virtual prototyping i.e. making a virtual model of the product with the help of software is useful to the developer, to test if he is getting the desired functions and benefits from the components and subsystems that he has designed; it is not useful for getting customers' feedback.

The nuances of product performance decide the success or failure of a new product and customers can get a real 'hang' of the product only from a real product.

v. It is important to understand that a company should be willing to do 'anything' to increase the probability of success of a new product. The probability of success of the new product should govern every decision that the company takes about the innovation process.

If a new product fails, all the effort, time and money expended in developing it comes to naught. If a few more million dollars, and a few more months can improve the chances of the new product succeeding in the market, the company should go ahead and commit itself to them It is never a good idea to save a few million dollars and few months and sink a few billion dollars and few years in the bargain.

Market testing:

So far in the product development process, potential customers have been asked if they intend to buy the product, but have never been placed in the position of having to pay for it. Now customers are forced to vote with their money.

The company seeks to have a limited launch for the product in the marketplace so that it can gauge the initial customer response in true test conditions.

The feedback obtained from this launch guides the company's decision to continue with the large scale commercialization of the project, or to abandon it.

Ideally, the feedback that is obtained from the test sample should be as realistic as possible, i.e., the profile of the sample of respondents should closely resemble the profile of prospective customers in the actual marketplace, and they should be buying the product from a realistic retail setup as they would actually do.

For instance, a sample of customers may be recruited to buy their groceries from a mobile supermarket which visits them once a week. They are provided with magazines in which advertisements for the new products appear. Key success indicators such as penetration (the proportion of customers who buy the new product at least once) and repeat purchase (the rate at which purchasers buy again) can be found out.

If the penetration is high but repeat purchase low, it is important for the company to ascertain the reasons for lack of repeat purchase. In case of any problems pertaining to specific aspects of the marketing mix, such as price points, product features, packaging, or availability, the company can take corrective measures.

But if the company finds out that corrections are now impossible, or that the cost involved in remedial actions would outweigh the benefits, it can decide to withdraw the product from the market.

Test marketing involves the launch of the new product in one or few geographical areas chosen to be representative of its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch.

The new product is made available in select distribution outlets so that the real-time response of customers in terms of parameters such as purchase, amount of time spent in evaluation, or repeat purchase can be tracked vis-a-vis competing products.

As the characteristics and composition of customers in the test market resemble the characteristics of customers in the entire target market, the results of test marketing can be extrapolated for the entire market. Marketers take decisions about the modification of some part of the marketing mix, and even about the continuation of the product launch according to the results of test marketing.

Test towns and areas may not be representative of the national market and thus sales projections may be inaccurate. Competitors may invalidate the test market by giving distribution incentives to stock their product, thereby denying the new product shelf space.

Test markets need to be long enough to measure the repeat purchase rate for the product. This can mean a delay in national launch stretching to many months and years.

In the meantime more aggressive competitors can launch a rival product nationally and therefore gain pioneer advantage. Getting the co-operation of distributors is important. Distributors may not want to cooperate for conducting test marketing, or they may charge exorbitant fees for the activity.

The most important rationale for test marketing is that, the results obtained from it help the company to concretize its marketing strategies for the full-scale launch of the product. This is undoubtedly more efficient than making costly blunders after the full-scale product launch.

A company may also choose to test several combinations of the variables in the marketing mix to ascertain the optimal one. This process is used very often for FMCG products where a test market is typically conducted in a few cities in a country.

For very expensive equipment's, it is impractical. Globally, when a company does a phased product launch, it can apply the lessons learnt from one country market, in another country where the product, consumer and market characteristics may bear close resemblance to each other.

Commercialization and diffusion of innovation:

Choice regarding target market to whom the product should be sold first and product positioning that will be attractive to the first target market has to be made. The fundamental process that defines the success of an innovation is its diffusion rate.

Therefore, the target market for the innovation has to be decided by understanding the process of diffusion of innovation. The spread of an innovation is called diffusion, and when an individual customer unit buys the new product, it is called adoption.

Thus, when many customers adopt the new product quickly, the diffusion is fast, and the diffusion rate is high. The new product is successful. And when either the number of customers who adopt the new product is low, or the process of adoption is slow, the diffusion rate is low. The rate of diffusion depends on:

i. The characteristics of the innovation, i.e., an innovation having a relative advantage over existing options in the market, that fulfill the same needs of the customers, is more likely to be successful,

ii. The social system or the target market where the innovation is introduced,

iii. The channels of communication used by the marketer to explain the innovations to prospective customers and,

iv. The amount of time that has lapsed since the introduction of the innovation.

Fundamentally, all members of the target market are not equally receptive to the new product as they are in different states of readiness, and ability to take risk varies. It is important that in the initial phase of launch, the company targets customers who are more likely to buy the new product than others.

The process of adoption will be slower if the company targets the whole market in the initial phase of the launch, as a large part of the market will not be interested in the product or will be suspicious about it at this stage. A launch targeting the whole potential market will also be expensive compared to the adoption achieved.

Customers feel comfortable in trying the new product when they find significant people possessing the product. Students will feel comfortable buying a text book when they find that the toppers of their class are using the same book.

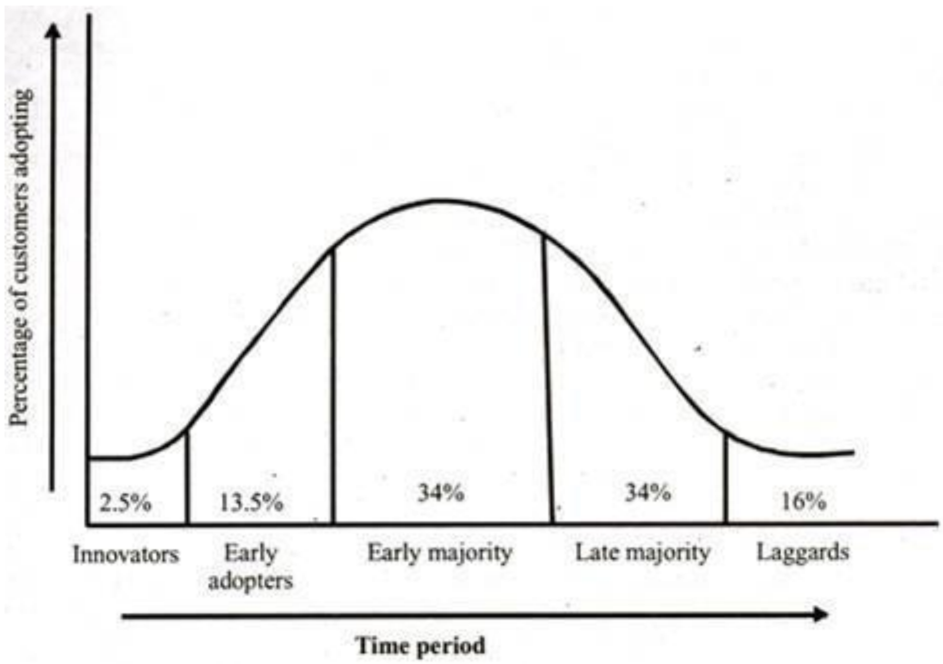
In every product category, there would be customers who would know more about the product, or would want the best product, or would know more about whether a certain product would work or not. The average customers look up to such savvy or knowledgeable customers for advice or reassurance. It is important to place new products in the hands of such people who act as references or guides for average customers.

The first set of customers who should be targeted are the ones who are most likely to buy the new product. These first buyers are called Innovators. It is difficult to characterize innovators because they differ from one category to another.

Market research has to be carried out to find innovators of a category. The most important characteristic that defines an innovator is venturesomeness, i.e., his ability to take risks is higher than the rest of the target market.

Therefore, he is willing to buy a new product that has hitherto not been tested in the market. Research reveals that in consumer markets, the customers who take higher risks are better educated, wealthier and younger, than the rest of the target market.

And in business markets, the innovators comprise companies that are large and profitable, have well educated and progressive leadership and management at the helm, and are innovators in their own markets.



Diffusion of Innovation

The set of customers who buy the product next are called early adopters. Early adopters cannot take the risk of buying the product first. They feel assured that someone before them has bought and used the product, so that they could observe how the product works.

But they soon follow the lead. They are also relatively affluent and self confident enough to adopt the new product that is not yet very successful. Among the innovators and early adopters are a group of people called the opinion leaders.

Opinion leaders are critical in hastening the process of diffusion of the new product as they influence other prospects to adopt the new product. The credibility of the opinion leaders is much higher than the communication sent by the company, as they are considered to be independent sources, and moreover, they are usually part of the reference groups of the customers in the target market.

The next categories of consumers are the Early majority and the Late majority, who usually comprise more than two-thirds of the market for the new product.

The Early majority are deliberate and cautious. They wait to see the product being accepted by the market before they adopt it themselves. And the Late majority are more cautious and skeptical than the Early majority. They wait till a large part of the market adopts the product before buying it. Social pressures move them to purchase.

The last category of consumers is Laggards. They are traditional. Usually, they comprise of the older, less educated and not very well off portion of the target market. They wait till the product becomes a part of an accepted tradition before deciding to buy it.

It is important to understand the characteristics of consumers in the process of diffusion of innovation. Marketers should first target Innovators and Early adopters while introducing an innovation in the market as they exhibit the least resistance to adoption of an innovation.

Thus, the marketer will be able to earn revenues from these consumers early, enabling him to establish a foothold for the new product. This is important because, initially the high investments in product development and launch can be offset, only when the company earns enough revenues from these customers as early as possible.

This will enable the innovation to sustain in the market. The Innovators and Early adopters can be identified by the company by conducting marketing research.

The characteristics of consumers enable the company to perform the process of segmentation and targeting. Innovators and Early adopters would be the first target markets for the company.

The diffusion of innovation curve is strongly linked to the product life cycle curve. During the introduction phase, few consumers buy the product, coinciding with the small percentage of Innovators in the market. The sales gradually increase, signifying the entry of the early majority.

As the sales rise sharply and reach a plateau, the early majority and a percentage of the late majority adopt the product. The stable sales curve in the PLC signifies repurchase by these groups. A part of the late majority and the Laggards enter during the decline stage.

As the profile of users keeps undergoing a change, companies need to change their marketing strategies over the PLC.

The main purpose of the marketing strategy of a company is to yield competitive advantage. Initially, it is critical for the company to understand the characteristics and needs of the Innovators and the early adopters as they are vital for the success of an innovation. In the initial phase of the launch, the positioning of the new product should be for innovators and early adopters.

It is also important for the marketers to reduce the resistance of these consumers while adopting the new product. This can be’ done by clearly communicating the relative advantage of the new product. Primarily, the marketer must give consumers adequate reasons to buy the new product.

Therefore, the new or improved product must yield sufficient value for the consumer to induce him to buy it. Research reveals that the rate of diffusion is faster when the product is compatible with the existing values, beliefs and experiences of consumers-compatibility.

It is not extremely complex to understand or use (or the marketer gives elaborate explanations to overcome complexity)-complexity, when consumers can easily observe and understand the usage and advantages of the product-communicability, and consumers can try out the new product before buying it—trialability.

Marketers should devise launch strategies that allow low cost and risk free trial of more expensive innovations. A company can offer the product on lease or offer to take back the product if the customers do not find it useful or can arrange and manage a sharing arrangement between customers.

The idea is to reduce the risk of customers in using the new product. Whenever the benefits of the new product will accrue over a period of time, it is more difficult for consumers to understand the advantages of the new product.

The marketer should ensure that the relative advantages of the new product are clearly communicated to consumers. Nothing should be presumed to be obvious. Communication to consumers should be clear and convincing. Promotion showing opinion leaders accepting and using the product is important.

Marketers must always remember that consumers give up an existing way of solving a problem in order to adopt a new one-they do not merely adopt the new product. Therefore, they must evaluate what the consumer is giving up in order to gain the new product.

The loss experienced by the consumer in giving up the existing solution should not outweigh the gains that they make from adopting the new product.

Also, he must attempt to ascertain the degree of difficulty that the consumer would experience in order to give up the existing solution. The more difficult it is for the consumer to give up the existing solution, the greater is his resistance to adopting the new product.

❖ Product Life Cycle

Product Life Cycle Definition

Product Life cycle shows the typical path or stage of a product. Product life cycle describes the different stages of a product from the period of its first launch in the market to its final withdrawal from the market. The understanding of a **product life cycle** of a particular product is very important for marketers and company to make adequate decisions like, what is the right time to introduce your new product in the market, what price should be fixed and how to plan effective as well as up to date **marketing strategy** for your product. Every day you are bombarded by many types of advertisements that tell about various new features of existing products: chips with new flavor, a branded shampoo with new features, and snacks with new delicious fruit flavor. But when you go to retail store you see thousands of such products which are not advertised on regular basis. Some **product needs promotional methods** and **marketing plan**, but why do some other products apparently sell themselves? The reason is that the marketing manager and C-suite executives are continuously acting and designing strategy according to product life cycle stages. So all successful and Progressive companies try to remain aware of what is happening throughout the life of their products in terms of the sales and the resultant profits.

Stages of Product Life Cycle

A new product passes through different stages. In this post I would discuss each stage in detail. I would discuss “**situation of product**” and “**organizational strategies**” for each **phase**.

.Development or Production Stage

Some analysts not include this stage in the life cycle but this have a vital role in whole cycle.

Situation of the product

1. Product is within the firm
2. Cost is very high
3. Sales/profit is zero
4. Customers are curious
5. No competitors

Organizational Strategies

1. Focus on quality of product
2. Focus on design and style of product
3. Advertisement (spread info about the product “coming soon”)

Introduction:

The product is developed keeping in view a particular need of a set of consumers, and introduced in the market by initiating its commercial production.

At this stage product is new in the market, consequently its demand is low and requires vigorous sales efforts. The promotional costs are, therefore, high at this stage and the production costs are also not fully recovered due to low volume of sales.

