MTTM-103

Uttarakhand Open University
Haldwani

Master of Tourism and Travel Management
(MTTM-24)

Introduction to Tourism Marketing

Department of Tourism
School of Tourism, Hospitality & Hotel Management
Uttarakhand Open University

Department of Tourism
School of Tourism, Hospitality and Hotel Management
Uttarakhand Open University
Haldwani (Nainital)
Uttarakhand 263139
Ph. No.: 05946-261122, 264232
Email Id: info@uou.ac.in

ISBN:

Introduction to Tourism Marketing
(MTTM-103)

Master of Tourism and Travel Management
(MTTM-24)

UTTARAKHAND OPEN UNIVERSITY

School of Tourism, Hospitality and Hotel Management

Teenpani Bye Pass Road, Near Transport Nagar, Haldwani – 263139

Phone No.: 05946-261122, 261123

Toll-Free No. 18001804025

Fax No.: 05946-264232, **E-mail:** info@uou.ac.in

Website: http://uou.ac.in

Board of Studies

List of Unit Writers

Sr. No.	Unit Writers	Unit Numbers
1.	**Dr. Subhash Chand Ramola**, Uttarakhand Open University, Haldwani	1
2.	**Ms. Preeti Raj,** Amrapali Institute of Management Studies, Haldwani	2 & 3
3.	**Dr. Anil Gupta,** School of Tourism and Hotel Management, Jammu University	4 to 6 & 8
4.	**Dr. Ajay Solkhe,** Department of Management Studies, Kurukshetra University, Kurukshetra	7
5.	**Dr. Shikha Mishra,** Institute of Management Studies (IMS), Ghaziabad	9 to 12
6.	**Dr. Sheeba Hamid,** Aligarh Muslim University, Aligarh	13 to 16

Programme Coordinator and Editor

Dr Akhilesh Singh
Assistant Professor
Department of Tourism
School of Tourism, Hospitality and Hotel Management (STHHM)
Uttarakhand Open University, Haldwani

Title: Introduction to Tourism Marketing
ISBN:

Published By: Uttarakhand Open University, Haldwani
Printed at:
Printed Copies:
New Edition:

Contents

Introduction to Tourism Marketing (MTTM-103)

•

Block-4 **Planning and Controlling Marketing Programmes**	
Unit-13	Product Strategies - Product Levels, Product Issues, Brand Decisions
Unit-14	Pricing Strategies - Pricing Product, Considerations and Approaches
Unit-15	Distribution Channel Strategies - Nature and Importance of Distribution Systems; Channel design decisions, Channel Management Decisions
Unit-16	Sales Promotion - Selecting, Developing, Implementing and Monitoring Sales Promotion Strategies

Unit-1
Nature, Importance and Core Concept of Marketing

Structure:

1.1 Introduction:

Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is “meeting needs profitably”. The objective of all business enterprises is to satisfy the needs and wants of society. Marketing is, therefore, a basic function of all business firms. When a salesperson sells washing machines, a doctor treats a patient or a Government asks people to take their children for getting polio drops, each is marketing something to the targets.

Traditionally, small firm owners did not give as much importance to marketing as to other functions such as accountancy, production and selling. Training programmes, enterprise development and the current thrust for competitiveness have now given high priority to promoting marketing awareness among small business owners, and marketing is now assuming its rightful place along with other business functions.

Since the early 1990s, there has been a change in the thinking of businessmen from a product orientation to consumer orientation. Modern business concerns emphasize ‘selling satisfaction’ and not merely on selling products. The activities have to be coordinated to develop the marketing mix, which provides maximum satisfaction to the customers.

That is why marketing research and product planning occupy an important role in marketing. The other important functions of marketing include buying and assembling, selling, standardization, packing, storing, transportation, promotion, pricing and risk-bearing. Thus, the scope of marketing is very wide and no more restricted to merely selling products.

1.2 Objectives:

After reading this unit you should be able to:

- Appreciate the definitions of Marketing
- Understand the meaning and nature of ‘Marketing’.
- Define the role of Marketing and discuss its core concepts.
- Understand the importance of Marketing

1.3 Meaning and Definition of Marketing:

The concept of marketing can be viewed from social and managerial perspectives. So Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. At its simplest, marketing can be defined as exchange transactions that take place between the buyer and the seller. Marketing is the management function, which organizes and directs all those business activities involved in assessing and converting customer purchasing power into effective demand.

The American Marketing Association offers the following formal definition: Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Philip Kotler defines marketing as "a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others". In essence, the marketing concept is customer orientation aimed at generating customer satisfaction through integrated marketing. Marketing may be narrowly defined as a process by which goods and services are exchanged and the values determined in terms of money prices. That means marketing includes all those activities carried on to transfer the goods from the manufacturers or producers to the consumers.

We shall be learning later in the lesson that marketing is more than a merely physical process of distributing goods and services. It is the process of discovering and translating consumer wants into products and services. It begins with the customer (by finding their needs) and ends with the customer (by satisfying their needs). The components of the marketing concept are as under:

a. **Satisfaction of Customers:** In the modern era, the customer is the focus of the organization. The organization should aim at producing those goods and services, which will lead to satisfaction of customers.
b. **Integrated marketing:** The functions of production, finance and marketing should be integrated to satisfy the needs and expectations of customers.
c. **Profitable sales volume:** Marketing is successful only when it is capable of maximizing profitable sales and achieving long-run customer satisfaction.

So "Marketing is the performance of business activities that directs the flow of goods and services from producer to consumer or user." This definition is undoubtedly an improvement on describing marketing as selling as it shows that marketing does encompass other activities besides selling. Schematically, this definition can be reproduced as shown below:

1.4 Nature of Marketing:

Is marketing based on a **scientific method** of inquiry, or is it essentially about an artistic process of creativity? Studies of marketing using the scientific frameworks of the natural sciences have found favour with followers of the **positivist** approach. This holds that, from observations of the real world, it is possible to deduce models that are of general applicability. On this basis, models have been developed to predict consumer behaviour, the profitability of retail locations, and price-volume relationships, among many other phenomena.

The great merit of the scientific approach is its claim to great objectivity, in that patterns and trends can be identified with greater confidence than if they were based on casual observation. Many marketers have appreciated the value of this scientific approach. Most major retailers rely heavily on models of the retail location before deciding where to locate their next outlet. Armed with trading statistics from their existing network of stores and background information about their locations (e.g. the number of people living within 20 minutes driving time, passing vehicle traffic per day, proximity to competitors, etc.), a regression model can be developed which shows the significance of each specified factor in explaining sales success. To many people, marketing has no credibility if it does not adopt a rigorous, scientific method of inquiry. This method of inquiry implies that research should be carried out in a systematic manner and results should be replicable: a model of buyer behaviour should be able repeatedly to predict consumers' actions correctly, based on a sound collection of data and analysis. In the scientific approach, data are assessed using tests of significance and models are accepted or rejected accordingly.

Marketing cannot possibly copy the natural sciences in its methodologies. Positivist approaches have been accused of seeking meaning from quantitative data in a very subjective manner which is at variance with scientific principles (Brown, 1995). Experimental research in the natural sciences generally involves closed systems in which the researcher can hold all extraneous variables constant, thereby isolating the effects of changes in a variable that is of interest.

For social sciences, experimental frameworks generally consist of complex social systems over which the researcher has no control: a researcher investigating the effects of a price change in a product on-demand from customers cannot realistically hold constant all factors other than price. Indeed, it may be difficult to identify just what the 'other factors are that should be controlled for in an experiment, but they may typically include the price of competitors' products, consumer confidence levels, the effects of media reports about that product category, and changes in consumer fashions and Tastes, to name some of the more obvious. Contrast this with a physicist's laboratory experiment, where heat, light, humidity, pressure, and most other extraneous variables can be controlled, and the limitations of the scientific methodology in the social sciences become apparent. Marketers are essentially dealing with 'open' systems, in contrast to the 'closed' systems that are more typical of the natural sciences. Post-positivists place greater emphasis on exploring in depth the meaning of individual case studies than on seeking objectivity and reliability through large sample sizes. Many would argue that such inductive approaches are much more customer-focused, in that they allow marketers to see the world from consumers' overall perspective, rather than through the mediating device of a series of isolated indicators. Post-positivist approaches to marketing hold that the 'real' truth will never emerge in a research framework that is constrained by the need to operationalize variables in a watertight manner. In real-life marketing, the world cannot be divided into clearly defined variables that are capable of objective measurement. Constructs such as consumers' attitudes and motivation may be very difficult to measure and model objectively. Furthermore, it is often the interaction between various phenomena that is of interest to researchers, and it can be very difficult to develop models that correspond to respondents' holistic perceptions of the world.

There is another argument against the scientific approach to marketing, which sees the process as essentially backwards-looking. The scientific approach is relatively good at making sense of historic trends, but less good at predicting what will happen following periods of turbulent change. Creativity combined with a scientific approach can be essential for innovation. The scientific approach to marketing planning tends to minimize risks, yet many major business successes have been based on entrepreneurs using their judgment, in preference to that of their professional advisers. Marketing has to be seen as a combination of art and science. Treating it excessively as art can lead to decisions that are not sufficiently rigorous. Emphasizing the scientific approach can lead a company to lose sight of the holistic perceptions of its customers. Successful firms seek to use scientific and creative approaches in a complementary manner.

1.5 Scope of Marketing:

The scope of marketing can be understood in terms of the functions that an entrepreneur has to perform. These include the following:

a. **Functions of exchange:** which include buying and assembling and selling?
b. **Functions of physical supply:** include transportation, storage and warehousing
c. **Functions of facilitation:** Product Planning and Development, Marketing Research, Standardisation, Grading, Packaging, Branding, Sales Promotion, Financing.

Check Your Progress-1:

1. What do you mean by "Marketing" and distinguish it from mere "Selling"?

____

____

____

____

____

____

____

____

2. Define "Nature of Marketing".

____

____

____

____

____

____

____

1.6 Marketing Concept:

The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. Under the marketing concept, the emphasis is on selling satisfaction and not merely on selling a product. The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers. The consumer is the pivot point and all marketing activities operate around this central point. It is, therefore, essential that the entrepreneurs identify the customers, establish a rapport with them, identify their needs and deliver the goods and services that would meet their requirements. Customers provide payment to an organization in return for the delivery of goods and services and therefore form a focal point for an organization's marketing activity. Customers can be described by many terms, including client, passenger, subscriber, reader, guest, and student. The terminology can imply something about the relationship between a company and its customers, so the term 'patient' implies a caring relationship, 'passenger' implies an ongoing responsibility for the safety of the customer, and 'client' implies that the relationship is governed by a code of ethics (formal or informal).

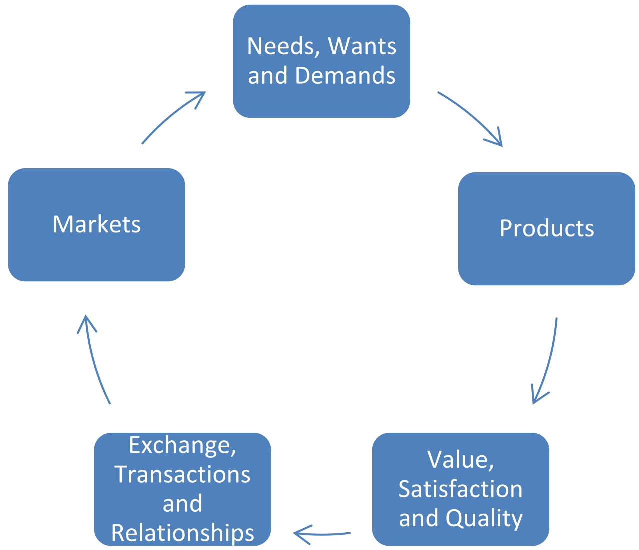


Figure-Core Marketing Concepts:

The customer is generally understood to be the person who decides to purchase a product, and/or who pays for it. Products are often bought by one person for consumption by another, therefore the customer and consumer need not be the same person. For example, colleges must market themselves not only to prospective students, but also to their parents, careers counsellors, local employers, and government funding agencies. In these circumstances, it can be difficult to identify on whom an organization's marketing effort should be focused.

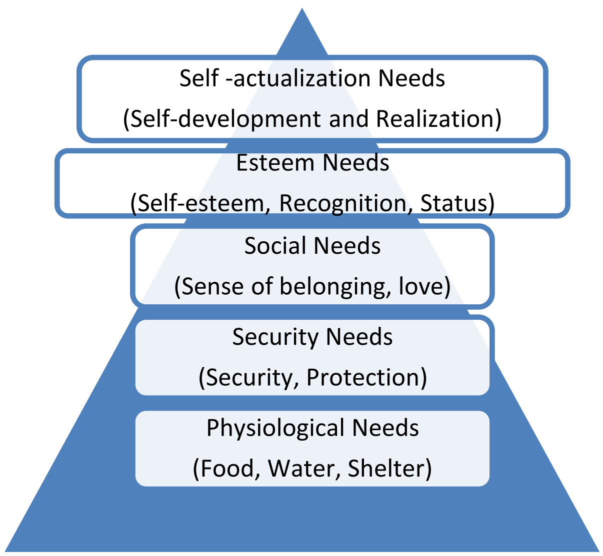
For many public services, it is society as a whole, and not just the immediate customer, that benefits from an individual's consumption. In the case of health services, society can benefit from having a fit and healthy population in which the risk of contracting a contagious disease is minimized. Different customers within a market have different needs which they seek to satisfy. To be fully marketing oriented, a company would have to adapt its offering to meet the needs of each individual. Very few firms can justify aiming to meet the needs of each specific individual; instead, they target their product at a clearly defined group in society and position their product so that it meets the needs of that group. These subgroups are often referred to as 'segments'.

1.6.1 Needs, Wants and Demands:

The most basic concept underlying marketing is that of human needs. Consumers are motivated by their desire to satisfy complex needs, and these should be the starting point for all marketing activities. We no longer live in a society in which the main motivation of individuals is to satisfy the basic needs for food and drink. Maslow (1943) recognized that, once individuals have satisfied basic physiological needs, they may be motivated by higher-order social and self-fulfilment needs. In order of importance, they are physiological needs, safety needs, social needs, esteem needs and self-actualization needs. People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he or she will then try to satisfy the next -most important need.

'Need' refers to something deep-rooted in an individual's personality. How individuals go about satisfying that need will be conditioned by the cultural values of the society to which they belong. In some cultures, the need for self-fulfilment may be satisfied by a religious penance, while other societies may seek it through the development of their creative talents.

Figure: Maslow's Hierarchy of Needs



It is useful to make a distinction between needs and **wants**. Wants are culturally conditioned by the society in which an individual lives. Wants subsequently become effective demand for a product where there is both willingness and an ability to pay for the product. Marketers are continually seeking to learn more about underlying needs which may eventually manifest themselves as demand in the form of people being willing to pay money for its products.

It must not be forgotten that commercial buyers of goods and services also have complex needs which they seek to satisfy when buying on behalf of their organizations. Greater complexity occurs where the economic needs of the organization may not be entirely the same as the personal needs of individuals within the organization.

People have almost unlimited wants, but limited resources. They choose products that produce the most satisfaction for their money. When backed by buying power, wants to become demands. Consumers view products as bundles of benefits and choose those that give them the best bundle for their money. People choose the product whose benefits add up to the most satisfaction, given their wants and resources.

1.6.2 Product:

People satisfy their needs and want with products. A product is anything that can be offered to satisfy a need or want. The concept of the product is not limited to physical objects. Anything capable of satisfying a need can be called a product. More broadly defined, products include experiences, persons, places, organizations, information, and ideas. Thus, the term product includes much more than just physical goods or services. Consumers decide which events to experience, which tourist's destinations to visit, which hotels to stay in, and which restaurants to patronize. To the consumer, these are all products. One of the most interesting areas of marketing is product planning and development.

1.6.3 Value, Satisfaction and Quality:

For customers, value is represented by the ratio of perceived benefits to the price paid. Customers will evaluate benefits according to the extent to which a product allows their needs to be satisfied. Customers also evaluate how well a product's benefits add to their well-being as compared with the benefits provided by competitors' offerings: Customer perceived value = Benefits deriving from a product / Cost of acquiring the product

Consumers often place a value on a product offer that is quite different from the value presumed by the supplier. Business organizations succeed by adding value at a faster rate than they add to their production costs. Value can be added by better specifying a product offered following customers' expectations, for example by providing the reassurance of effective after-sales service.