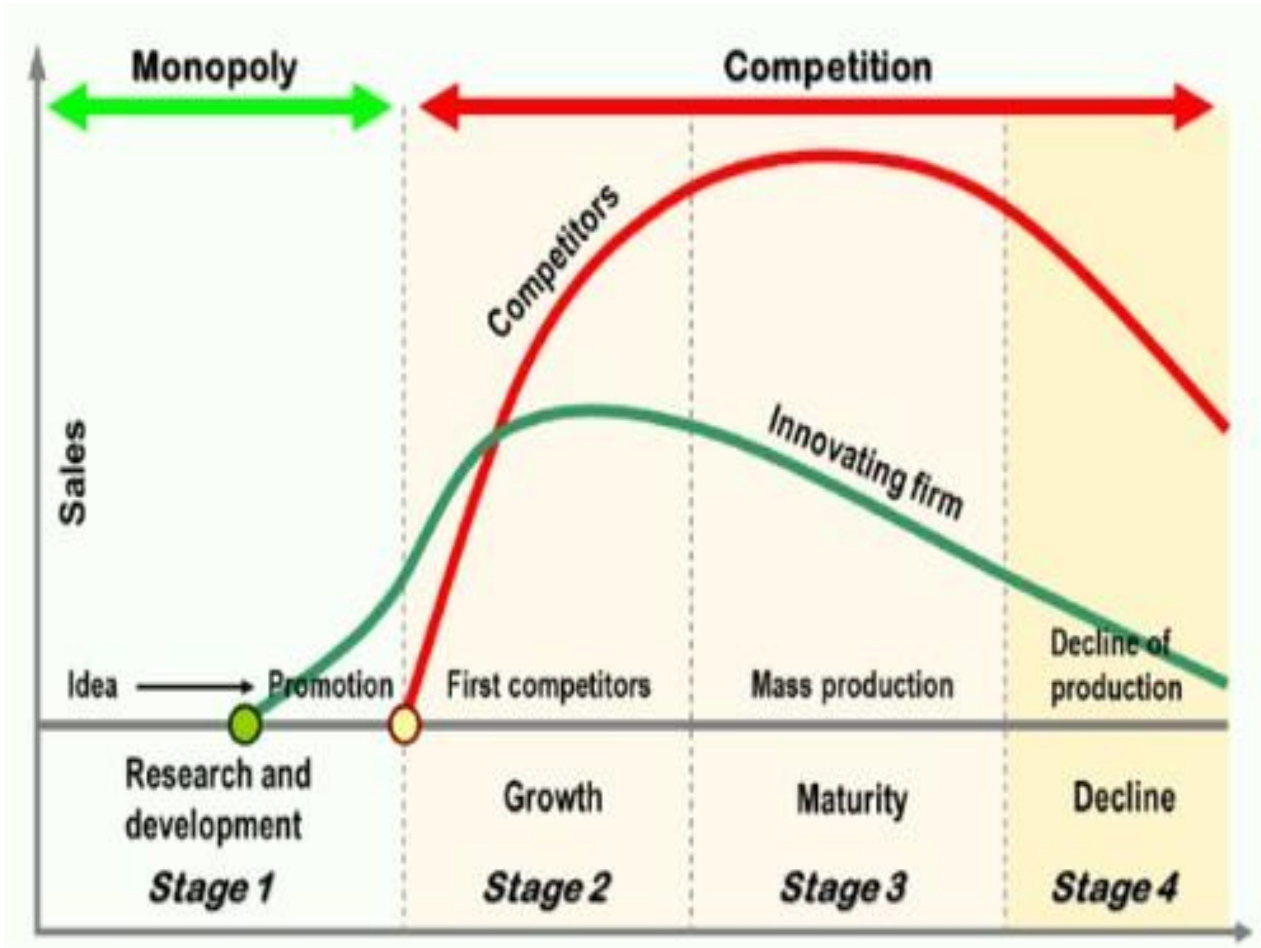
Situation of Product

1. Slow growth/ slow sales
2. Low profit or no profit
3. Cost still high
4. No competition as competitors are relaxed that product may not survive

Organizational Strategies

1. Pricing strategy (skimming or penetration)
2. Focus on most ready buyer

3. Offering basic product i.e. without guarantee, warranty or accessories
4. Strong advertisements to create awareness about the product & attributes



Growth Stage:

There is a rapid expansion in sales as the cumulative impact of the promotional expenditure helps in the market acceptance of the product as well as the reputation of the product gains around. But this rapid expansion can be sustained only by the maintenance of product quality.

Situation of product

1. Sales climbing quickly
2. Customer become aware & increased
3. Profit increased & market share developed
4. Cost start decreasing
5. Competitors emerged

Organizational Strategies

1. Increase the production of product
2. Product modification
3. Market modification
4. Reduce price due to emergence of competitors
5. Provide Guarantee, warranty, accessories & repair services

Maturity Stage:

When the product enters the maturity stage the rate of growth of its sales declines, though the volume of sales keeps on increasing. This is so because most of the persons needing the product-had; already adopted it during the growth stage and now when the product enters its maturity stage, it faces a small and declining number of potential buyers. Consequently, the firm has to spend relatively increasing amount of sales promotion.

Kotler divides maturity stage into three phases:

(I) Growth maturity:

A period of slowly rising sales

(II) Stable maturity:

A period of constant level of sales.

Situation of Products

1. Sales at peak & static
2. High profit & market share at peak
3. Customer become well familiar
4. Strong competition

Organizational Strategies

1. Market & product modification
2. Market mix modification i.e. decrease price & increase promotions

Decline Stage:

Ultimately the product enters a stage of decline where its sale volume starts shifting down. The competitors have by then entered the market with substitutes and imitations and the product distinctiveness starts diminishing. Consequently, the sale of the product also starts declining.

Situation of Product

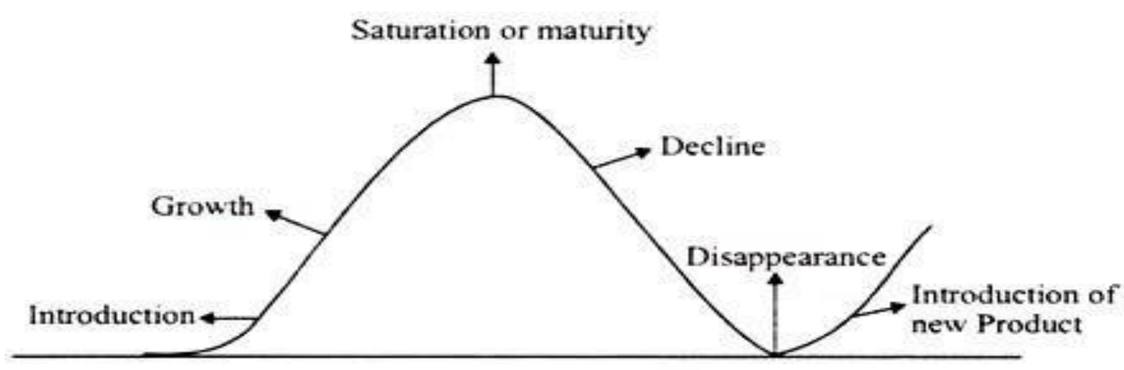
1. Market share down
2. Sales falls/ very low
3. Competitors zero

Organizational Strategies

1. Cut of brand
2. Harvesting (decrees quality, expenses & price)
3. Or make more investment but this happen in very rare cases

Disappearance Stage:

With decline stages accentuating in intensity, the product may suddenly disappear from the market, finding no customers. At this stage, the best strategy will be to introduce a new product, for the development of which the management would have initiated steps, at the saturation stage of the product.



Product life cycle

Summing up all together, product life cycle is very important for the marketer and companies because until an organization does not know the situation of their product, that cannot make updated strategy for their products. So it helps in better decisions making process on revenue and cost, within a particular stage. It also helps marketing managers and top level management to **make better decisions on pricing aspects.**

❖ <u>Product Diversification:</u>

Meaning of Product Diversification:

The term ‘product diversification’ is sometimes called ‘product differentiation’. Product diversification is a part of product line decisions’. The word diversification means that something new will be added.

It may refer to a new company, a new technology, a new market, or a new product. So, product diversification means addition of a new product (not the variations in the qualities of the same product) to the existing product line or mix.

It is important to note that conscious and deliberate product diversification, whether in the form of seeking new applications for the productive capacity and technological know-how of the firm on the one hand, or alternatively of exploiting a firm's knowledge of a market which nay extend beyond its product range, is a matter of high-level management decision.

For example, manufacture and sale of sewing machines in addition to electric fans produced by a firm is a case of product diversification.

Objectives of Product Diversification:

According to Prof. Andrews, the different objectives of product diversification are:

1. To gain stability in the firm's earnings and organisation.

2. To attain efficiency in the utilisation of a firm's resources — human, physical and financial.

3. To increase sales of basic products and exploit the value of an established trade mark.

4. To increase the profits by offering different types of products.

5. To meet the demands and convenience of the diversified retailers.

6. To make profitable use of marketing opportunities.

Forms of Product Diversification:

There are several fonts or directions which a firm can follow for diversification. These are shown in the table below. Essentially the firms can diversify in a concentric way – close to present product/service lines – or quite differently from present product lines in marketing and/or technological ways (conglomerate diversification).

Diversification Matrix*

	Internal development	External purchase
Horizontal diversification:		
Market		
Concentric	Develop products or services that serve similar customers in similar markets.	Purchase products or services that serve similar customers in similar markets.
Conglomerate	Develop products and services that are different from present product line and/or markets.	Purchase products or services that serve different customers and/or markets.
Technology		
Concentric	Develop products that use technologies similar to present product line.	Purchase firms which utilise technologies similar to present product line.
Conglomerate	Develop products that use technologies different from present product line.	Purchase firms using technologies different from present product line.
Vertical diversification:		
Forward	Develop outlets for sale of current products and related products (or different products : conglomerate) to consumers.	Purchase outlets for sale of products to consumers.
Backward	Develop own supplier division to cover present materials or different materials (conglomerate).	Purchase suppliers of raw materials.

Thus, we find three distinct forms of product diversification;

(i) Diversification into related product-line,

(ii) Diversification into unrelated product line, and

(iii) Product replacement.

The development and marketing of 'food articles' in addition to the existing 'detergents business' carried on by Hindustan Lever Limited is an example of diversification into related product line. This is a kind of concentric diversification aiming at serving similar customers in similar markets. This is known as horizontal type of product diversification.

The development and marketing of different products like watches, tractors, bulbs, printing presses., etc., by Hindustan Machine Tools limited is an example of diversification into unrelated product lines. This is kind of conglomerate diversification in relation to the market.

The development and marketing of an entirely new product as an addition to the product line in order to replace a particular product of the same product line is known as product replacement. This form of product diversification is sometimes adopted by a firm as a defensive measure against the risk of dying out one of its products.

Factors that Motivate Product Diversification:

Product diversification is accentuated by the presence of the following main factors:

1. The development of science and technology offers scope for new products and causes obsolescence ofold and existing products. The business firms having a strong technology base and high reputation in the field venture upon to enter into a new product line through the application of modern technological methods.

2. An efficient management of a firm is always on the lookout for doing new things. They believe that product diversification will help them avoid dangers of overspecialisation.

They think that development and marketing of new products, whether related or unrelated to the existing product line, will lead to the growth and stability of the firm. They see diversification as a way to convert internal cost centers into revenue producers'.

3. Industrial and economic policies of the Government encourage a firm to invest in its research and development and this leads to new products as a base for diversification.

4. The feeling that the economy (or market) in which the firm is operating is too small and confined to allow growth may prompt a firm to pursue the policy of product diversification.

5. The firm's technology, research, and development produce products and by-products which appear to be outstanding.

6. The impact of social changes and development on the consumers' behaviour, demand, fashion, and style motivates a firm towards product diversification.

❖ <u>Why do some products fail?</u>

In spite of the efforts made by the marketer, some products fail. Product failure can be attributed to any one or more of the following causes:

1. Poor product quality: Obviously, a product, which is of poor quality, cannot be sold in the market.

2. Higher price: Another reason for the failure of certain products is the price factor. Higher production and distribution costs may lead to higher price. Such a product cannot be sold in a market consisting of middle and lower income buyers.

3. Poor timing: It is important that a product, to be successful, is introduced in the market at the correct time. If it is introduced at an unsuitable time it may turn out to be a failure.

Example: Publishers of textbooks usually bring out books in the beginning of the academic year.

4. Inherent defect: There may be an inherent defect in the product, which may affect its market potentialities. Such a product may not be preferred by the buyers even if the defect is rectified later.

5. Extent of competition: A monopolist may not have any difficulty in marketing his product. In the case of a market where there are a large number of sellers for a particular product, the buyer will have many alternatives. Therefore, in such a condition unless the marketer brings out the product to the satisfaction of the buyers, he cannot be successful.

6. Lack of promotional measures: Popularizing the brand, particularly, in the introduction stage of a product is essential. Such a step will ensure repeated buying and bring long-term benefits for the marketer. Failure to do so will 'prove to be disastrous for the product.

7. Faulty distribution policy: It is important that a product reaches the right market at the right time and at the right price. The faulty distribution policy of the marketer may lead to many problems, i.e., the goods may not be available when required, may lead to higher price and so on.

8. Unavailability of spare parts: In the case of durable goods like televisions sets, Air-conditioners, etc., and also in the case of two wheeler and cars, easy availability of spare parts is an important requirement. Unavailability of spares may frustrate the buyers. Such buyers would not recommend the product to their friends and relatives.

9. Poor after-sale service: The quality of after sale service is yet another important cause. Most marketers, particularly those marketing durables, two-wheeler, etc., are courteous while making sale. When the customer requires service later and approaches the seller, the latter may show indifference.

10. Imitation products: Last, but not the least, the presence of a number of imitation products in the market makes the genuine products vulnerable. An average buyer may not be able to distinguish between the genuine product and the fake one.

Measures to prevent product failures

1. The marketer shall ensure that the product he markets is in demand.

2. He can determine the price at which the retailers must sell the product to the buyers. This will prevent manipulation of the price.

3. Before launching the product, steps must be taker to ensure that there are no inherent defects.

4. All efforts must be made to popularize the brand name particularly in the introduction stage.

5. The marketer shall select the right distribution network so that there is no delay in the consumer getting the product.

6. It is also important to make available genuine spare parts in the market at fair prices.

7. The quality of after-sale service must conform to high standards.

8. In the case of consumer and industrial goods, it is beneficial to get the quality certified by the Indian standards Institution (ISI) and/or by the International Standards Organization (ISO).