Estimating customers' assessment of value is not easy for marketers. Segmentation is crucial to this exercise, as some groups of buyers are likely to place significantly higher values on the firm's goods than others. If the price of a good is set too high, no sale may take place, or at least only a one-off sale which may be regarded by the buyer as a 'rip-off'. If the price is set too low, the supplier may achieve high levels of sales, but fail to make any profit because the price is too low to cover its costs. Firms need to understand not just what constitutes value today, but how customers' perceptions of value will change over time.

Customer satisfaction depends on a product's perceived performance in delivering value relative to a buyer's expectations. If the product's performance falls short of the customer's expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectations, the buyer is delighted. Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise.

Customer expectations are based on past buying experiences, the opinions of friends and market information. Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy, but fail to attract new customers. If they raise expectations too high, buyers will be disappointed. Still, most of today's most successful companies are raising expectations- and delivering performance to match. These companies aim high because they know that customers who are merely satisfied will find it easy to switch suppliers when a better offer comes along. Thus, customer delight creates an emotional tie to a product or service, not just a rational preference, and this creates high customer loyalty. Highly satisfied customers make repeat purchases, are less price-sensitive, remain customers longer, and talk favourably to others about the company and its products. Quality has a direct impact on product or service performance. Thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "freedom from defects"; however, most customer centred companies go beyond this narrow definition of quality. Instead, quality is defined in terms of customer satisfaction.

1.6.4 Exchange:

Societies have different ways in which they arrange for goods and services to be acquired. In some less developed societies, hunting for food, or begging may be a norm. In centrally planned economies goods and services may be allocated to individuals and firms by government planners. In modern market-based economies, goods and services are acquired based on exchange. Exchange implies that one party makes some sacrifice to another party in return for receiving something it values; the other party similarly makes a sacrifice and receives something that it values. Of course, the sacrifices and valuations of goods received and given up are essentially based on personal opinion and preferences, so there is no objective way of defining: what is a 'fair' exchange, other than observing that both parties are happy with the outcomes. In market-based economies, there is a presumption that each party can decide whether or not to enter into an exchange with the other. Each party is also free to choose between some alternative potential partners. The exchange usually takes the form of a product being exchanged for money, although the bartering of goods and services is still common in some trading systems.

Can the concept of exchange be generalized to cover the provision of public services? Some have argued that the payment of taxes to the government in return for the provision of public services is a form of social marketing exchange. Within marketing frameworks, the problem with this approach to exchange is that it can be difficult to identify what sovereignty consumers of government services have in determining which exchanges they should engage in. A single exchange should not be seen in isolation from the preceding and expected subsequent exchanges between parties. Marketers are increasingly focusing on analyzing ongoing exchange relationships, rather than one-off and isolated exchanges.

1.6.5 Markets:

The term 'market' has traditionally been used to describe a place where buyers and sellers gather to exchange goods and services (for example, a fruit and vegetable market or a stock market).

Economists define a market in terms of a more abstract concept of interaction between buyers and sellers so that the 'cheese market' is defined in terms of all buyers and sellers of cheese in the country. Markets are defined concerning space and time, so marketers may talk about sales of a particular type of cheese in the northwest region for a specified period. Various measures of the market are commonly used, including sales volumes, sales values, growth rate, and level of competitiveness.

1.7 Aspects Of Marketing Concept:

The important aspects of the marketing concept are:

- **Creation of demand:** Marketing tries to create demand through various means. The producers first ascertain what the customers want and then produce goods according to the needs of the customers. There is a systematic effort to sell goods and services according to the needs of the customers.
- **Customer Orientation:** Marketing involves undertaking a range of business activities directed at the creation of customer satisfying products and services.
- **Integrated Marketing:** The customer orientation alone is not enough on the part of management. To be effective must be backed by an appropriate set up within the country. The responsibility of the marketing department is to ensure coordination of the various departments of the company i.e., finance, purchase, research and development.
- **Profitable sales volume through customer satisfaction:** Marketing tries to realize long-term goals of profitability, growth and stability through satisfying customers' wants. All the basic activities of a company are planned to meet the wants of customers and still make reasonable profits. Modern marketing thus begins with the customer and ends with the customer.

1.8 Marketing Versus Selling:

The basic difference between marketing and selling lies in the attitude towards business. The selling concept takes an inside-out perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promoting to produce profitable sales. The marketing concept takes an outside-in perspective. It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers, and produces profits through creating customer satisfaction.

Marketing vs. Selling

Marketing	Selling
• Focuses on Customer's needs. • Customer enjoys supreme importance. • Converting customer's needs into product. • Profits through customer satisfaction. • Emphasis is given on product planning and development to match products with the market. • Integrated approach to marketing is practiced. • The principle of caveat vendor (let the seller beware) is followed.	• Focuses on seller's needs. • Product enjoys supreme importance. • Converting product into cash. • Profits through sales volume. • Emphasis is placed on sale of products already produced. • Fragmented approach to selling is practiced. • The principle of caveat emptor (let the buyer beware) is followed.

1.9 Importance of Marketing:

Since marketing is consumer-oriented, it has a positive impact on business firms. It enables entrepreneurs to improve the quality of their goods and services. Marketing helps in improving the standard of living of the people by offering a wide variety of goods and services with freedom of choice, and by treating the customer as the most important person.

Marketing generates employment both in production and in distribution areas. Since a business firm generates revenue and earns profits by carrying out marketing functions, it will engage in exploiting more and more economic resources of the country to earn more profits.

A large scale business can have its formal marketing network, media campaigns, and sales force, but a small unit may have to depend totally on personal efforts and resources, making it informal and flexible. Marketing makes or breaks a small enterprise. An enterprise grows, stagnates, or perishes with the success or failure, as the case may be, of marketing. "Nirma" is an appropriate example of the success of a small scale enterprise.

Check You Progress–2:

1. What do you mean by "Marketing Concept".

____

____

____

____

____

____

____

2. "Marketing and Sales are related concepts". Discuss.

____

____

____

____

____

____

____

1.10 Summary:

This unit has introduced the meaning and nature of marketing that act as building blocks for more detailed discussion in the following units. Having read this unit, you should be aware of the wide definition of marketing and the core concept of marketing. Today's successful companies-whether small or large, share a goal of customer satisfaction and are committed to marketing. Marketing comprises many activities-product development, pricing, personal selling, effective channels of distribution, all aimed to achieve profits through customer satisfaction. To be successful in the service industry, all the players will have to be strong market focused. They need to identify market segments since buyers are numerous, widely scattered and different in their needs and preferences. The service product is highly perishable since the supply of services cannot be stored for future use; therefore marketing in the service industry is different from marketing of manufactured goods. The service product is developed and other tools of the marketing mix are designed to formulate prices, advertising and

distribution channels to reach the target market efficiently. Market research helps to design and formulate such a strategy.

1.11 Glossary:

- **Attitude:** A person's consistently favourable or unfavourable evaluations, feelings, and tendencies toward an object or idea.
- **Customer satisfaction:** The extent to which a product's perceived performance matches a buyer's expectations.
- **Discount:** A straight reduction in price on purchases during a stated period.
- **Human Need:** A state of felt deprivation in a person.
- **Human Want:** The form that a human need takes when shaped by culture and individual personality.
- **Marketing:** A social and managerial process by which people and groups obtain what they need and want through creating and exchanging products and values with others.
- **Marketing Concepts:** The marketing management philosophy holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering desired satisfactions more effectively and efficiently than competitors.
- **Marketing Management:** The analysis, planning, implementation and control of programs designed to create, build and maintain beneficial exchanges with target buyers to achieve organizational objectives.
- **Product:** Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy want or need. It includes physical objects, services, persons, places, organizations and ideas.
- **Product Positioning:** The way the product is defined by consumers on important attributes- the place the product occupies in consumers' minds relative to competing products.
- **Service:** Any activity or benefit that one party can offer to another that is essentially intangible and does not result in ownership of anything.