9. The product may constantly be updated to incorporate all the features that the buyers expect in it. Taking the case of Maruti Udayog, the company has updated all its models over a period of time, which is probably one of the main reasons for its success.

10. Steps must be taken to eliminate duplicate goods in the market. This may be done by cautioning the buyers on spurious goods. The problem may also be legally approached.

❖ Product Modification

An adjustment in one or more of a product's characteristics. It is most likely to be employed in the maturity stage of the product life cycle to give a brand a competitive advantage. Product line extensions represent new sizes, flavors, or packaging. This approach to altering a product mix entails less risk than developing a new product.

There are three major ways of product modification, i.e. quality modifications, functional modifications, and style modifications.

(1) Quality modifications: These are changes that relate to a product's dependability and durability and usually are executed by alterations in the materials or production process employed. Reducing a product's quality may allow an organization to lower the price and direct the item at a larger target market.

The quality of a product may give a firm an advantage over competing brands and may allow the firm to charge a higher price because of increased quality. Or the firm may be forced to charge more because of higher costs to achieve the increased quality.

(2) Functional modifications: Changes that affect a product's versatility, effectiveness, convenience, or safety are called functional modifications. They usually require redesigning the product.

Functional modifications can make a product useful to more people, which enlarges the market for it. This type of change can place a product in a favorable competitive position by providing benefits not offered by competing items. Functional modifications can also help an organization to achieve and maintain a progressive image.

(3) Style modifications: Style modifications are directed at changing the sensory appeal of a product by altering its taste, texture, sound, smell, or visual characteristics. Since a buyer's purchase decision is affected by how the product looks, smells, tastes, feels, or sounds, a style modification may have a definite impact on purchases.

Through style modifications a firm can differentiate its product from competing brands and perhaps gain a sizable market share for this unique product. The major drawback in using style modifications is that their value is determined subjectively. Although a firm may modify a product to improve the product's style, customers may find the modified product to be less appealing.

Questions:

1. Meaning of marketing? Explain its features? Also describe the scope and applications of maarketing?
2. Define the concept of customer needs, wish and demand?
3. Difference between marketing, market and sale?
4. Describe the points of importance of marketing?
5. Short notes: Green marketing, Emotional marketing, Marketing Myopia?
6. What is the meaning of marketing environment?
7. What are the factors affect the internal management or external management of the organization?
8. What is the difference between environment and marketing environment?
9. Is “competition” a micro or macro factor? Explain how?
10. Discuss the effect of demographic factors on marketing. Discuss with example.
11. Difference between micro and macro environment?
12. What is environment? Discuss the role environment in the success of marketing functions and activities?
13. What is the meaning of marketing segmentation? Discuss its need?
14. **Short notes on:**
    Market segmentation, target market, product positioning
15. Explain the various approaches for target marketing?
16. What is the difference between sectors and segments?
17. Expalin the various approaches regarding the product positioning.

UNIT-3

New product development process Product life
cycle
Positioning, branding
Packaging and labeling decisions

Pricing decisions:

Importance, objectives, designing strategies, Pricing Techniques

Distribution

Types of channel, factors affecting decision, Designing
and Managing Marketing Channel,
Managing Retailing, physical distribution system and its components.

Product Promotion:

Promotion mix-introduction, importance,
Advantages and disadvantages of various components and
factors affecting Designing and managing Integrated Marketing Communications

Product

A product is something that is manufactured for sale in the market. Customer needs are met by the usage of products. Product is one of the main components of marketing—all marketing activities revolve around the product. Products can be tangible or intangible. Tangible products are known as goods while intangible products are called services. The term product can be understood in narrow as well as broad sense. In a narrow sense, it is a set of tangible physical and chemical attributes assembled in an identifiable and readily recognizable form.

In a broader sense, it recognizes each separate brand as a separate product. A product can be defined as- “A good, idea, method, information, object, or service that is the end result of a process and serves as a need or want satisfier. It is usually a bundle of tangible and intangible attributes (benefits, features, functions, uses) that a seller offers to a buyer for purchase.”

Ordinarily speaking, product or goods is a word which means any commodity which can be recognised by its certain shape, quality or quantity e.g., car, book, watch, clothes etc. Actually this meaning of the product is narrow in sense. The word ‘Product’ is taken in wider perspective in marketing. Here, every brand is considered a separate product i.e., Lux and Lifebuoy—both are soaps, but are treated as separate products. In narrow sense, these will be considered as merely soaps.

Every business firm undertakes the function of product selling, though it may or may not be visible. A laundry firm provides the clothes-washing service. This function is similar to product selling which a retailer performs. Firms while selling their products, sell services too which are related to their products. A consumer buys a product because he gets psychological and physical satisfaction from that product.

Product – Definition in Marketing

A product is what a seller has to sell and what a buyer has to buy it satisfies the needs of customers. Customers purchase products because they are capable of realizing some benefits to the purchaser. A marketer can satisfy the needs and wants of his customers by ‘offering something’ in exchange for money. And this ‘offering’ is basically a product. The product is one of the important elements of the 4Ps of the marketing mix. It consists of a bundle of tangible and intangible attributes that satisfies consumers.

Product is an important component in marketing-mix. Other elements of marketing-mix i.e. price, promotion and place are complementary to it. A product is central to the marketing operations in an organization. Most of the time product fails not because of poor quality but because they fail to meet the expectations of the customers.

It is not just a bundle of physical attributes, but a bundle of perceived benefits which satisfy consumer’s needs. Hence, utmost care should be taken to handle product decisions. A bad product not only generates bad name for the firm but also affects negatively the price set for the product, dissuades the channel members and reduces the believability of the promotional measures.

In a narrow sense, "A product is a set of tangible physical attributes in an identifiable form" (W.J. Stanton). But in marketing, product is used in a broader form.

According to W. Alderson "A product is a bundle of utilities consisting of various product features and accompanying services".

According to Philip Kotler "A product is anything tangible or intangible that can be offered to a market for attention, acquisition use or consumption that might satisfy a need or want".

According to Cravens, Hills and Woodruff "Product is anything that is potentially valued by a target market for the benefits or satisfactions it provides, including objects, services, organizations, places people and ideas".

From the above definitions, it is clear that product has the want satisfying attributes which drive a customer to purchase the product. It is nothing but a package of problem solving devices and is something more than a physical product. This is because a product encompasses a number of social and psychological attributes and other intangible factors which provide satisfaction to the consumer.

Product : Fearture of the product:

i. Tangibility: Products are tangible in nature, customers can touch, seen or feel a products. For example, car, book, computer etc.

ii. Intangible Attributes:

Service products are intangible in nature, services like, consultancy, banking, insurance etc. The product may be combination of both tangible and intangible attributes like restaurants, transportation, in case of a computer it is a tangible product, but when we will talk of its free service provided by dealer, then the product is not only a tangible item but also an intangible one.

iii. Associated Attributes:

The attributes associated with product may be, brand, packaging, warranty, guarantee, after sales services etc.

iv. Exchange Value:

Irrespective of the fact that whether the product is tangible or intangible, it should be capable of being exchanged between buyer and seller for a mutually agreed price.

v. Customer Satisfaction:

A product satisfies the customer needs and wants of customers, value of products is also determined by the level of satisfaction given by a product after purchase.

Product – Characteristics of Product

1. It can be a single commodity or a service; a group of commodities or a group of services; a product service combination, or even a combination of several products and services.
2. Its meaning is determined by the needs and desires of the consumer. The purpose of a product is to satisfy some need of the consumers. The buyers purchase problem-solving and time for creativity when they purchase a computer system.
3. It may be durable such as those that are expected to deliver a stream of satisfaction over a period of time,
4. Products may be luxuries which might be needed as a symbol of prestige and status such as car, a well- furnished bungalow in a posh colony or necessities which are needed to keep the body and soul together, such as bread, milk, sugar, etc.
5. It may be an agricultural, mineral, forest or semi-manufactured or manufactured product.

The Product Mix

The product mix is a combination of products manufactured or sold by the same organization. Generally companies offer an assortment of related or unrelated products to the markets instead of focusing on a single product to strengthen their presence in the market and increase profitability. Smaller or medium firms usually offer products that are related to each other while bigger ones go for large scale diversification.

For example- Ayur Herbals, a comparatively smaller enterprise basically deals with cosmetics and beauty products while giants like Reliance group and Tata industries have their presence in varied fields like telecom, processed food, consumer goods, etc. Dealing with multiple products enables a firm to expand its customer base and spread risk among its various offerings. The product mix includes both product lines and product items.

(i) Product Line:

Product line is a group of products that are closely related either because they satisfy a class of need, or used together, are sold to the same customer group, are marketed through the same types of outlets, or fall within given price ranges or that are considered a unit because of marketing, technical, or end-use considerations. For example, The Sunsilk range of shampoos and conditioners constitute a product line.

(ii) Product Item:

It is a distinct unit within the product line that is separate from others on basis of colour, size, price or other attributes. For example, Sunsilk Thick and Long shampoo is a product unit distinguishable from other items in the product range.

Structure of Product Mix:

1. **Width:** Width of the product mix means the number of different product lines found within the company. Thus, breadth is measured by the number of product lines carried. For example, Bajaj group has a number of subsidiaries under it producing bulbs, fluorescent lights, mixers and grinders, toasters, motorcycles, pressure cookers and a host of other products.

2. Depth:

Depth of the product mix refers to the average number of items offered by the company within each product line. It is measured by assortment of sizes, colours, models, prices and quality offered within each product line. For instance, Hindustan Unilever offers a number of variants like Lux Fresh Splash, Strawberry and cream, Peach and cream, Sandal and cream, etc. within the product line Lux soaps.

3. Consistency:

The consistency of product mix points out how closely related the various product lines are in terms of consumer behaviour, production requirements, distribution channels or in some other way. For example, the products produced by the General Electric Company have an overall consistency in that most products involve electricity in one way or the other.

According to Kotler, all three dimensions of product mix have a market rationale. By increasing the width of the product mix the company hopes to capitalise on its good reputation and skills in present markets.

By increasing the depth of its product mix, the company hopes to entice the patronage of buyers of widely differing tastes and needs. By increasing the consistency of its product mix, the company hopes to acquire an unparalleled reputation in a particular area of endeavour.

Product – Types of New Products

Business firms always try to find new market by innovation and research they create new products to satisfy the changing demand of customers. We can see new products especially in the field of electronic and computer.

(i) New-to-the-World Products:

New-to-the-world products are innovative products that create an entirely new market, like water purifiers.

(ii) <u>New Product Lines:</u>

New products that allow a company to enter an established market like LCD television.

(iii) <u>Additions to Existing Product Lines:</u>

New products that supplement a company's established product lines like Fair and Lovely for men.

(iv) <u>Improvements and Revisions of Existing Products:</u>

New products that provide improved performance or greater perceived value and replace existing products, examples are books and software.

(v) <u>Repositioning:</u>

Existing products that are targeted to new markets or market segments, this is beneficial in expansion of market.

(vi) <u>Price Differentiation:</u>

Sometimes due to increasing competition in the market, the manufacturers have to offer the product with same features and functions but at lower price.

<u>Product Hierarchy</u>

a. Need-Family:

It is a core need that underlies the existence of a product family. These products satisfy a core need of the group of people or of an individual. They are called products from the "Need Family". Eg. Hunger is core need which is satisfied by food.

b. <u>Product-Family:</u>

These consist of all the product classes that can satisfy a core need with reasonable effectiveness. It comprises of varieties of product within this group, which compete with one another to satisfy the same need. These are 'family of products satisfying the same need'. Eg. Fast foods, Snacks, Veg. Thali, etc.

c. <u>Product Class:</u>

It is a group of products within the product family recognized as having a certain functional coherence. A group of products, within this family of products, having similar characteristics are labelled as product class or product category. Eg. Fast Foods.

d. <u>Product Line:</u>

It is a group of products within a product class which are closely related to each other since they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within the given price ranges. A product line may consist of different brands, or a single family brand, or individual brand that has been line extended. Eg. Burgers, Pizzas, etc.

e. Product Type:

It is a group of items within a product line that encompasses one of several possible forms of the product. Eg. Chicken burger.

f. Item (Stock Keeping Unit or Product Variant):

It is a distinct unit within a brand or product line which is distinguishable by size, shape, price, appearance, or some other attribute. Eg. Burger King's Jumbo Chicken burger.

Product – Levels of Product

The needs of customers vary according to their economic conditions and social situations. As customers grow economically, they require enhanced products that can satisfy their current needs. The organizations address the varied needs of customers by producing a same product at different levels. Each level adds some valuable features in a product. For example, mobile phones come with different features and functions to satisfy the varied needs of customers.

If a customer wishes to use mobile phone only for communication purposes, he/she can buy a very simple mobile phone. However, if the customer wishes to use mobile phone for communication, business and entertainment purposes, he/she can buy the mobile phone with additional features.

Now, let us discuss the different levels of a product in brief:

i. Core Product:

It includes the key feature of a product. It forms the basis for other product offering levels. For example, the key feature of a car is to travel from one place to another. Therefore, a simple and small car with no additional features is a core product.

ii. Basic Product:

It includes some added benefits along with the basic feature of a product. For example, a clean and spacious car is the basic product.

iii. Expected Product:

It refers to a product that is desired by customers. It varies from individual to individual depending on other factors, such as social class. For example, a customer buying a car may expect an air conditioner and music system in it.

iv. Augmented Product:

It includes additional attributes of a product as compared to products offered by competitors. The additional benefits satisfy rational customers more in terms of value. For example, a car may have special in-built features, such as LCD TV or refrigerator.

v. Potential Product:

It compares the benefit derived from the product in future with the current product. It creates a value for customers beyond their expectations. For example, a high technology gadget car with good ambience and comfort is a potential product.

Product Design

Changes in design are largely dictated by whether they would improve the prospects of greater sales, and this, over the accompanying costs. Changes in design are also subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. Most products fall in between the spectrum of “standardization” to “adaptation” extremes.

The application the product is put to also affect the design. In the UK, railway engines were designed from the outset to be sophisticated because of the degree of competition, but in the US this was not the case. In order to burn the abundant wood and move the prairie debris, large smoke stacks and cowcatchers were necessary.