1.12 Answer to Check Your Progress

Check your Progress-1:

1. See 1.3
2. See 1.4

Check your Progress-2:

1. See 1.6
2. See 1.8

1.13 Reference:

- Kotler, P., Browen, J. and Makens, J.; Marketing for Hospitality and Tourism; Fourth Edition, Pearsons Education Ltd., 2008
- Kotler, Philip and Gary Armstrong, Principles of Marketing, 10 ed., Pearsons Education Ltd., 2004.
- Kotler, Philip…..et. al.: Marketing Management; 12th Edition, Pearsons Education Ltd., 2007
- Burnett, John: Core concepts of Marketing
- H:\Unit Writing Extra\Notes Marketing Management.mht
- Website http://www.samarthbharat.com
- E-mail snacks@sancharnet.in
- hindustanstudies@rediffmail.com
- hindustanstudies@yahoo.co.in

1.14 Suggested Readings:

- Burnett, John: Core concepts of Marketing
- Kotler, Philip and Gary Armstrong, Principles of Marketing, 10 ed., Pearsons Education Ltd., 2004.
- Kotler, P., Browen, J. and Makens, J.; Marketing for Hospitality and Tourism; Fourth Edition, Pearsons Education Ltd., 2008
- Kotler, Philip…..et. al.: Marketing Management; 12th Edition, Pearsons Education Ltd., 2007
- Seaton, A.V. and M.M. Bennett, Marketing Tourism Products- Concepts, Issues, Cases, International Thomson Press, 2000.
- S. Neelamegham: Marketing in India, 3rd edition - 2000, Vikas Publications, New Delhi.

1.15 Terminal Questions:

1) What do you understand about Marketing? Discuss the scope and Importance of marketing.

2) Discuss why you should study marketing.

3) Today, most leading companies are developing customer-oriented approaches towards marketing. Lost and describe the ways marketers use marketing concepts to satisfy customers.

Unit-2
Different Orientation Towards Market Place and Marketing Philosophies

Structure:

2.1 Introduction:

Marketing management is a process involving planning, implementation and control of a firm's marketing activity. It is particularly important since marketers function in a dynamic environment. The marketing opportunities facing organizations depend on the changing needs of society. Consumers are becoming more sophisticated and more discerning in their expectations. Globalization of the world's marketplace has not only created new possibilities but also the challenge of new competition. Even within their home markets, environmental concerns and changing demographics are presenting new challenges for marketers. For example, greater consumer awareness of the environment has led to increased demand for products that are 'environmentally friendly. Conversely, those products that are considered harmful may have suffered not merely from consumer demand but even government legislation.

2.2 Objective

On completion of this unit you should be able to:

1. Describe the evolution of the marketing concept.
2. Evaluate the impact of a marketing-based philosophy on organisational structure and operational relationships.

2.3 Marketing:

As defined by Phillip Kotler marketing is "A social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others".

As defined by Evans & Berman "Marketing is the anticipation, management and satisfaction of demand through the exchange process".
According to American Marketing Association **"**Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals"**.** In short, Marketing is a process of:

- Identifying Needs of the people;
- Making Products Accordingly; and
- Offering them through an Exchange Process

2.3.1 Benefits & Criticisms of Marketing

Benefits:

a) Improved Satisfaction of Target Market
b) Improved efficiency in activities

Criticism:

a) Marketing wastes money
b) Marketing activity is intrusive
c) Marketing is manipulative

2.3.2 Key Marketing Activities:

1) Consumer Analysis: It is an examination and evaluation of consumer characteristics needs and purchase processes.
2) Product Planning: It involves the development and maintenance of products, product assortments, product positions, brands, packaging options and deletion of old products.
3) Promotion Planning: It is the combination of advertising, publicity, personal selling, and sales promotion to drive sales revenue.
4) Price Planning: Outlines price ranges and levels, pricing techniques, purchase terms, price adjustments and the use of price as an active and passive factor.
5) Distribution Planning: Establishment of channel relations, physical distribution, inventory management, warehousing, transportation, allocation of goods and wholesaling.

Figure 1: Key Marketing Activities

Check Your Progress-1:

1) Define marketing. Also, discuss its advantages and disadvantages.

____

____

____

2) What are the various key marketing activities?

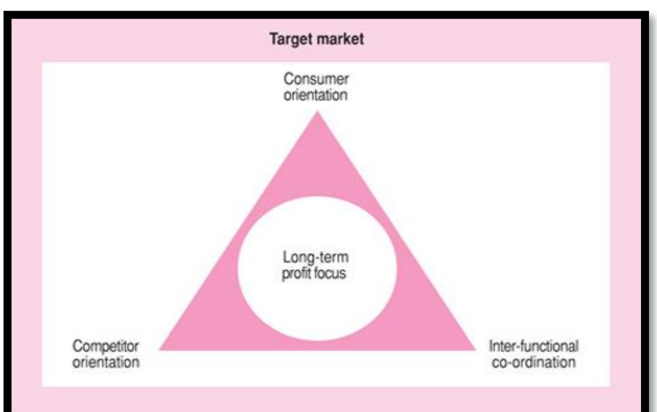
2.4 Different Orientations:

Today, satisfying the consumers has become increasingly important. The managers must realize that they cannot satisfy all the consumers therefore they have to carefully choose their consumers through target marketing. Marketing is not all about promoting your product but rather it is a combination of products and services that are offered to the consumers so that real value can be provided to the targeted customers.

The market-led approach has three components:

- Consumer orientation
- Competitor orientation
- inter-functional co-ordination.

Figure 2: The Market-led Organisation



The first two involve the organisation-wide generation of market intelligence regarding current and future customer needs and making this information available to all departments. Customer orientation also involves continuously monitoring customer information to be able to create superior value.

Inter-functional coordination concerns the organisation-wide coordination of resources in response to customers. Inter-departmental 'connectedness' has a key role to play in the dissemination of and the responsiveness to market intelligence by the organisation

The Chartered Institute of Marketing (CIM) suggests that: "Marketing is the management process for identifying, anticipating and satisfying customers' needs at a profit".

2.4.1 Customer Orientation:

Customers are attracted to various products and services and continue to remain, loyal customers of that particular product, if their needs and wants are met. Word of mouth plays a crucial role here. If they are satisfied they will not only return to the same organisation like hotels, cruise lines, travel agencies, restaurants etc. but they will also talk very favourably about it to their peers, colleagues, friends and family. If the customers are satisfied profits will flow in the organisation.

In today's scenario, most hospitality managers are focusing more on profits rather than customer satisfaction. This attitude of the managers does not work in favour of the guests as the organisation fails to get fewer repeat guests and does not get good publicity. The managers should understand that if the customers are satisfied then automatically the profits will flow in.

The company's sales come from two groups: new customer's and repeat customers. It always costs more to attract new customers than to certain current customers. Therefore, customer retention is customer satisfaction. A satisfied customer:

- Buys again
- Talks favourably to others about the company
- Pays less attention to competing brands
- Buys other products from the same company

Thus a Company would be wise to regularly measure customer satisfaction. The delighted customers are more effective advertisers than the advertisement placed in media.

Let us consider the following situation:

Mr Singh comes to a fine dining restaurant at 10:50 p.m. when the last order has already been taken. However, the waiter takes his order and serves him with the best hospitality. The guest is very contended with the hospitality and leaves good feedback.

After the guest leaves the restaurant the manager shouts at him for taking the order because the last order is taken at 10:45 pm., and also because the management does not want to bear the overtime expenses.

A few days later a guest comes again at around 10: 50 pm and asks to be served. The same waiter shouts at him saying that the order cannot be taken. The guest goes back unsatisfied and spreads bad word of mouth. The management does not realize that they may lose customers because of their approach.

However, the alternate approach should be to cater to the needs of the customer rather than ignoring them because a customer once lost is lost forever and it ultimately leads to revenue loss and a bad reputation of the organisation.

2.4.2 Competitor Orientation:

The traditional economic theory calls for firms to maximize shareholder wealth. However, today profit maximization is not the ultimate goal of managers. Instead, they frequently make decisions to perform well in comparison to their competitors, which we refer to as having competitor-oriented objectives. Managers do not prefer focusing on profit maximization as it is difficult to forecast total profit in the future due to fluctuations in the market and because a focus on profits may lead to a short-term orientation at the expense of long-term considerations.

For example, Pepsi and Coke. There was a time when Coke reduced its price and automatically Pepsi also slashed its price.

Each company targets their rival company to perform better than them. Compared with profit-maximizing, such competitor-oriented objectives may be more visible because the performance of another firm serves as a benchmark.

2.4.3 Inter–Functional Coordination:

International coordination was defined at the beginning of the 90s. It is the coordination of all company activities leading to the increase of business performance. International coordination is connected with market orientation. It is one of the necessary principles of market orientation. It is not possible to use market orientation without inter-functional coordination.