In agricultural implements a mechanised cultivator may be a convenience item in a UK garden, but in India and Africa it may be essential equipment. “Perceptions” of the product’s benefits may also dictate the design. A refrigerator in Africa is a very necessary and functional item, kept in the kitchen or the bar. In Mexico, the same item is a status symbol and, therefore, kept in the living room.

Factors encouraging standardization are:

(i) Economies of scale in production and marketing
(ii) Consumer mobility – The more consumer’s travel the more is the demand
(iii) Technology
(iv) Image, for example “Japanese”, “made in”.

The latter can be a factor both to aid or to hinder global marketing development. Nagashima (1977) found the “made in USA” image has lost ground to the “made in Japan” image. In some cases “foreign made” gives advantage over domestic products. In Zimbabwe one sees many advertisements for “imported”, which gives the product advertised a perceived advantage over domestic products.

Often a price premium is charged to reinforce the “imported means quality” image. If the foreign source is negative in effect, attempts are made to disguise or hide the fact through, say, packaging or labelling. Mexicans are loathe to take products from Brazil. By putting a “made in elsewhere” label on the product this can be overcome, provided the products are manufactured elsewhere even though its company maybe Brazilian.

Factors encouraging adaptation are:

(i) Differing Usage Conditions:

These may be due to climate, skills, level of literacy, culture or physical conditions. Maize, for example, would never sell in Europe rolled and milled as in Africa. It is only eaten whole, on or off the cob. In Zimbabwe, kapenta fish can be used as a relish, but wilt always be eaten as a "starter" to a meal in the developed countries.

(ii) General Market Factors:

Incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.

(iii) Government:

Taxation, import quotas, non-tariff barriers, labelling, health requirements. Non-tariff barriers are an attempt, despite their supposed impartiality, at restricting or eliminating competition. A good example of this is the Florida tomato growers, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States.

The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

(iv) History:

Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.

(v) Financial Considerations:

In order to maximise sales or profits the organization may have no choice but to adapt its products to local conditions.

(vi) Pressure:

Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

Product Decision

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are legion. These can include the imposition of a global standardised product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low; devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognisance of cultural adaptation needs. The decision whether to sell globally standardised or adapted products is too simplistic for today's market place. Many product decisions lie between these two extremes. Cognizance has also to be taken of the stage in the international life cycle, the organization's own product portfolio, its strengths and weaknesses and its global objectives.

Unfortunately, most developing, countries are in no position to compete on the world stage with many manufactured value-added products. Quality, or lack of it, is often the major letdown. Most developing countries are likely to be exporting raw materials or basic and high value agricultural produce for some time to come.

Product – Elements of Production Decisions

In decisions on producing or providing products and services in the international market it is essential that the production of the product or service is well planned and coordinated, both within and with other functional area of the firm, particularly marketing.

For example, in horticulture, it is essential that any supplier or any of his "out grower" (sub-contractor) can supply what he says he can. This is especially vital when contracts for supply are finalised, as failure to supply could incur large penalties. The main elements to consider are the production process itself, specifications, culture, the physical product, packaging, labelling, branding, warranty and service.

Production Process:

The key question is, can we ensure continuity of supply? In manufactured products this may include decisions on the type of manufacturing process – artisanal, job, batch, flow line or group technology. However in many agricultural commodities factors like seasonality, perishability and supply and demand have to be taken into consideration.

Quantity and quality of horticultural crops are affected by a number of things. These include input supplies (or lack of them), finance and credit availability, variety (choice), sowing dates, product range and investment advice. Many of these items will be catered for in the contract of supply.

Specification:

Specification is very important in agricultural products. Some markets will not take produce unless it is within their specification. Specifications are often set by the customer, but agents, standard authorities (like the EU or ITC Geneva) and trade associations can be useful sources. Quality requirements often vary considerably. In the Middle East, red apples are preferred over green apples. In one example French red apples, well boxed, are sold at 55 dinars per box, whilst not so attractive Iranian greens are sold for 28 dinars per box. In export the quality standards are set by the importer. In Africa, Maritim (1991), found, generally, that there are no consistent standards for product quality and grading, making it difficult to do international trade regionally. Culture:

Product packaging, labeling, physical characteristics and marketing have to adapt to the cultural requirements when necessary. Religion, values, aesthetics, language and material culture all affect production decisions.

Physical Product:

The physical product is made up of a variety of elements. These elements include the physical product and the subjective image of the product. Consumers are looking for benefits and these must be conveyed in the total product package.

Physical characteristics include range, shape, size, color, quality, quantity and compatibility. Subjective attributes are determined by advertising, self-image, labelling and packaging. In manufacturing or selling produce, cognisance has to be taken of cost and country legal requirements. Again a number of these characteristics is governed by the customer or agent. For example, in beef products sold to the EU there are very strict quality requirements to be observed. In fish products, the Japanese demand more “exotic” types than, say, would be sold in the UK.

None of the dried fish products produced by the Zambians on Lake Kariba, and sold into the Lusaka market, would ever pass the hygiene laws if sold internationally. In sophisticated markets like seeds, the variety and range is so large that constant watch has to be kept on the new strains and varieties in order to be competitive.

Packaging:

Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form.

The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister packs for mangetouts, beans, strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.

Increasingly, environmental aspects are coming into play. Packaging which is non-degradable plastic, for example is less in demanded. Biodegradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

Labelling:

Labelling not only serves to express the contents of the product, but may be promotional (symbols for example Cashel Valley Zimbabwe; HJ Heinz, Africafe, Tanzania). The EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed.

This could be very demanding for producers, especially small scale, ones where production techniques may not be standardised. Government labelling regulations vary from country to country. Bar codes are not widespread in Africa, but do assist in stock control.

Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labelling is expensive, and in promotion terms nonstandard labels are more expensive than standard ones. Requirements for crate labelling, etc. for international transportation will be dealt with later under documentation.

The entire product development process is characterized by a number of factors which complicate its conduct. The first is that all functional units of the enterprise are involved at various points, and many of them throughout the entire process. They must be carefully mobilized and their natural resistance to cooperative action overcomes.

Second, many different types of activity must be carried on concurrently. Practically all of these are necessary prerequisites to later activities. Thus, there is an acute problem of timing, requiring the establishment of target dates and follow-up to determine progress.

For products that require a substantial amount of technical research and development work, the period from the original concept of the idea until commercialization is typically five to ten years.

Third, is the need for several check points at which the project is considered in all of its aspects, and decisions are reached—whether it should be abandoned, put on the shelf, or continued at a given rate of work?

There is no magic number of such points, although the most obvious occur at:

1. Preliminary screening of new-product ideas.
2. The time substantial amounts of expenditures are authorized for research and development.
3. Authorization for prototype manufacture and market or use testing.
4. The decision regarding full-scale manufacture and marketing.

The process of reviewing the project in its manifold technical and economic aspects at each of these check points becomes increasingly more detailed and thorough as larger and larger amounts of company resources must be committed by decisions to continue it.

Fourth, new products that are quite similar to the present line in production and selling characteristics will not require a process of development so elaborate or as long as those that are more alien to the established knowledge and know-how of the company organization.

The nature of these complicating factors indicates the desirability of systematizing the search for new products. While the appropriate elements of a product development system would vary from one firm to another, certain activities are basic to the process itself.

These include at least the following phases:

1. Generating new-product ideas.
2. Preliminary appraisal of new product ideas and selection of projects.
3. Product and market research.
4. Process research.
5. Prototype testing in production and marketing.
6. Commercialization.

With the exception of the second step, the appraisals that are likely to be made near the end of one phase and the beginning of the next have been omitted.

1. Generating New-Product Ideas:

It is almost a truism that new product ideas should match the capabilities of the enterprise and be generated in sufficient number to present a real choice of opportunities. Both internal and external sources should be consulted.

a. Internal Sources:

Stimulating a flow of ideas internally is largely a matter of gaining and holding the interest of groups in the organization. One means of doing this is to provide adequate machinery for prompt acknowledgement, review, and decision regarding new-product ideas submitted by insiders.
Delay in acting on such ideas is apt to be interpreted as lack of interest on the part of management and can dampen creative effort. Financial rewards can also be effective in generating ideas, particularly if they are offered promptly.

Some of the more obvious internal sources of new-product ideas are:

i. Research and Development Departments:

For companies large enough to support them, R&D departments are usually fruitful sources of new-product ideas. As a rule, research personnel are very imaginative and accustomed to working with new concepts.
Although they are not always fully aware of the commercial requirements of new products, this limitation can be met in part through the efforts of the research director to create in his staff an understanding of cost and profit problems.
An important characteristic of research personnel as a source is that they are typically thinking ahead to future technology and are not likely to be influenced by current industrial practices. In addition to ideas that may spring from an R & D department, an active program of research inevitably produces many “spin-off” products not included in the primary research objectives.
When research directed to a certain end turns up new-product ideas not contemplated in its original purpose, they are usually shelved for reexamination at a future time. Too often, they are forgotten.
These by-products of research frequently represent promising opportunities, either for development by the company or for sale or license to other firms. One chemical company found it very worthwhile to review the new-product projects it had placed on the shelf (because they did not fit company needs closely enough), and through license arrangements or sale, to exploit these properties and derive some income from them.

ii. Technical Service Staffs:

Technical service personnel are usually a good source of product ideas due to their close contact with the problems of applying company products to customer needs. Service personnel frequently specialize by customer industry and thus have an intimate knowledge of their changing needs.
Dealing with complaints about the technical characteristics or performance of products often suggests new- product ideas.

Without proper encouragement, though, technical service men are likely to be interested only in improvements to present products rather than in new products. While the former are important, it is the latter which offers the greatest new business potential.

iii. Company Salesmen:

A salesman often displays the same tendency to relate ideas primarily to present products as do technical service personnel. However, a salesman is in a particularly good position to discover opportunities for new products because of his day-to-day contact with customers and his familiarity with competitive products.

If he is alert and has the right kind of contacts with influential managers inside the customer firm, he may be able to identify the direction of customer research and development. This provides important clues to the types of materials and equipment they are likely to need in the future.

The value of the industrial sales force as a source of new-product ideas depends in part on the marketing channels used by the company. If sales flow mainly through distributor channels, these provide a sort of insulation between user and company with regard to detailed knowledge of the user’s needs and desires.

Even in this case, however, an alert sales force will maintain close contact with the most important customers of distributors and will attempt to keep in close touch with distributors and their salesmen about the problems and conditions of product use.

iv. Executive Personnel:

Executives in sales, production, research, and general management have an intimate view of the needs and probable future course of the company. They represent a source of ideas that should be consistent with company capabilities and potential.

Some of them are likely to possess an intuitive sense of profit opportunities and of the proper timing for maximum exploitation of them. In addition, they are apt to have access to the high- level trade grapevines that often carry surprisingly accurate news about the product planning and development activities of customers and competitors.

v. Company Sales Records:

Analyses of company sales results by product lines and by items is useful in indicating the need for redesign of some products and the approaching obsolescence of others, as well as the types of products that have won strong buyer acceptance.

vi. Company Patent Departments:

Personnel staffing patent departments should not be overlooked as sources of new-product ideas. They are trained to think in terms of new products. For the alert, motivated employee, patent searches as well as the writing of patent descriptions can generate new-product ideas.

b. External Sources:

A variety of sources of new-product ideas may be found outside the company. The most common are probably competitors, free-lance inventors, and trade literature.

i. Competitors:

Successful competitors can often be a source of valuable clues concerning the number of items or models which should be included in the product line. The concept of a full line is somewhat difficult to define. While it is often desirable to sell more than a single product or a single product line, the point of diminishing returns is difficult to identify.

The number of product lines and the breadth of these lines that competitors are selling successfully may serve as a crude yardstick in determining the product mix that is best for one's own company. If new products are called for, the general nature of these products is already outlined by competitors.

ii. Free-Lance Inventors:

Although not the important source of new- product opportunities they once were, free-lance inventors are still credited with some important product innovations. Business men will not soon forget C. F. Carlson's copying machine or Edwin Land's camera. Both men were turned down by blue-chip companies and forced to form their own enterprises—Xerox and Polaroid.

iii. Trade Literature:

Literature searches, both in United States publications and those of foreign countries, have proved fruitful for some companies. In a number of instances, equipment developed in foreign countries has later appeared in the United States through import channels.

The practice of following foreign technical literature enabled one domestic company to develop similar equipment and have it on sale in this country before imports appeared.

iv. Other Outside Sources:

These include professional society meetings, trade shows, exhibits, government research programs, university research programs, and consulting organizations. The problem in using such sources is how to tap them without an excessive expenditure of time and energy.

2. Preliminary Appraisal:

This phase has two major purposes. The first is to eliminate ideas that are clearly unworthy of further consideration. The second is to select from among the remainder those with enough promise to warrant exploratory work by technical research.

Great reliance is usually placed on the experience and judgment of executives in conducting the screening process. Because of the multiplicity of issues which affect the desirability of pursuing any specific new-product idea, it is often useful to develop a checklist of questions to be answered. Checklists are no substitute for analysis, but they have the merit of preventing the omission of vital questions in the heat of pursuing what initially appears to be an exciting idea. If the company product mix is fairly homogeneous, one such list may serve the purpose; if not, it may be necessary to have more than one.

Although it is essential that the entire range of conditions influencing the success of an idea be considered, it is not necessary that detailed information about each be available at this time. The emphasis, rather, is on detecting negative issues that might suggest abandonment of the idea.

Major considerations in the appraisal of a new-product idea usually include expected profit potential, the competitive situation, the general adaptability of the company to the new product, and the scale of investment that would be necessary in relation to the funds the company has available.

Marketing considerations include the approximate size of the market, the trends operating within it, marketing methods that would be necessary for successful sale, price structures, and so forth. Many new-product ideas involve problems of technical design. Thus, it becomes necessary to judge the technical feasibility of the idea and estimate the likelihood of success in solving technical problems. Production considerations also enter in the form of the nature of production facilities required, approximate costs of production, availability of materials, and continuity of their supply. At times, legal considerations also enter, both as to the patent situation and as to hazards that may accompany customer use of the product.

Several firms have attempted to develop formulas to use as tools in making new-product decisions. A critical total score was worked out by applying the formula in retrospect to a number of products the company had introduced and comparing scores with actual performance. Such a formula assures that all the factors generally significant in a new-product decision are considered in a systematic, uniform manner. But its use has dangers. When men have a formula, they tend to quit thinking. Any new-product idea may have one feature that outweighs all others and that is not general in the sense that few other ideas, or none, have it.