The organizations marketing department is often considered of prime importance within the functional level of an organization. The information that the marketing department shares with the entire organisation is considered vital as it is used to guide the actions of other departments within the firm. For example, a marketing department through marketing research concludes that consumers desired a new type of product or a new usage for an existing product. Keeping this in mind, the marketing department would inform the Research & Development department to create a prototype of a product/service based on consumers' new desires.

Also, the production department would then start to manufacture the product, while the marketing department would focus on the promotion, distribution, pricing, etc. of the product. Additionally, a firm's finance department would be consulted, concerning securing appropriate funding for the development, production and promotion of the product. Inter-departmental conflicts may occur, should a firm adhere to the marketing orientation. Production may oppose the installation, support and servicing of new capital stock, which may be needed to manufacture a new product. Finance may oppose the required capital expenditure since it could undermine a healthy cash flow for the organization.

To better respond to heterogeneous customer needs, an increasing number of companies in different sectors deal with the combination of high variety and frequent product changes/modifications. This entails planning, designing, purchasing and manufacturing activities and exacerbates the alignment of Sales, Production Planning and Engineering goals.

2.5 Marketing Strategy: Customer Orientation vs Competitor Orientation:

It is a well-known phenomenon in the marketing and service industry that "Customer is the King", but in actuality, it is seldom practised in its fullest sense. The reason for this is the cut-throat competition prevailing in the market which does not allow the marketers to put customers at the centre of their business strategy. They do not consider customers their priority rather they keep their competitors in the first place.

Marketers are in a dilemma whether the firm's principal orientation should be towards customers or competitors. The entire concept of marketing says that the firms should be oriented more towards customers than a competitor because the organizations exist only for customers. Like Peter Drucker famously said, "The purpose of business is to create customers ". When a firm is customer-oriented, the entire business is centred on customer needs and satisfaction.

According to academic literature, there are three components of market orientation (1) Customer Orientation (2) Competitor Orientation (3) Inter-functional coordination. Customer Orientation is where the firm spends its resources on gathering information about customer needs and behaviour. Competitor orientation is where the firm directs its resources to gather information about competitor behaviour and activities. The firm's strategies will then be based on the information gathered through any of these orientations.

Customer orientation helps firms with a clear in-depth understanding of consumers which results in a focused marketing effort. Research has confirmed that customer orientation helps firms to increase performance and enhance customer satisfaction. But if we look closely too much customer orientation also can be dangerous. If the marketers focus only on the customers there may be a chance that they do not realize the changes brought about by the competitors. Some critics argue that customers may suppress innovation in companies because customers may not be able to clearly state their expectations or anticipate future needs. Customers are often resistant to change and because of this, the companies do not experiment with innovations as they fear that the new change may not be accepted by the consumers.

The firms who have their focus on competitor orientation are blamed for launching products that already exist in the market to be in the race along with their competitors. Too much focus on competitors often forces firms to invest in understanding customers or anticipate their needs better. Too many resources will be spent on competitive activities which may restrict investment in breakthrough innovations. Competitor oriented firms are more open to the changing trend in the market. Since their actions are more directed by the actions of the competitor, there is less chance of lethargy in marketing activities.

Firms must understand that there is a trade-off between these two orientations. Firms will have to lose something if they chose either of the two orientations. The ideal option is to balance both orientations. It is easy to advocate that firms should have both customer and competitor orientation but with limited resources in terms of men and money, firms will find it tough to have the best of both worlds.

The companies need to realize and evaluate the environment in which they operate accordingly make decisions whether they must choose customer/competitor. There are external and internal factors that will decide the orientation of the company. For example, there are organizations like Zappos.com which is customer-oriented. The customer orientation runs deep within the organization and the entire firm is structured around the customer. Competitor orientation is preferable in markets that are growing very fast. In fast-growing markets, firms should invest in gathering more data about competitors which will enable them to develop innovations at lower costs. Customer orientation is preferable in more uncertain markets. When the markets are changing very fast, firms can focus on customers which will enable them to change their marketing strategies quickly following changing customer needs. Also, firms that deal with complex markets need to focus on investing in customers rather than competitors. The choice of customer vs competitor orientation is ultimately dependent on the top management's worldview. The choice is important because there are only limited resources available with the managers to spend on either of these orientations. Firms can strike a balance between these orientations if they can focus on the following guidelines.

• Invest in a robust market intelligence mechanism in the marketing department. The mechanism can be internal or outsourced, but the emphasis will be on information gathering and dissemination. When a mechanism exists, depending on the market environment, the organization can decide on the type of information that should be gathered.

• Encourage the free flow of information within the organization. Market orientation tends to be ineffective if the organization is bureaucratic. Hence firms should ensure that important market information is passed to various levels quickly.

Check your progress-2:

1) **Explain customer orientation in detail.**

2) **What is the difference between customer orientation and competitor orientation?**

2.6 Core Marketing Concepts:

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others.

Figure-3: Core Marketing Concepts

2.7 Marketing Philosophies:

The marketing concept and philosophy is one of the simplest ideas in marketing, and at the same time, it is also one of the most important marketing philosophies. At its very core are the customer and his or her satisfaction. The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. In simple terms, "the customer is king".

Marketing philosophies consist of the following:

Figure-5: Marketing Philosophies

The implication of the marketing concept is very important for management. It is not something that the marketing department administers, nor is it the sole domain of the marketing department. Rather, it is adopted by the entire organization. From top management to the lowest levels and across all departments of the organization, it is a philosophy or way of doing business. The customers' needs, wants, and satisfaction should always be foremost in every manager and employees' mind. Wal-Mart's motto of "satisfaction guaranteed" is an example of the marketing concept. Whether the Wal-Mart employee is an accountant or a cashier, the customer is always first.

As simple as the philosophy sounds, the concept is not very old in the evolution of marketing thought. However, it is at the end of a succession of business philosophies that cover centuries. To gain a better understanding of the thought-leading to the marketing concept, the history and evolution of the marketing concept and philosophy are examined first. Next, the marketing concept and philosophy and some misconceptions about it are discussed.

Different concepts guide sellers to conduct their marketing activities. For example, sellers can only focus on production and try to reduce their cost of production or focus on improving the quality of the product. Similarly, they can pay more attention to selling and promotion. Therefore, different concepts have evolved to help organizations to better their marketing activities.

2.7.1 Production Concept:

Production Concept is a concept where goods are produced without taking into consideration the choices or tastes of the customers. It is one of the earliest marketing concepts where goods were just produced on the belief that they will be sold because consumers need them.

Managers focusing on this concept concentrate on achieving high production efficiency, low costs, and mass distribution. They assume that consumers are primarily interested in product availability and low prices. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features. Ford, considered as one of the early champions of this concept once remarked that Americans can get any car from Ford until it is black. This is one of the most famous quotes in marketing stressing the importance of the Production concept. In a production-orientated business, the needs of customers are secondary compared with the need to increase output. Naturally, the companies cannot deliver quality products and suffer from problems arising out of impersonal behaviour with the customers. For example:

- ✓ Coke is widely available throughout the world
- ✓ A company manufactures sugar because it knows that in the end consumers will surely buy sugar.

But with the continuous industrialization more and more players entered the market, the space available to sell the product was squeezed because too many people were selling the same product. That is why it became too obvious that the mass production of goods which is the heart and soul of the production concept can no longer work because of too many me-too products.

Therefore, the focus slightly shifted from the Production concept to the Customization concept where every product is manufactured and delivered according to the tastes and choices of the customer. Dell is considered to be the pioneer of this field.

When analyzing this process we can see that since practise makes perfect, workers can carry out the repetitive tasks with great speed and dexterity. Steps can be noted and automated. Employees on the conveyor belt don't need to move around finding tools. However, the downside is that boredom sets in as the job is monotonous and recurring. Members of staff and consumers alike may not feel a sense of pride as identical commodities are being produced.

2.7.2 Product Concept:

The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product. A company should therefore focus on its product development and invest in continuous product improvements. The concept is truly applicable in some niches such as electronics and mobile handsets.

Two companies that stand apart from the crowd when we talk about the product concept are Apple and Google. Both of these companies have strived hard on their products and delivered us feature-rich, innovative and diverse application products and people just love these brands. Managers focusing on this concept concentrate on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes so proud of their product that they do not realize what the market needs.