A formula is apt to be disastrous if used by a committee or staff group composed entirely of conformists. It may work well for a group that contains one or more highly vocal people who always look for the unusual in every situation.

3. Product and Market Research:

This phase includes the technical, economic, and market research carried on after an idea has been selected as a project after the preliminary appraisal. The amount of technical research necessary will vary greatly, depending on the difficulties involved in achieving a satisfactory product. The more similar the new product is to those currently being manufactured, the less likely is the need for significant amounts of technical work.

During this phase, the physical properties of the new product are determined, small quantities are prepared in the laboratory, research on possible uses is initiated, preliminary work on patents starts, and preliminary estimates of production costs are made.

Some industrial products, especially materials and supplies, lend themselves to limited field distribution of sample quantities, and thus permit preliminary evaluation of their suitability to the needs of selected customers.

It is usually advisable to prepare a study of the economic possibilities of the new product at this time which would seek answers to such questions as:

a. What is the precise market or segment of the market in which the new product promises the greatest benefit to users?

b. How much effort will be needed to generate an acceptable revenue, and how much will it cost?

c. How much new investment must customers make in order to use the new product?

d. How much change must customer firms make in their present production techniques and routines to use it?

e. Have customers got the technical and application skills needed to use the new product?

f. How many people in the typical customer firm must be convinced before a sale can be made and how hard are they to reach?

g. How solid are relations between the typical customer and his present supplier?

h. What buying motivation can we offer the customer, such as reduction in cost, an increase in attractiveness and volume of the end product, or possible increase in its price?

i. What risks will the user of the new product incur?

j. How fast will any information we may supply permeate the typical customer firm?

k. Are there any built-in customer roadblocks to trying or adopting the new product?

4. Process Research:

In point of time, this phase may overlap the preceding one as the technical group begins to investigate the most feasible way of producing the new product and developing information needed for patent application.
The best way to test various manufacturing techniques may be to build a pilot plant and produce the product in small quantities. Quality control problems are also investigated during this phase.

5. Prototype Testing:

With modest amounts of the product available, market development personnel can begin field testing with a selected group of customers who agree to cooperate, often in return for assurances of preferential treatment if the product proves satisfactory.
All information gathered from field evaluations is relayed back to the technical group who review it for clues to possible flaws in product design.
During this phase there is often a review by an appropriate executive committee which makes recommendations concerning the future disposition of the project. These are based on the results of research completed together with relevant marketing and economic data.
Further research might be recommended if information seems inadequate, further technical work might be authorized if serious product defects have been discovered, or the project might be abandoned.
If continuance of the project is recommended, larger field tests would be undertaken that would more nearly approximate conditions of actual marketing. The regular sales organization would begin familiarizing its members with the product, and promotional strategy would be worked out along with decisions concerning selling methods. It also would be necessary about this time to choose a brand name for the product and determine package design.
The makers of certain kinds of industrial materials and equipment face legal hurdles in introducing new products. For example, before the producer of a chemical used in medicines can market it, he must gain approval of the Food and Drug Administration by supplying evidence that it will do what he says it will do, and will have no more than allowable toxic side effects. In order to gain clearance, he must submit the results of approved independent clinical tests to satisfy the Administration.

This requirement has both good and bad effects on the manufacturer's marketing activities:

i. It delays the introduction of the product. Not only does it take a long time to complete clinical tests, but after they are submitted the manufacturer must await completion of any supplementary tests the Administration decides to make and the slow unwinding of its bureaucratic red tape, which is further delayed by chronic underemanning due to the niggardly policy of Congress in dealing with its budget.

ii. The conduct of such clinical tests and presentation of their results in a form that suits the needs of the Administration is an art in itself.

iii. The timing of the Administration's release may bear no relation to the ebb and flow of demand. Many diseases are seasonal, and the release of a product at the end of the season may lose the maker a whole year in its introduction to the market.

Nor can the time of release be forecast with any accuracy. So marketing plans must be prepared in detail and then held in abeyance, often to become outdated before they can be put into effect.

iv. On the other hand, once the Administration issues a release, this in itself goes far to assure users that the product will do what is claimed for it, and thus materially eases the marketing task. The maker of a food additive must have a release from the Administration, showing that its use will have no dangerous toxic effects on the people who consume the end products containing it. The manufacturer of a plant protective material, or one designed to cure or prevent diseases of animals or fowl, or to stimulate the growth of animals, poultry, or plants must obtain such a release, assuring that no toxic residue remains in the meat, milk, eggs, fruits, or vegetables when prepared for human consumption.

This requirement adds all the handicaps in connection with medicinal materials, but does not establish that the product will do what it is designed to do. It constitutes merely a manufacturer's hunting license to try to capture sales, and affords no particular help in doing so.

Aside from the benefits of the Administration's work in protecting the public health, most manufacturers of such materials welcome these restrictions because they tend to preclude irresponsible producers from plaguing them with a type of competition very difficult to combat. The makers of many kinds of building materials and equipment must see to it that the safety and fire-resisting properties of their products meet the requirements of the Board of Fire Underwriters and the local building codes. Since the codes differ from city to city, meeting their standards may be very cumbersome, time-consuming, and expensive.

A considerable amount of information is available regarding the new product as a result of prototype testing. Firm estimates of full-scale production costs, probable product uses, buyer reaction to prices, market potential, and other results of market evaluation tests are at hand. With this data one can predict the time required to recover development costs and the rate of return the product can be expected to earn on the funds invested in it.

If the results look impressive when compared to alternative investment opportunities, a recommendation for approval will probably be forwarded to top management for final action. This is the point at which large sums of money are committed to the manufacturing and marketing of the product.

6. Commercialization:

New products approved for commercialization enter the final phase of the development process. During the period required to get into full- scale production various activities, such as package design, promotional literature, and advertising copy can be completed.

Depending on the similarity of the new product to present products and its estimated market potential, it might be assigned to an existing division, to a new division specifically established for it, or to a new enterprise owned wholly or partially by the developing company.

Product – Determinants of the Product Mix

Conditions which appear to exert a major influence on the product- mix decision are:

1. Technology:

Comparatively little industrial research is basic in the sense that it is directed to the discovery of new principles or knowledge. By far the greatest industrial use of research and development is in the application of existing knowledge to the development of new products and processes or the improvement of existing ones.

The rate of technological change is accelerating, and technical research is unquestionably the most basic force affecting the product mix of the individual company.

2. Competition:

A second important determinant of a firm's product mix is changes in competitors' product offerings. Closely related is the introduction of competitive products by companies not now considered to be competitors.

This has happened increasingly in recent years, with the growing tendency of industrial firms to enlarge their product mixes to include product lines in fields and markets not previously served.

Changes in competitive products represent a direct challenge to a company, and if the change is a truly significant improvement, it may prove disastrous unless it can be matched or surpassed within a reasonable length of time.

This matter of the time element explains why firms seemingly in a solid product position spend large sums on research to discover new products that render their present ones obsolete. When asked why his firm was doing this, one chief executive replied, 'If we don't, someone else will."

In addition to changes in their product designs, competitors may make changes in their overall product mix and put a rival at a competitive disadvantage. There are important forces favoring a product mix of considerable breadth. Broadening product lines may be a real advantage in distributor relations and in lowering selling costs.

The number of competitors may change. An increase in numbers is likely to result in keener competition and lowered profit margins. Significant increases in numbers of competitors are especially likely in industries where the capital investment necessary for entry is modest.

In such situations, a product that enjoys a rapid increase in sales is likely to attract many new entrants into the field, some of whom will not survive the period of consolidation, or “shakeout,” as it is sometimes called.

In industries that require large investment, increases in the number of competitors are less dramatic. When they occur, the new competitors tend to reach for volume by cutting price, which reduces both the dollar sales and the gross profit rate of the original innovator.

The result is that as soon as a firm introduces a new product on the market, it starts research to improve it and to find other new products to replace it when competition develops.

3. Operating Capacity:

Another important factor influencing a marketer’s product mix is underutilized capacity. Since production facilities are usually composed of complexes of interrelated machines, changes in production capacity can rarely be made in small increments.

When demand outruns existing facilities and a new equipment complex is brought on line, there may be a period in which it is not totally utilized in satisfying existing demand.

In such situations it is very common for management to be under pressure to find new products which the equipment can make. Similarly, when a marketing organization is established to serve a particular territory for a given product line, it often becomes apparent that salesmen could handle other lines as well, and pressure is generated to find other products they can sell profitably.

It is well known that many profitable firms do not pay out all their profits in dividends. Retained earnings become part of the firm’s capital structure and must be invested. New products are one of the investment opportunities into which underutilized funds are often channeled.

Many manufacturing processes involve by-products which must either be used internally, marketed, or disposed of as waste. Growing concern with industrial wastes may be expected to stimulate greater efforts than in the past to turn them into products which can either be used internally or marketed. The latter instance, of course, leads to an expansion of the product mix.

4. Market Factors:

Although declines in demand are disturbing to management and may result in an expansion of the product mix in an effort to replace lost business, upward changes are also of significance. Management's responsibility is to capitalize as fully as possible on expanding product fields just as much as it is to meet the challenge of declining markets.

These changes in demand are of various types:

i. Shifts in Customer's Product Mix:

Goods which enter into customers' products such as parts and components are vulnerable to changes in the product lines manufactured by customers. If the customer is himself an industrial goods producer selling to other industries, his shift may be triggered by changes his customers have found necessary. Depending on the direction of change, pressure for an expansion or contraction of his own product mix is apt to result.

In addition to the product demand shifts brought about by customers' changes in product line design to meet their own customer needs, some regular customers may engage in diversification programs that expand their product mix.

This offers opportunities for the sale of additional quantities or for modification of the seller's product mix to capitalize on additional business available from them. Since diversification programs often grow out of a decline in business or the fear of a future decline, there may well be concurrent drops in normal demand.

ii. Changes in Availability or Cost:

A material or part used in making an end product may become scarce or its price may go up so as to distort the competitive relationships in either the component or the end product market. This necessitates product modification by the firm supplying the components and by consequence alters its mix of products.

iii. Changes in Manufacturing Processes:

Manufacturers of special purpose machines are particularly vulnerable to changes in the manufacturing processes of their customers. A change in process can render their machines obsolete, forcing a constriction in the product mix.

iv. Shifts in Location of Customers:

Transportation costs are important for many types of industrial goods. These costs limit the geographical extent of the market that can be profitably served by an industrial marketer, and any shift of customers out of this market area can result in major declines in sales and the necessity for replacing this lost business with other products.

Sometimes migration of industry into the area economically served by a producer helps offset losses from outward migration. Some manufacturers, however, have been so closely tied to particular industries—for example, textiles—that large-scale migration becomes a death sentence unless the supplier also moves.

v. Changes in Levels of Business Activity:

Nearly every producer faces some type of seasonal pattern of sales, and also is vulnerable in greater or less extent to major shifts in the level of general business. Some companies have extended their product mix by adding lines whose seasonal patterns offset those of their present lines, and thus have obtained a reasonably even rate of total production and sales activity throughout the year. This consideration also applies to distributors who may feel the need for a product mix that evens out seasonal fluctuations.

In somewhat similar fashion, some companies have sought to add product lines less sensitive to business-cycle fluctuations than are their existing ones. Many manufacturers of machinery, particularly in the major equipment groups, are concerned about their sensitivity to cyclicaldrops in demand and would like to meet this drop through diversification, Cyclical fluctuations are often of the rolling type in that demand does not decline in all industries at the same time.

When this happens, a supplier who diversifies to sell to a number of industries may diminish the sharpness and extent of the decline in his sales volume.

In addition to changes in general business activity, there may be variations in local or regional markets or in individual industries.

vi. Government Controls:

The last several decades have been a period of war and general tension in international relations. It seems certain that for many years in the future there will be a high level of government spending for national defense, coupled with the possibility of limited scale military action.

Under such conditions, certain materials are of great strategic importance, and the government may take steps to limit their use for civilian purposes in order to manufacture military material or to build stockpiles.

Such government controls have widespread ramifications through industry, and tend to cause major changes in sales volume for particular product lines. When there is no possibility of substituting materials, little product action can be taken.

Frequently, however, such a tight material situation may encourage experimentation and research on substitute materials to perform the function. This leads to changes in product mix.

Product – Importance of Product

1. **Central Point for All Marketing Activities:**

Product is the foundation of all the marketing activities such as, selling, purchasing, advertisement, distribution, sale promotion, etc. It is the product which is the vehicle of profitability for the business.

The starting point of any marketing programme is the product.

2. **Starting Point of Planning:**

. Planning for all marketing activities such as distribution, price, sales promotion, advertising, etc. is made on the basis of the nature, quality and the demand for the product. Product policies decide all other policies.

3. **Product is an End:**

The main objective of all marketing activities is to satisfy the customers. Various policies and techniques are formulated to provide the customers benefits, utilities and satisfactions through the product. Thus, product is the means for satisfaction of customers. The producer must insist on the quality and functionality of the product so that it may satisfy the customer's needs.

4. **Product is Indispensable:**

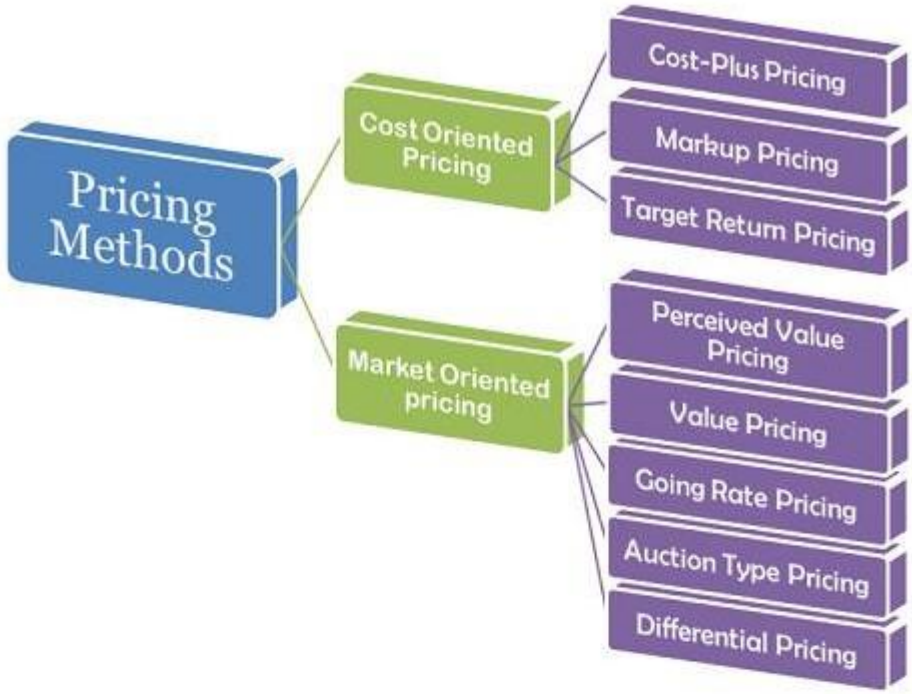
Product is a must for marketing activities. All marketing activities are done for the satisfaction of customer. The producers must know their customers and their needs. They should also know their product and its qualities.