One of the advantages of product concepts is that marketers do not need to carry out extensive research into their target audience. Products that a marketer believe will ‘sell themselves do not need a lot of well planned and specifically driven marketing campaigns that can save a company a lot of money.

One problem which has been associated with the product concept is that it might also lead to marketing myopia. For Example, Kodak assumed that consumers wanted photographic film rather than a way to capture and share memories and at first overlooked the challenge of digital cameras. Thus companies need to take innovations and features seriously and provide only those which the customer needs. The customer needs should be given priority.

2.7.3 Selling Concept:

The Selling Concept proposes that customers, be individuals or organizations will not buy enough of the organization's products unless they are persuaded to do so through selling effort. So organizations should undertake the selling and promotion of their products for marketing success. Consumers typically are inert and they need to be forced for buying by converting their inert need into a buying motive through persuasion and selling action. The consumers typically show buying inertia or resistance and must be coaxed into buying.

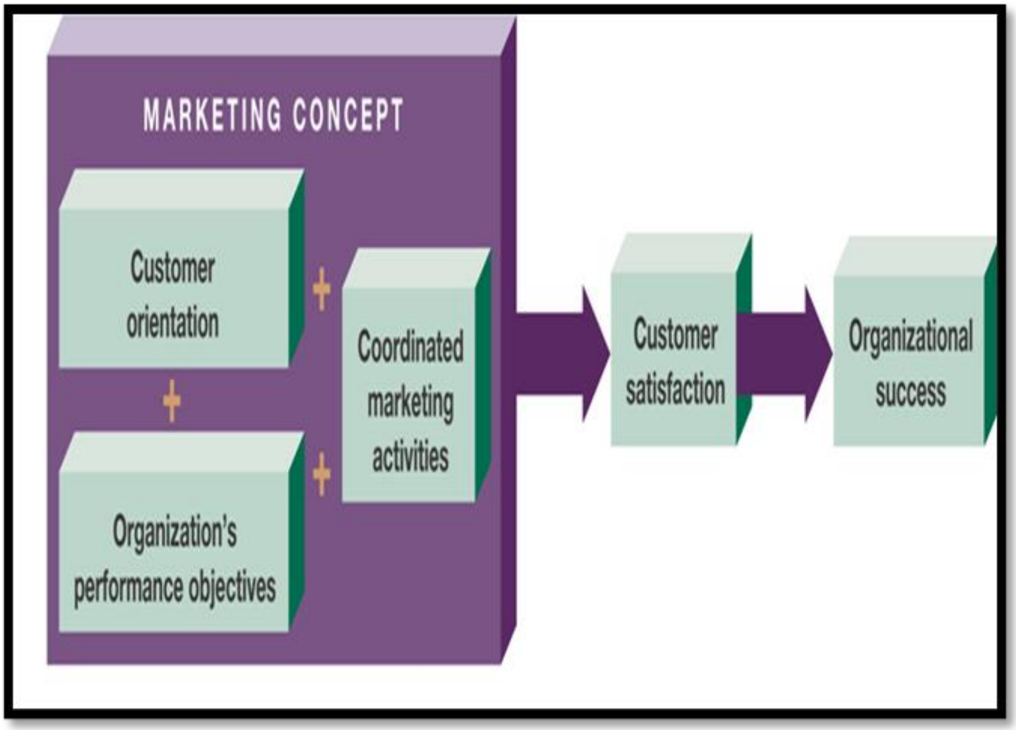
The aim is to sell what they make rather than make what the markets want. Such marketing carries high risks. It focuses on creating sales transactions rather than on building long term, profitable relationships with customers. This approach is applicable in the cases of unsought goods like life insurance, vacuum cleaner, fire fighting equipment including fire extinguishers. These industries are seen as having a strong network of salesforce. This concept is applicable for the firms having overcapacity in which their goal is to sell what they produce than what the customer wants. The selling philosophy assumes that a well-trained and motivated sales force can sell any product. However, soon companies began to realize that it is easier to sell a product that the customer wants than to sell a product the customer does not want. When many companies began to realize this fact, the selling era gave way to the marketing era of the marketing concept and philosophy.

2.7.4 Marketing Concept:

It holds that the key to achieving its organizational goals consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its selected target customers.

Let's take an example of 2 eternal rivals – Pepsi and Coke – Both of these companies have similar products. However, the value proposition presented by both is different. These companies thrive on the marketing concept. Where Pepsi focuses on youngsters, Coke delivers on a holistic approach. Also, the value proposition by Coke has been better over ages as compared to Pepsi which shows that coke especially thrives on the marketing concept, i.e. it delivers a better value proposition as compared to its competitor.

Figure 6: Marketing Concept



The marketing concept is the most followed ideology by top companies. This is because, with the rise of the economy, consumers have become more knowledgeable and choosy as a result of which the organization cannot concentrate on what it sells but rather it has to concentrate on what the customer wants to buy.

The market concept thus relies on three key aspects:

1) What is the target market– The first step is to determine exactly what the target market is. This can be done by market research and deciding which target market will give the best returns.

2) What are the needs wants and demands of the target market– A further step in marketing research is the consumer preferences study. This study will help the firm determine the needs want and demands of the target market thereby helping the firm in deciding its strategies.

3) How best can we deliver a value proposition– In this step, the firm decided what strategy it needs to adopt. What kind of value should the firm create and deliver. How should it integrate its different departments? Ultimately, the firm decides how to apply the marketing concept within itself to deliver a better customer experience.

Examples of Marketing Concept:

Organisation	Expression Of Marketing Concept
United Airlines	You're The Boss
Burger King	Have It Your Way
General Electric	We're Not Satisfied Until You Are

Distinctions between the
Sales Concept and the Marketing Concept

Selling	Marketing
• Internally Focused	• Externally Focused
• The company first makes the product and then finds the customer	• The company first determines customers' needs and then develops product/service
• Emphasis on the product	• Emphasis on customers' wants
• Planning is short-run oriented in terms of today's markets	• Planning is long-run oriented in terms of tomorrow's markets
• The needs of sellers are stressed	• The needs of customers are stressed.

2.7.5 Societal Marketing Concept:

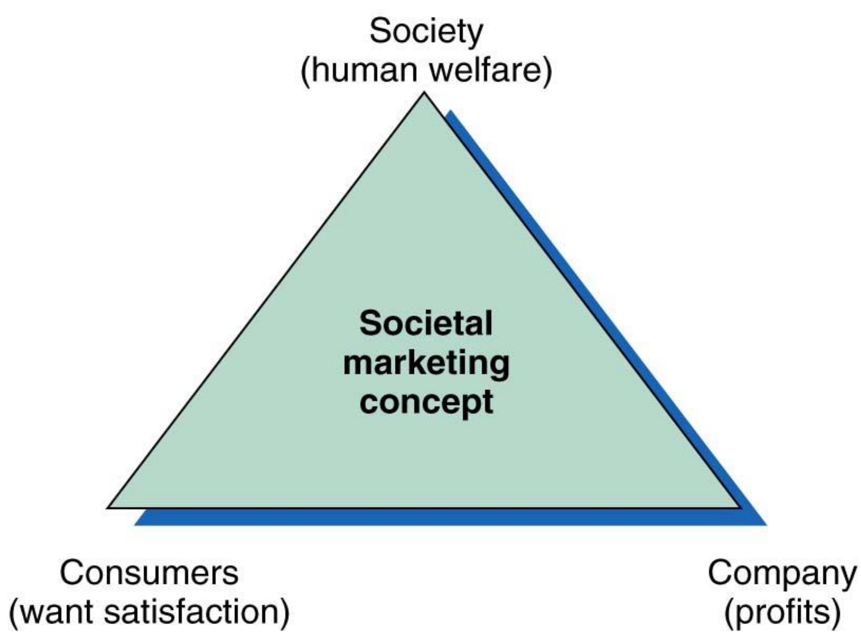
This concept holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors (this is the original Marketing Concept). Additionally, it holds that this all must be done in a way that preserves or enhances the consumer's and the society's well-being. The organization believes in giving back to society by producing better products targeted towards social welfare. They see it as allowing companies to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales, and increase press coverage. They believe that customers will increasingly look for demonstrations of good corporate citizenship.
This concept is also referred to as:

- "The human concept",
- "The intelligent consumption concept",
- "The ecological imperative concept", &
- "Cause-related marketing".

The societal marketing concept calls upon marketers to balance three considerations in setting their marketing policies, viz.

- Company profits
- Consumer satisfaction
- Public interest
- Societal Marketing concept focuses on:
- Less Toxic Products
- More Durable Products
- Products with Reusable or Recyclable Materials

Figure-7: Societal Marketing Concept



For example, McDonald may be harming consumer health (due to high fat & salt content in food) & causing environmental problems through the wrappers used in packaging leading to waste & pollution.

2.8 Comparisons of Marketing Philosophies:

Figure 8: Comparison of Marketing Philosophies

SELLING CONCEPT

Starting Point **Focus** **Means** **End**

MARKETING CONCEPT

Starting Point **Focus** **Means** **End**

PRODUCT CONCEPT

Starting Point **Focus** **Means** **End**

PRODUCTION CONCEPT

Starting Point **Focus** **Means** **End**

Check Your Progress- 3:

1) **Discuss the various orientations in the market. Also, do a comparative analysis of customer orientation and competitor orientation.**

____

____

____

____

____

____

____

2) **What are the various marketing philosophies? Discuss at length.**

____

____

____

____

____

____

2.9 Summary:

In this unit, you have learnt about the various market orientations, core concepts and market philosophies. You have seen that in the changing market environment with changing customer behaviour and seeking business opportunities, companies face marketing challenges daily. They need to understand the market completely to formulate the best strategy to succeed. The core concepts talk about the customers wherein the marketers need to differentiate between the needs, want and demands of a customer. Once this is identified it becomes easier to target the market. Organizations need to realize the importance of marketing philosophies and which philosophy would suit their business needs. Without studying the environment in which you operate you cannot follow any marketing philosophy.

2.10 Glossary:

- **Marketing-** A social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

- **Price Planning-** Outlines price ranges and levels, pricing techniques purchase terms, price adjustments and the use of price as an active and passive factor.
- **Inter Functional Coordination-** It is the coordination of all company activities leading to the increase of business performance.
- **Production Concept-** A production Concept is a concept where goods are produced without taking into consideration the choices or tastes of the customers.
- **Product Concept**- The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product.
- **Selling Concept**- The Selling Concept proposes that customers, be individuals or organizations will not buy enough of the organization's products unless they are persuaded to do so through selling effort.
- **Marketing Concept**– It holds that the key to achieving its organizational goals consists of the company being more effective than competitors.
- **Societal Marketing Concept-** It holds that the marketing activities must be done in a way that preserves or enhances the consumer's and the society's well-being.

2.11 Answers To Check Your Progress:

Check Your Progress-1:

1. 2.3 and 2.3.2
2. 2.3.2

Check Your Progress-2:

1. 2.4.1
2. 2.5

Check Your Progress-3:

1. 2.4

Various market orientations are:

- Customer Orientation
- Competitor Orientation
- Inter-Department Coordination

2. 2.7

Marketing Philosophies are:

- Production Concept
- Product Concept
- Selling Concept
- Marketing Concept
- Societal Marketing Concept

2.12 References:

- Kotler, Philip, and Gary Armstrong. Principles of Marketing. 8th edition. Upper Saddle River, NJ: Prentice-Hall, 1999.
- Perreault, William D., Jr., and E. Jerome McCarthy. Basic Marketing: A Global-Managerial Approach. 13th ed. Boston: Irwin/McGraw-Hill, 1999.
- Kotler, Philip. (2000) Marketing Management. Upper Saddle River, New Jersey: Prentice-Hall.
- Jaworsky and Kohli, 1990
- Kotler P., Bowen J., Makens J; "Marketing for Hospitality and Tourism", 2nd Edition, Pearson Education, New Delhi
- Kotler P. and Keller K.L., 2006, Marketing Management, Twelveth Edition, Pearson Education, New Delhi.
- Narver, John C. and Stanley F. Slater. 1990. "The Effect of a Market Orientation on Business Profitability." Journal of Marketing 54 (October):20-35.)
- http://www.marketing91.com/
- http://marketingpractice.blogspot.in/2010/09/marketing-strategy-customer-orientation.html

2.13 Suggested Readings:

- Kotler P., Bowen J., Makens J; "Marketing for Hospitality and Tourism", 2nd Edition, Pearson Education, New Delhi
- Kotler, Philip, and Armstrong, Gary; "Principles of Marketing".
- Perreault, William D., Jr., and E. Jerome McCarthy. Basic Marketing: A Global-Managerial Approach. 13th ed. Boston: Irwin/McGraw-Hill, 1999.

2.14 Terminal and Model Questions

1. What are the various core concepts of marketing?
2. Do a comparative analysis of marketing philosophies.
3. Explain the difference between product concept and selling concept.

Unit-3
Marketing Management Process

Structure:

3.1 Introduction:

The Marketing Management Process consists of analyzing market opportunities, researching and selecting target markets, developing marketing strategies, planning marketing tactics, and implementing and controlling the marketing effort. The ultimate objective of an effective marketing management process is to develop, maintain and grow profitable and long-lasting relationships with customers.

One of the prime responsibilities of every business owner and marketing manager is to initiate the **marketing management process** in a customer-driven environment and to develop a **marketing department** within the organization. The planning and control of the marketing management process in various types of organizations entail several steps.

Philip Kotler defines this process as follows: "Marketing management is the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers to achieve organizational objectives."

"The marketing process consists of marketing opportunities, researching and selecting target markets designing marketing strategies, planning marketing programmes and organizing, implementing and controlling the market efforts."

3.2 Objectives:

After this unit you will be able to understand:

- What is the marketing management process
- What steps are involved in this process

3.3 Steps in Marketing Management Process:

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market those products which satisfy customer needs. The process of doing so can be modelled into a sequence of steps:

3.3.1 Understand the fundamentals of buying behaviour:

Marketers must understand every facet of consumer behaviour because it helps in making decisions like what exactly do the consumers want and what factors they consider while making their purchase decisions. The following table provides a list of some key consumer behaviour questions in terms of who, what, when, where, how.

Fig.-1 Understanding Consumer Behavior

- Who buys our product or service?
- Who decides to buy the product?
- Who influences the decision to buy the product?
- When do they buy? Any seasonal factors?
- Where do they go or look to buy our products and services?
- Why do customers buy a particular brand?
- Do customers' lifestyles influence their decision?

A consumer while making his/her buying decision passes through five stages, as discussed below, but some consumers may not pass through all the stages, for instance, a woman who wants to buy her regular brand of shampoo may skip the information search stage.

1) Problem Recognition– When the buyer feels the need to buy something then the problem is recognized. The need can be triggered by internal or external stimuli. The marketers need to understand the factors because of which the need arose and should start gathering information from several consumers. This is particularly important concerning vacation packages, luxury goods and entertainment products.

2) Information Search– After the consumer recognizes the need he/she starts looking for information. The various information falls into four groups:

- Personal– Family, friends, neighbours
- Commercial– Advertising, websites, salespersons, displays
- Public– Mass media, consumer-rating organisation
- Experiential– Handling, examining, using the product

By gathering information from the various sources a consumer learns about the various products available in the market. It becomes the duty of the companies to understand that the consumers have various options to choose from, therefore, they must display and advertise their product in such a manner that it becomes appealing for the consumer.

3) Evaluation of Alternatives– Once the consumer has gathered the relevant information he evaluates the various options in front of him. The attributes of interest to buyers vary by product– for example:

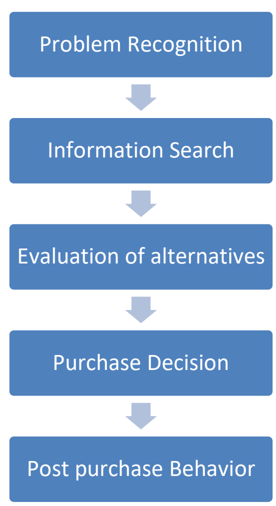
- Mouthwash– colour, effectiveness, price, taste, germ-killing capacity
- Hotels– Location, ambience, price
- Bikes
- Camera– pixels, sharpness, size, price

The consumer will pay attention to those products that meet his/her needs and those products that deliver sought-after benefits.