The product must contain the qualities which can satisfy the customers, should make continuous and sincere efforts to know their product through marketing research and planning and to improve it wherever it is lacking.

PRICING DECISIONS:

Definition: The Pricing Methods are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. influencing the pricing strategy as a whole. The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method



Cost-Oriented **Pricing Method**: Many firms consider the Cost of Production as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing:

- **Cost-Plus Pricing**: It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

  E.g. If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated asSelling Price= cost of production + Cost of Production x Markup Percentage/100
  Selling Price=500+500 x 0.25= 625
  Thus, a firm earns a profit of Rs 125 (Profit=Selling price- Cost price)

- **Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price.E.g. If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

  Markup Price= Unit Cost/ 1-desired return on sales
  Markup Price= 16/1-0.20 = 20
  Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.

- **Target-Return pricing**– In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.E.g. If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

Target return price= Unit Cost + (Desired Return x capital invested)/ unit salesTarget Return Price=16 + (0.20 x 100000)/5000Target Return Price= Rs 20

Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI’s can be calculated at different sales unit.

Market-Oriented Pricing Method: Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **Perceived-Value Pricing**: In this pricing method, the manufacturer decides the price on the basis of customer’s perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer’s perception.

  E.g. Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **Value Pricing**: Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re-engineered to reduce the cost of production and maintain the quality simultaneously.

  E.g. Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **Going-Rate Pricing**- In this pricing method, the firms consider the competitor’s price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

  E.g. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **Auction Type pricing**: This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. There are three types of auctions:

  1. **English Auctions**-There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

  2. **Dutch Auctions**– There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

3. **Sealed-Bid Auctions**: This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **Differential Pricing**: This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

  E.g. The best example of differential pricing is Mineral Water. The price of Mineral Water varies in hotels, railway stations, retail stores.

Importance of Pricing – Helps in Determining Return, Determines Demand, Sales Volume and Market Share, Countering Competition, Builds Product Image and A Tool of Sales Promotion

Pricing is an important decision making aspect after the product is manufactured. Price determines the future of the product, acceptability of the product to the customers and return and profitability from the product. It is a tool of competition.

1. Helps in Determining Return:

The primary motive of all firms is to earn profit. Firms aim at maximising profit. When the product is manufactured the manufacturer determines the price of the product. Price includes the return or profits that the manufacturer or marketer intends to earn. Price is fixed by the marketer by adding a certain percentage of profit on cost.

2. Determines Demand, Sales Volume and Market Share:

Price is the most flexible tool in the marketing mix. A marketer can regulate the demand for a product by increasing or decreasing the price. Price is an important factor influencing consumer buying behaviour. Most of the time consumer put importance on price of the product rather than on value, at the time of purchase. Thus a change in price influences the demand, sales volume and market share.

3. Countering Competition:

Companies regularly revise their pricing strategies to counter the competition. A market leader who dominates the market designs the pricing strategy to prevent new competitors entering into the market. While a price follower sets their price in accordance to the competitor's price and market leader's price. A marketer's pricing strategy mostly depends upon competitor's pricing policy.

4. Builds Product Image:

Price often builds an image of the product. Consumers often believe that high priced products are of high value and benefit than low priced product. Marketers also use price to position their products superior in the minds of the consumer.

5. A Tool of Sales Promotion:

Price is an important tool of sales promotion. Companies often resort to short term price reduction like offering discounts to increase sales during a short time period.

Importance of Pricing – Cost-Based Pricing, Competition-Based Pricing, Demand-Based Pricing and Value-Based Pricing

The relationship between price and demand is well known. For items or services of normal use, the higher the price, lower the demand and vice-versa.

This usually occurs because:

i. Customers have limited budgets or funds availability, which reduces the purchases when the prices rise.

ii. The utility or the value for money perception declines as the prices go up. Therefore, some of the customers might find the tradeoff between the two to be unfavourable and opt out of the service purchase.

iii. Alternative solutions start to look more attractive. When the prices go up, customers start to look for alternative suppliers or other ways of obtaining the same solution by substitution. Thus, if the train travel prices go up significantly, the customers may explore the idea of bus travel.

iv. In the case of services, customers start to look at self-service option more seriously and may even adopt it. Thus, in the case of services which are not technically very complicated, customers think of carrying out the service themselves. Thus, if the school bus prices go up inordinately, the parents may decide to drop and pick-up the children from the school themselves.

Not all the products or services get affected by this phenomenon in equal measure. The susceptibility of each product or service to this demand reduction phenomenon is generally called the price elasticity of demand. The change in the volume demand brought about by change in the prices is called the price elasticity of demand.

Thus, services which are highly susceptible to the price changes are termed as elastic. Where the demand for services does not drop because of the nature of demand or the type of service, service providers can take advantage of the inelasticity.

In the case of services, each of the pricing strategies represents a marketing solution to the service provider.

1. Cost-Based Pricing:

In the case of goods, the prices are often based on the cost of production. For example, the price of petrol or diesel in India is based on the cost of oil in the international markets. Similarly, in the case of services, the cost-based pricing serves as the basic or starting point for the services. Cost-based prices are calculated based on certain accumulation of the accounting data.

The usual components of costs are:

i. Variable cost – Consisting of direct materials and direct labour and consumables. These are directly attributable to each unit of product or service.

ii. Fixed costs – Employee costs, marketing costs of advertising, and sales promotion and distribution costs. These are not directly attributable to the product or service but have to be incurred nonetheless.

iii. Financial costs and profits – Consisting of depreciation, interest, and return on investment.

The situations under which service prices are based on costs are:

i. When the service is introduced for the first time and there are no other references for price fixing. For example, when mobile telephony was first introduced in India, the initial prices were based on the service operator's costs, expected number of connections, and the anticipated return on investment. Thus the cost was the main basis of pricing.

ii. When the number of competitors in market is limited to one or two. Cost- based pricing allows the competitors to make adequate returns and makes them hopeful of achieving the target returns. This situation of 'live and let live' continues until either fresh competition enters the market place or the marketers realize that the current pricing policy is not enabling them to grow and achieve larger returns in the end. The cost-based pricing system continued in the mobile telephone circles when only two operators were present in each circle.

iii. In the case of unusual work, or work whose content is difficult to pre-estimate, the service provider and the client may come to a mutual agreement on the basis of the cost of the effort made by the service provider.

In the case of supervision of civil or engineering construction work, the engineering consultants and the client agree to a site supervision fee based on the man-hours of the personnel required for supervision in lieu of a lump sum fee. They may agree to different daily rates for the engineer, supervisor, draughtsman, quantity surveyor, etc. This practice is common in the Indian consulting business.

However, there are quite a few limitations of this cost-based pricing. These include:

i. Estimation of variable cost of a service is difficult. For example, in the case of the service provided to a hotel room occupant or the cost of flying a passenger, the variable cost is difficult to measure. Without reference to the variable cost, the total cost estimation may be even more difficult.

ii. The utility of services incurring the same costs may not be the same for the customer. For example, changing of the zipper of a trouser and changing of the zipper on a cloth handbag may involve the same amount of effort on the part of the mender.

However, if charges are Rs. 25 in the case of trouser, the customer would happily pay this, while in the case of handbag, the customer may think this to be excessive, because the original cost of the trouser was about Rs. 750 while that of the handbag was only Rs. 100. Thus the service provider may be able to charge even Rs. 40 in the case of a trouser but not more than Rs. 15 for a handbag.

iii. While the service provider may be aware of the cost structure, the customers may not be aware of it; hence, the customers may be averse to paying the price. For example, in a city there may be an expensive movie theatre very near the railway station.

While it costs Rs. 5 to park a car at the railway station, it may cost Rs. 25 to park the car in the basement of the movie theatre. To the customer, it does not make sense to pay five times the amount for the same service, while for the parking lot franchisee, this is the minimum that he can charge in order to pay the rental to the cinema hall.

iv. Since, most of the service offers are usually not totally comparable, the utility and cost comparison based on cost-based prices is confusing to the customers.

While cost-based pricing may be the easiest to implement, the pricing in this manner is not always practicable to implement.

2. Competition-Based Pricing:

Competition-based pricing is another way in which the prices are set by the service providers. An example of this in the Indian context is the air-travel prices between metropolitan cities. When Indian Airlines was the sole service provider, the prices were quite high and were based on the cost of operations.

Competition between Jet airways, Sahara, and Indian Airlines has forced all of them to reduce the prices of two-wayairfares by as much as 40%. Thus, competition leads to tremendous benefit for customers. When the American domestic air travel was deregulated, the prices were no longer based on cost but became dependent on the level of competition and led to severe price wars.

In the process, the volume of air travel went up enormously and the customers benefited with lower fares. The service provider also benefited from higher volumes.

Similarly, when mobile telephony was introduced in India, due to lack of competition the customers during 1997-98 paid as much as Rs. 12.50 per minute for outgoing and Rs. 6 per minute for incoming calls.

The continued competition, including the newest form of competition from the WLL (Wireless in Local Loop) telephony, has reduced the rates drastically. By 2003, the rates have been reduced up to Rs. 0.40 per minute for the local outgoing and STD calls within the circle, while incoming calls have become completely free.

Going rate pricing is another form of competitive pricing. When there are a large number of service providers, or when a new entrant comes into the market, usually the price cannot be fixed by the new entrant or any single provider. For example, there are a large number of Internet cafes in Indian cities. The competition is intense and there are very few factors to differentiate the service. Therefore, the rates for the access fell to as low as Rs. 10 per hour. The same uniform rates are applicable wherever you go. In order to be able to charge a rate that is higher than the going rate, it would be necessary to offer higher speed access, better surroundings with restaurant facilities, or newer computers to create the differentiation in the service. Improved benefit would be necessary to justify higher prices.

3. Demand-Based Pricing:

In economics, the demand curve shows the relationship between the price and the quantity demanded. We are familiar with the general axiom that higher prices reduce the quantity demanded and vice versa.

Due to the perishable nature of services, whenever the demand exceeds the supply, due to lack of inventory, it cannot be met. Similarly, when the demand falls below the available capacity, the capacity is wasted and fails to generate adequate revenue. Some of the pricing strategies try to take care of this concern.

i. Time Differential Pricing:

Telephone networks, Internet servers, etc. are quite busy during the office working time. Business callers tend to call typically during the working hours. Therefore, the network capacity, while sufficient for the daytime load, remains idle during the evening and night. To increase usage during non-peak hours, Bharat Sanchar Nigam Ltd introduced three different rates for inter-town Subscriber Trunk Dialling.

Thus, there was a full daytime rate (7 am to 7 pm), an evening rate (7 pm to 11 pm) at half to one-third of daytime rate, and a night calling rate (11 pm to 7 am) at one-fourth of the daytime calling rate.

Similarly, a number of business hotels offer very attractive low rates during the weekends. At business hotels, rooms remain vacant from Friday night until Monday mornings. The hotels try to offer rooms at special low rates, introducing special tariffs for couples, families, etc. during the weekends. As out-of-town customers are unlikely to make use of such tariff, it is mainly aimed at local residents.

ii. Quantity Differential Pricing:

In line with the principle that the loyal high volume customers should enjoy greater pricing advantage, a number of service providers have quantity differential prices.

For local commuter services, Indian Railway offers a monthly pass that allows unlimited travel on local trains. The price of the monthly offer is equivalent to about eight to ten return journeys between points of origin and destination. Similar tariff is offered on long-distance trains up to a distance of about 200 kilometres.

iii. Place Differential Pricing:

During a show of event, the demand to be close to the actors or actresses on the stage, the singers on dais, or the tennis or cricket players on the grounds is quite high. The customers feel they are more intimately involved in the action. Consequently, the organizers try to make use of this demand factor to secure hefty premium. Thus, the front row seats for a Lata Mangeshkar concert could be as high as Rs. 5,000 while tickets for the back rows could be as low as Rs. 100 per person.

iv. Seasonal Differential Pricing:

The beach resorts and other hotels in Goa experience a slump during the monsoon season from June until the end of September. Therefore, to make best use of the capacity, a number of hotels offer very low off-season rates to attract different type of clientele. This clientele includes honeymooners and other people whose idea of holiday is inactivity or who want to make a pilgrimage to Goa.

The common factor in all these types of pricing is to shift the demand from peak to off-peak periods. We will deal with this topic in depth under supply and demand balancing. In addition, this pricing strategy is based on marginal cost. Marginal cost is the additional cost of serving the additional customer. Marginal cost is the direct material and labour cost. As long as this cost is covered, any additional revenue generated contributes towards overheads and profits.

4. Value-Based Pricing:

Value is defined as perceived benefits for the total cost of acquisition.

Thus, the value-based pricing can be divided into the following depending on:

i. Higher value perception due to lower price for the service

ii. Higher value due to higher perceived benefit, which may accrue due to high quality of the service or other value perceptions.

a. Price Discounting:

To a number of customers, if the same service is offered at a lower price, the value perception of the service goes up. Thus, using a coupon published in a health magazine, the customer may avail a discount for the first month’s fee in a gymnasium.

Similarly, a number of credit card companies offer waiver of the joining or first year's fees in order to attract the customer.

b. Odd Pricing:

The prices of the services are set at a price just below the rounded sum. Thus a large sized pizza may be priced at Rs. 199 instead of Rs. 200. Psychologically, the customers feel that they have paid much less than Rs. 200.

c. Penetration Pricing:

This is the type of pricing used to build large volumes. Take nose or ear piercing as the latest fashion. In order to get larger number of customers to do a trial, the initial introductory offer is based on low price. Once the service becomes well known, the prices are set back to the normal level. It is necessary to make customers aware of this deadline date after which discounted prices will not be available; otherwise the customers may be disappointed.

d. Bundled Pricing:

The typical word used by many marketers is 'giving more for less'. The Pizza Hut chain may separately offer medium-sized pizza for Rs. 149, garlic bread for Rs. 50, and a 500 ml Pepsi for Rs. 13. However, in order to get customers to buy all, the three may be offered as a combined meal for Rs. 189. This bundled price lets the customers focus on the benefit of a total meal, instead of making them nervous about spending well over Rs. 200 for a full meal.

The recent 'Dhirubhai Ambani Pioneer Offer' made by Reliance Infocom is a similar bundled offer. The offer includes a mobile phone, free SMS service, free incoming calls, 24-hour high speed internet access, 400 minutes of talk time per month, STD service at local calling rate within the state/circle, and calling other Reliance phones at local rate irrespective of the location. The customers are not able to price the individual components of this offer, and thus it does not let customers dwell on the price but lets them concentrate on the benefits of such offers.

e. Prestige Pricing:

To some customers, part of the value perception is being different from others. Those who want to make a statement about their status, wealth, leadership, innovativeness, etc. are usually prepared to pay for it. Thus, the customers would be prepared to pay high fee for a new health club or dance class started by a celebrity, or to have a personal trainer and pay for it, etc.

This type of demand usually does not obey the law of price and demand. Usually, in this case, the higher the price, the higher the demand. However, the total size of such a market isusually limited. The moment the service becomes commonplace, the attraction no longer remains.

f. Segment-Wise Pricing:

A number of software packages, including Microsoft Office and Microsoft Windows XP, etc., offer different prices in different segments of the market.

(1) For the office users segment, the price is the highest as the companies would consider the utility of the product rather than the price when making a decision about purchase. In addition, the companies may consider purchase of multiple licences or a server version of the software, or even the professional version.

(2) For individual users, the price is lower than the corporate segment price. It is usually sold as a personal version rather than professional version.

(3) Students obviously are an important class of customers but are unable to pay the full cost of such software. However, they are the future users and decision makers, and must be groomed into using this software from the first opportunity. Therefore, they are offered a student version of the software at very attractive prices.

g. Loss Leadership Pricing:

In this type of pricing, the basic or fundamental services are priced at quite a low level. However, if the client needs higher level or additional services, he has to pay premium prices.

The home cable industry is likely to undergo a number of changes in the near future. The pay channels want to charge a fee from the operators while the government wants to ensure the availability of these channels at low cost to the consumers. Due to the recent ordinance (of 2003) restricting the cable operators/channel partners from overcharging, the pricing may undergo a fundamental change. Amongst the competing cable connection suppliers, the dominant supplier may agree to exhibit the free channels package at very low prices. The cable operator may even lose some money on the base offer. This would attract the buyers and would secure excellent market share for the customers. However, the prized channels such as Star Gold, Zee Cinema, etc. may be offered at prices that are very profitable. Thus, on the whole, the operator may benefit from larger market share and recover the loss on basic service from the specially demanded services.

h. Bid Pricing:

The number of Indian students who join, and travel to, Universities in North America (USA and Canada) and Great Britain during June to September each year is quite high. All the competing airlines offering services on this route including British Airways, KLM, Lufthansa, Alitalia, Delta, etc. want to attract passengers in order to fill their seats on transatlantic routes, while keeping in mind that the student travel market is price sensitive.

Airlines offer block bookings to agents who undertake to fill the quota of seats on each of the flights from Mumbai-Delhi-Chennai during this period. The agents would typically place the bids for block bookings, and successful travel agents will be given the exclusive right to book seats in this period.

The agents in turn try to sell this at the best possible price. They would use tactics such as non-confirmation to entice the buyers to pay extra for confirmed booking. Due to the bidding, the airline itself has very less control on the matter. However, the airline would have almost 100% seat occupancy on the day of travel.

i. Money-Back Guarantees:

A number of software training institutes such as NUT, Aptech, Boston Software, etc. offer a two or three-year student programme. Once the students have enrolled, they are very likely to complete the programme due to parental pressure. In addition, students pay a substantial portion of the fees up front, with the balance being paid over the period of the training. Thus, it is important to attract the students in the first instance to promote the sales.

The students are offered the lure of a guaranteed job at the end of the education; otherwise the institute offers to refund a part of the fee. This is a type of belated or postponed discounting. In any case, any student who fails to find a job elsewhere is usually offered the job of an instructor at the same institute! As we have seen above, the pricing in the case of services is quite complex, and naturally it is dependent upon the overall marketing strategy.

Importance of Pricing – Most Flexible Marketing Mix Variable, Setting the Right Price, Trigger of First Impression, Influences Demand Level and a Few Others

When marketers talk about what they do as part of their responsibilities for marketing products, the tasks associated with setting price are often not at the top of the list. Marketers are much more likely to discuss their activities related to promotion, product development, market research and other tasks that are viewed as the more interesting and exciting parts of the job.

Yet pricing decisions can have important consequences for the marketing organization and the attention given by the marketer to pricing is just as important as the attention given to more recognizable marketing activities.

Some reasons for which pricing is important include:

Importance # 1. Most Flexible Marketing Mix Variable:

For marketers price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter (e.g., television advertisement), price can be changed very rapidly.

The flexibility of pricing decisions is particularly important in times when the marketer seeks to quickly stimulate demand or respond to competitor price actions. For instance, a marketer can agree to a field salesperson's request to lower price for a potential prospect during a phone conversation. Likewise a marketer in charge of online operations can raise prices on hot selling products with the click of a few website buttons.

Importance # 2. Setting the Right Price:

Pricing decisions made hastily without sufficient research, analysis, and strategic evaluation can lead to the marketing organization losing revenue. Prices set too low may mean the company is missing out on additional profits that could be earned if the target market is willing to spend more to acquire the product.

Additionally, attempts to raise an initially low priced product to a higher price may be met by customer resistance as they may feel the marketer is attempting to take advantage of their customers. Prices set too high can also impact revenue as it prevents interested customers from purchasing the product. Setting the right price level often takes considerable market knowledge and, especially with new products, testing of different pricing options.

Importance # 3. Trigger of First Impressions:

Often times customers' perception of a product is formed as soon as they learn the price, such as when a product is first seen when walking down the aisle of a store. While the final decision to make a purchase may be based on the value offered by the entire marketing offering (i.e., entire product), it is possible the customer will not evaluate a marketer's product at all based on price alone.

It is important for marketers to know if customers are more likely to dismiss a product when all they know is its price. If so, pricing may become the most important of all marketing decisions if it can be shown that customers are avoiding learning more about the product because of the price.

Importance # 4. Important Part of Sales Promotion:

Many times price adjustments are part of sales promotions that lower price for a short term to stimulate interest in the product. Marketers must guard against the temptation to adjust prices too frequently since continually increasing and decreasing price can lead customers to be conditioned to anticipate price reductions and, consequently, withhold purchase until the price reduction occurs again.

Importance # 5. Influences Demand Level:

The chosen price directly influences demand level and determines the level of activity. A price set too high or too low can endanger the product's development.

Importance # 6. Determines the Profitability:

The selling price directly determines the profitability of the operation, not only by the profit margin allowed, but also through quantities sold by fixing the conditions under which fixed costs can be recovered over the appropriate time horizon. Thus, a small price difference may have a major impact on profitability.

Importance # 7. Means of Comparison:

More than any other marketing variable, the price is an easy means of comparison between competing products or brands especially when there is hardly any brand differentiation. The slightest change in price is quickly perceived by the market, and because it is so visible it can suddenly overturn the balance of forces.

Importance of Pricing – Costly, Expensive, Cheap and Bargain

Proper pricing is very important for the business and the reason behind this is very simple. All the customers are looking for 'value for money' if not a 'bargain'. So if the customer finds that he/she is required to pay more than what he/she is getting in return, the customer will not buy it, or if purchased under duress, (no alternate available at that time/emergency purchase) will not purchase it next time.

There is also a possibility of bad-mouthing the product. The manufacturer must ensure that the product is being sold in the market at the suggested price and the MOP (Market Operating Price) is not higher than MRP (Maximum Retail Price) due to shortage of the product. If the product is being sold at a higher price than MRP, it will lose its market position in the long run like what has happened to Amul Spray.

How do we decide the proper price? Price determination methods are common with very little variations in them. A manufacturer can determine the price and may decide to sell the products at lower than or higher than the price determined as a marketing strategy based on factors affecting pricing decisions. Let us first look at the method of determining the price.

One must understand the correct meaning of the words costly/expensive, cheap and bargain. Most of the time, most people use these words alternatively without understanding that they are making a mistake in using these words wrongly.

1. Costly:

When the customer pays a high price for a product and is unhappy and not satisfied about the price paid for the product, it is costly.

2. **Expensive**:

When the customer pays a high price for a product and is happy and completely satisfied about the price paid for the product, it is expensive.

3. **Cheap:**

When a customer pays a very low price for a product and feels that the price paid is just enough and would not like to pay more than the price paid, the product is a cheap product.

4. **Bargain:**

When a customer pays a very low price for a product and feels that the price paid is less than the actual price of the product, it is a bargain product.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being done.

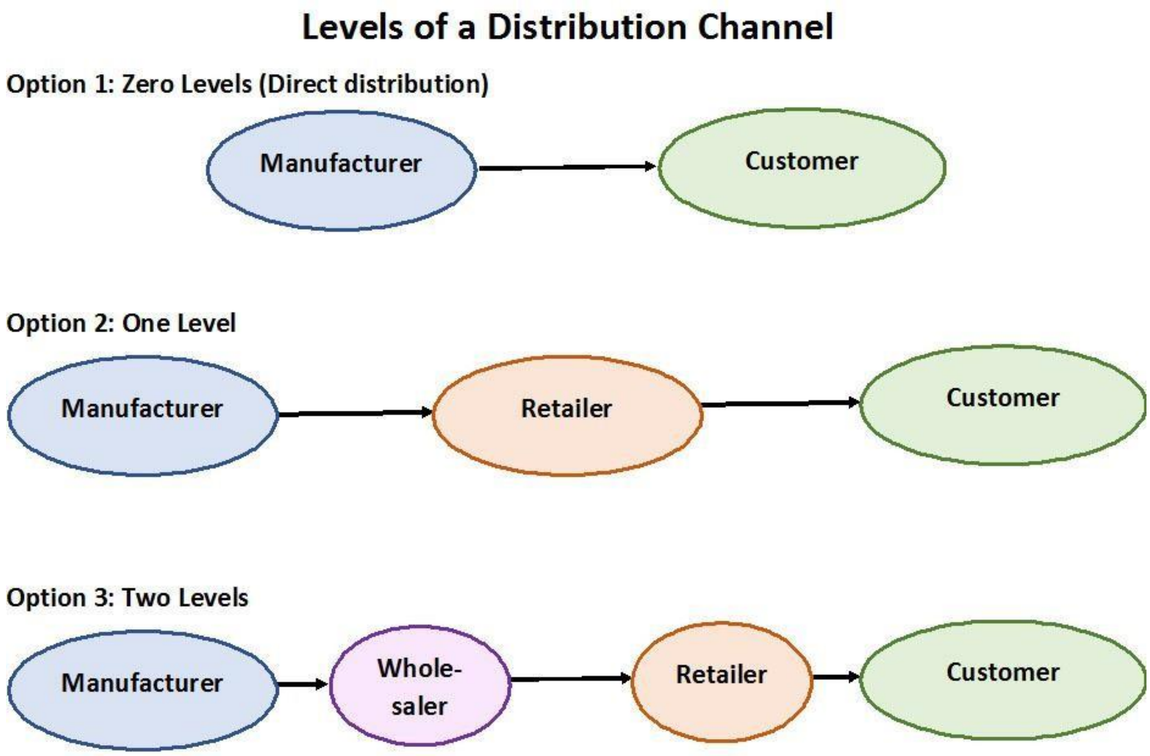
UNIT-4

Distribution: Distribution means the process by which we make the goods or the service available to the end consumer. Generally, the place of production is not the same as the place of consumption. So the goods have to be distributed to overcome the barrier of place.Now the distribution of the products can be done by the organisation itself which is direct distribution. Or it can hire intermediaries and form distributions channel i.e. indirect distributions. The plan will depend on several factors, some of which are as follows:

- **Product:** Whether the product is perishable or durable will be a factor in deciding its distributions model.
- **Market:** The size of the market will be a factor. In a large market, the direct distribution may not be a perfect choice. Also if the markets are scattered indirect channel will be more suitable
- **Company:** The size of the company and its product-mix are also deciding factors in the decision about distributions.
- **Marketing Environment:** In a slow economy or depression a shorter distributions chain is preferable. In a healthy economy, there is a wider choice for alternatives.
- **Cost:** The cost of the channel like transportation, warehousing and storage, tolls etc are obviously a factor in this decision.

Types of Intermediaries

These are the middlemen that ensure smooth and effective distribution of goods over your chosen geographical market. Middlemen are a very important factor in the distribution process. let us take a look at the types of middlemen we usually find.



1] Agents

Agents are middlemen who represent the produces to the customer. They are merely an extension of the company but the company is generally bound by the actions of its agents. One thing to keep in mind, the ownership of the goods do not pass to the agent. They only work on fees and commissions.

2] Wholesalers

Wholesalers buy the goods from the producers directly. One important characteristic of wholesalers is that they buy in bulk at a lower rate than retail price. They store and warehouse huge quantities of the products and sell them to other intermediaries in smaller quantities for a profit.

Wholesalers generally do not sell to the end consumer directly. They sell to other middlemen like retailers or distributors.

3] Distributors

Distributors are similar to wholesalers in their function. Except they have a contract to carry goods from only one producer or company. They do not stock a variety of products from various brands. They are under contract to deal in particular products of only one parent company

4] Retailers

Retailers are basically shop owners. Whether it is your local grocery store or the mall in your area they are all retailers. The only difference is in their sizes. Retailers will procure the goods from wholesaler or distributors and sell it to the final consumers. They will sell these products at a profit margin to their customers.In the reality of the market, all producers rely on the distribution to channel to some extent. Even those who sell directly may rely on at least one of the above intermediary for any purpose. Hence the distribution channel is of paramount importance in our economy.

Advantages of Distribution Channels

1. Financial help to producer
2. Direct marketing may not be feasible. (Bubble gum producers)
3. It is a usually a costly exercise for producer's to setup selling points.

Functions of Distribution Channels

1. Market survey (environment, forces, demand etc)
2. Dissemination of persuasive communication to stimulate purchase.
3. Price settlements.
4. Ordering
5. Funds for financing inventories at various levels.
6. They assume risks associated with carrying out channel work.
7. They provide for the storage and movement of physical products.
8. They provide for payments by buyers.
9. They arrange and manage to facilitate transfer of ownership.

Number of Channel Levels

A layer of Intermediaries that perform some work in bringing the product and its ownership closer to the final buyers.

- **Zero level channel – direct marketing channel** has no intermediary levels and company sells directly to consumers. For example, Singer sells its Electric Appliance in its own stores.
- **One level channel – Indirect marketing channel** contains one intermediary level, which is typically a **retailer.** For example the cameras, televisions and many appliances sell their products directly to large retailers.
- Number Of Intermediaries & Distribution Strategies
- **Exclusive Distribution.** Severely limiting the number of intermediaries. It is used when the producer wants to maintain control over services level and output, offered by reseller.

- **Selective Distribution.** Some channels are used but not all. Only those are used that give selective and privileged treatment. Cost effective, used by established companies.
- **Intensive Distribution.** Producers stock their products in many outlets and available when and where consumers want. Fast moving consumer goods FMCGs are normally distributed like this. Almost all the channels of distribution are used.

PRODUCT PROMOTION:

Definition: The Product Promotion means disseminating the information about the product, product line, brand and company to the prospective buyers with the intent to generate sales and develop a brand loyalty.The Promotion is the fourth element of the marketing mix (Viz. Product, price, place, promotion) which is considered as a mode of communication that business adopts for achieving the specific set of objectives such as:

- To provide information about the availability of features and uses of the product to the prospective buyers.
- To stimulate demand for a product by creating awareness and interest among the customers.
- To differentiate the product from the competitor's product by creating the brand loyalty.
- To stabilize sales by highlighting the importance and features of the product.

Basically, there are four Kinds of Promotion that companies adopt:

1. Informative promotion
2. Persuasive promotion
3. Reminder promotion
4. Buyer Behavior Modifications

The basic purpose of promotion is to persuade customers to buy and primarily includes three types of sales activity: Advertising, Personal Selling, and Sales Promotion. The importance of product promotion lies in the fact, that no firm can survive in the market without reaching the customers effectively and could not compete with other market players if no unique benefits are offered to the customers.There are several types of promotions such as above line promotions (Advertising, press releases, schemes, discounts, etc.) and below the line promotions (trade discounts, freebies, awards, etc.)

The purpose of promotion is to reach the desired consumers and persuade them to act. A company may have a well-designed product offering, with a price and distribution system appropriate to its target market. But if it is unable to reach that market, then all its efforts will have been in vain. Promotion is responsible for awakening and stimulating consumer demand for the product. Promotion, in its broadest marketing sense, encompasses all selling activities—

advertising, personal selling, sales promotion and public relations. The particular way an individual marketer combines these activities is called promotion mix.

To many customers, promotion and selling are synonymous with marketing. Promotion certainly represents a very large part of the marketing efforts of most firms, but it is, of course, only one part of marketing mix. Promotion is not limited to business activity, but is also used by a variety of non-profit organisations.

Of the four elements of marketing mix, promotion is the one used to the greatest degree by non- profit organisations. For instance, colleges use promotion to get students join, political candidates holding meetings (promotion) aim at winning votes, the government uses promotional technique for popularizing family planning programmes etc. Thus promotion is heavily relied upon by non-business organisations too.

Promotion activity ultimately comes under the direction of the marketing manager. In many large firms, however, each method of promotion mix operates independently. The marketing manager has the responsibility of coordinating and inter-relating all the methods to achieve the marketing objectives. Within the marketing frame-work, advertising, personal selling and sales promotion are termed as promotional mix.

There are two types of promotion blends:

1. Push Blend and

2. Pull Blend. They are closely related to the channel of distribution.

The producer pushes the product to intermediaries, who organize promotion to reach consumers and sell the product. Firms develop strong sales forces at both the distributor and dealer level.
Products are pushed through the channel of distribution and dealer.

On the other hand, a pull promotional blend emphasizes on impersonal selling. Here it is the producer who organizes advertising and sales-promotion campaign. Pull strategies have proved to be very effective for difficult distribution cases. A firm adopting this strategy would spend more on advertising and sales promotion.

The distinction between the two is shown below:

A **PUSH STRATEGY** call for using the sales force and trade promotion to push the product through the channels. The producer aggressively promotes the product to wholesalers; wholesalers aggressively promote the product to retailers and the retailers aggressively promote the product to consumers.

A PULL STRATEGY calls for spending a lot of money on advertising and consumer- promotion to build up consumer-demand. If the strategy is effective; consumers will ask their retailers for the product, the retailers will ask their wholesalers for the product and the wholesalers will ask the producers for the product.

Promotion may be informative, persuasive or reminiscent (reminder). Informative promotion is needed when a firm has distinctly new products for sale. For instance, when a firm that manufactures radio sets decides to produce television sets also, this fact must be known to the buyers i.e., informative promotion. Persuasive promotion is needed when a firm has a product, which is similar to other products.

Consumers are persuaded to purchase a particular product, which is better than others i.e., persuasive promotion. Reminiscent promotion is used after the products are well established in the market. Customers are frequently reminded of the product by the brand name, which is made a household name by repetitive advertisement.

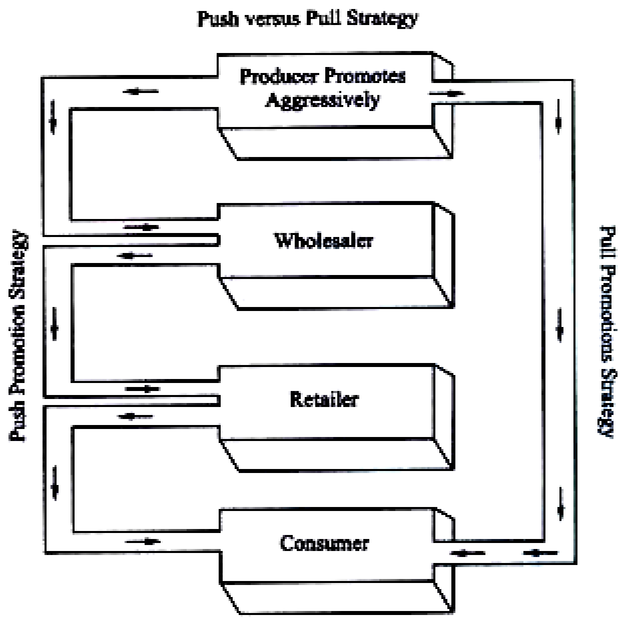


Fig. 16.4

Promotional Mixes and Strategies:

Marketing professionals use the term promotional mix to refer to the combination of personal selling, advertising, sales promotion and other forms of promotion. It becomes the promotional strategy. A combination of at least of two methods is essential for the promotion. Advertising is supported by personal selling or display. Personal selling will be expensive to make sales, when it is used alone. On the other hand a small expenditure on advertisement with personal selling will increase sales enormously.

For each component of promotional mix, management sets objectives, determines policies and formulates strategies. These promotional strategies are blended together to be known as "Promotional Blend." This is blended with product-market, distribution and pricing strategies to become overall marketing strategies. There are many factors which influence promotional mix and they are known as product-market factors.

1. Nature of the Product:

Different products require different promotional mixes. Consumer goods and industrial goods require different strategies. Consumer goods are sold through advertising, personal selling and displays. Raw materials require personal selling.

(a) Product Complexity:

Products of a complex and technical nature require personal selling. Many industrial products—road graders, machine tools—require personal selling.

(b) Brand Differentiation:

Promotional mix is affected by brand differentiation and the degree to which the brand is differentiated from competitor's brand.

(c) Purchase Frequency:

If buyers buy frequently a product as soap, paste etc., the marketer will invest a good amount on advertising to push on competition brands. On the other hand if the buyers buy rarely a product like household furniture, garden tool etc., personal selling will persuade the consumers to buy the product and to push it over the competitive brand.

2. Nature of the Market:

Different markets require different promotional mixes and strategies. In industrial market advertising plays a more informative role than the persuasive role for industrial buyers. Personal selling emphasises on these two roles i.e., information and persuasion in the industrial and consumers' markets.

3. Stage in the Product Life Cycle:

The promotional product mix varies within stage in the product life cycle. The nature of demand varies according to the stages in the life cycle. During the introductory stage of a new product, the customers do not realize or understand the qualities of the product. Hence in the pioneering stage, sellers must stimulate the primary demand. Information about the product and its benefits are made known to the buyers.

In this stage more importance must be given to personal selling and trade shows. In the growth stage, customers know the qualities of the product. Hence to stimulate selective demand, advertising must be increased. In the maturity stage advertising is used as a tool of persuasion. In the decline stage, sales and profits decline and hence all the promotional activities should be cut down.

4. Market Penetration:

i.e., the product is already well known to the buyers. In that situation a sustaining promotional strategy is suitable. The retailers and middlemen try to stock the products. They try to become ‘best sellers.’ A brand has insignificant market penetration i.e., it has a small market or struggling market. In that condition, a developmental promotional strategy is suitable. Personal selling or push strategy or advertising or a full strategy is required.

5. Market Size and Location:

Product market size and location influence the promotional mix. In narrow markets where the number of potential buyers is small, direct mail is used. In a broad market, advertising is used. The location of market is in the urban and rural areas. In urban/markets where buyers are many, advertising can be used. In rural markets where buyers are few, personal selling can be used.

6. Characteristics of Buyers:

The characteristics of prospective buyers strongly influence the promotional mix. Experienced professional buyers such as industrial purchasing agents need personal selling. Inexperienced buyers like housewife, need advertising. Some buyers give importance to time, some to the purchase of products; some buyers act according to the influence of friends, relatives etc.
Promotional mix and strategy are affected by these.

7. Distribution Strategy:

Companies fighting more through distribution for establishing their brand, invest more money on personal selling and advertising. Companies which have already established their brand in the market have to invest only a small amount in personal selling and advertising.

If the product is sold directly to the consumers, the method to be adopted is personal selling. If the product passes through a longer channel of distribution, the marketer gives more importance to advertising and less importance to personal selling. For consumer products, sold through channels, advertisement to final buyers is essential. Effective promotional packaging and display are also essential.

8. Pricing Strategy:

Pricing strategy influences the promotional mix strategy. If the brand is priced higher than the competition, more personal selling is needed to get a middleman to stock and push the brand. If the brand is priced lower, little promotion is needed. If the marketer allows middlemen mark ups on the brand to be lower than on competitive brands, heavy advertisement is needed 'to force' them to handle the company's brand. There is considerable need for personal selling to retain its present customers and secure new customers.

Companies need to develop strategies to improve brand image and brand awareness. The important aspect of spreading brand awareness and brand image is through communication. Companies need to establish a communication channel to win the new customers and retain existing customer. This communication is not restricted just to customer but also stakeholders in the value network. Communication is achieved through advertisement, sales promotion, public relation exercise, direct marketing and interactive marketing.

Elements of Communication Process

Communication process should not be one way traffic. Companies should look forward to developing communication network in which companies can reach customer but customer also can effectively communicate with companies. Technology has opened up many avenues to carry out effective communication. Companies have traditional tools like newspaper, television, radio, telephone, billboards and modern tools like the internet, emails and wireless devices. Technology has made the communication process not only faster but also reduced over all communication cost.

There are nine elements, which make the communication process. The two parties are sender-company and receiver-customer. The communication tools are message and media used to communicate the process. The four major communication functions are encoding, decoding, response and feedback. The last element is the noise which is anytime of interference disrupting clarity of the message.

Senders must encode the message as per the target audience and use the right media. The receiver decodes the message, responds to the message and sends feedback to the company. Experience senders are able to garner a more effective response from the right message.

However the message may not have required effect if:-

- Target Audience may choose to ignore the message as it is not attention grabbing
- Target Audience cannot make association with message
- Target Audience will response positive if the earlier communication had made any impact

Developing Effective Communication Program

Companies have to put effort in developing an effective communication program. The development of the communication program can be charted into eight steps.

1. The first step is identifying the target audience. The target audiences are the existing customer or the potential new customers. Target audience identification is essential for further development and overall success of the communication program. Once the audience is identified the next part is assessing the present company or brand perception within the target audience. Based on the results from the audience analysis the message should address the requirements.
2. The second step is to set specific objectives for the given communication message. This objective could be to enhance existing image, convey attribute, or encourage a consumer to act. The objective can have a cognitive, affective or behavioral response.
3. The third step is the design of the message. The designing of the message follows the objective of the message. The design of the message has to address the following four points, content of message, message structure, message format and message source.
4. The fourth step is the selection of the communication channel. The channel must be appropriate to carry the message to the target audience. For pharmaceutical companies, their sales people are the most effective channel in reaching the target doctor audience, instead of placing billboards.
5. The fifth step is related with the financial estimates of the whole expenditure. Companies need to decide budget of sales promotional and other activities. The common methods followed are an affordable method, percentage of sales method, competitive parity method, and objective-task methods.
6. The sixth step is the decision relate to the communication mix. Companies have limited budget, so they need balance expenditure among advertising, sales promotion, public relation, sales force and direct marketing. The relevant choice of the communication mix is highly dependable on the industry the company is operating.
7. The seventh step measuring results of the communication process. It is very important for companies to keenly follow the outcomes of the communication process. The results could be increased in sales, change in attitude or image of the brand.

8. The eight step is managing the integrated marketing process. Companies cannot afford to continue one medium approach to achieve desired communication effect. Companies must integrate all the available tools as to reach a wider audience and effectively communicate about brand and products.

Marketing communication cannot be considered in isolation. It is an integral part of any companies overall growth process.

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