4) Purchase Decision- While evaluating the alternatives a consumer may choose to buy the most preferred brand and while making the purchase decision a consumer may consider two factors: a) Attitude of others b) Unexpected situational factors. For instance, Mr. Malhotra takes his wife out shopping at a mall because she loves the Indian collection of clothes there. Now, his choice will entirely depend on the attitude of his wife towards his buying decision. If her attitude is very intense and if she is very close to her husband, then she will have a lot of influence on her husband when he is buying certain products for her. Now, while purchasing Mr. Malhotra gets a phone call that his daughter is sick and needs immediate attention, in that case, he will drop the purchase decision and rush back to his daughter. This is called an unexpected situational factor.

5) Post-purchase Behavior- A marketer's job does not finish once the consumer has bought the product rather it continues even after the purchase made by the consumer. A marketer should find out whether the consumer is satisfied or unsatisfied after the purchase. A consumer will be satisfied if the product matches his expectations. If it does not then the consumer will not be satisfied.

Fig. 2 Five-Stage Model of Consumer Buying Process



Check your progress:

1. What are the stages of the consumer buying process?

____

____

____

2. **What two factors are considered by the consumer during the purchase decision stage?**

3.3.2 Market Research:

Market Research is a process that identifies and defines marketing opportunities and problems, monitors, and evaluates marketing actions and performance, and communicates the findings and implications to management.

Research helps the marketing manager to:

(1) Identify and define marketing problems and opportunities accurately;
(2) Understand markets and customers and offer a reliable prediction about them;
(3) Develop marketing strategies and actions to provide a competitive edge, and refine and evaluate them;
(4) Facilitate efficient expenditure of funds;
(5) Monitor marketing performance; and
(6) Improve the understanding of marketing as a process.

The various stages in the research process are:

- **Stage-1: Define Problem:**

The very first and the most important step in research:
– "A problem well-defined is half solved"
– The nature of the problem determines the type of study to conduct.
– Symptoms, for example, declining sales, profit, market share, or customer loyalty are not problems.

A research problem must be accurately and precisely defined, otherwise, the task of designing good research is difficult. Marketing problems may be difficulty-related or opportunity-related. For both, the prerequisite of defining the problem is to identify and diagnose it. Conduct situation analysis. It provides the basic motivation and momentum for further research.

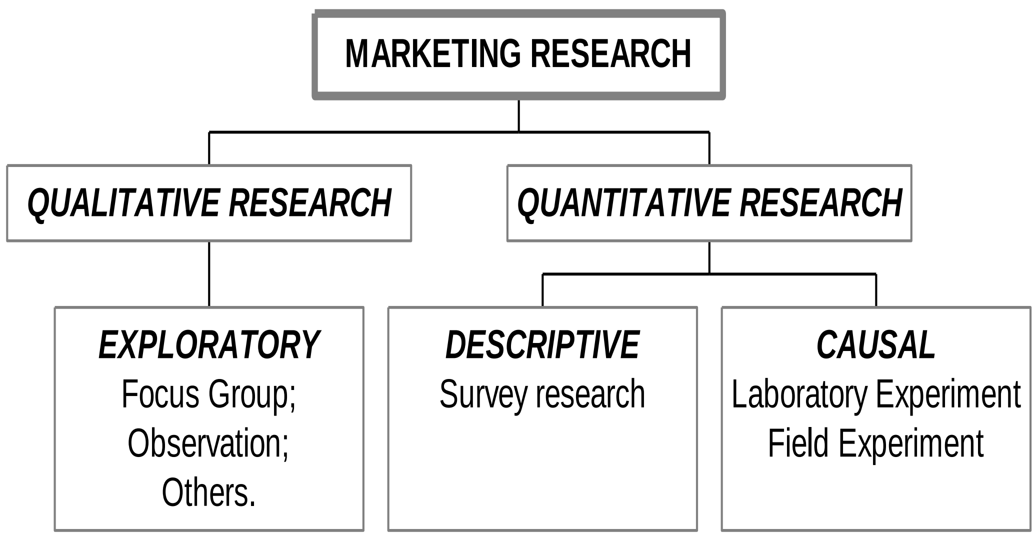
- **Stage-2: Establish Research Objective:**

"If you do not know what you are looking for, you won't find it". Research objectives are related to and determined by the problem definition. In establishing research objectives, the researcher must answer the following questions:

- What specific information should the project provide?
- If more than one type of information will be developed from the study, which is the most important?
- What are the priorities?

When specifying research objectives, the development of hypotheses might be very helpful. When achieved, objectives provide the necessary information to solve the problem.

Fig-3 Marketing Research



- **Stage-3: Develop Research Design:**
  The research Design step involves the development of a research plan for carrying out the study. There are some alternative research designs. The choice will largely depend on the research purpose.

- **Stage-4: Implement Research Program:**
  Once the research design is finalized it needs to be implemented so that the best results can be derived out of it.

- **Stage-5: Collect and Tabulate Data:**

  Data can be collected through two sources – Primary as well as secondary.

  Sources of primary data include– Observation, surveys, experiments, and questionnaires.

  Sources of secondary data include– various internal reports, government publications, periodicals and books, commercial data and electronic databases.

- **Stage-6: Interpret and Analyze Findings:**

  At this stage, the findings of the research are interpreted and conclusions are drawn and reported to the management. The management must review the findings and give their inputs as well. Interpretation is very essential because research holds no meaning if the manager accepts the findings and interpretations of the researcher blindly.

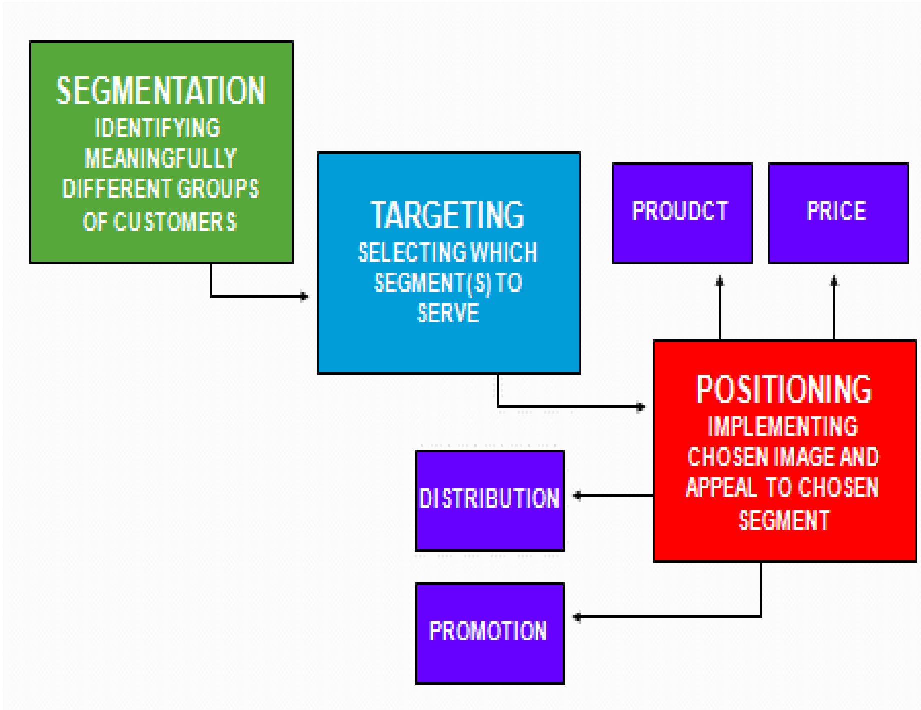
- **Stage-7: Distributing Information:**

  Once the conclusion has been drawn from the findings the information must pass to the relevant departments. This analysis helps the managers to answer various questions like:

✓ What are the major variables affecting sales and how important is each?
✓ If the price is raised then what effect will it have on sales?
✓ What should be the target market?
✓ On what basis should the market segmentation be done? Etc.

3.3.3 Marketing Strategy:

Segmentation is referred to as grouping people according to their similarities related to a particular product category. Segmentation involves finding out what kinds of consumers with different needs exist. In the auto market, for example, some consumers demand speed and performance, while others are much more concerned about roominess and safety. In general, it holds that "You can't be all things to all people," and experience has demonstrated that firms that specialize in meeting the needs of one group of consumers over another tend to be more profitable.



Four commonly used bases for Segmentation:

- **Geographic location:**
  - ✓ **Climate:** winter equipment and recreation are affected by geographic location
  - ✓ **Density**: Urban, Suburban and Rural
  - ✓ City/Metro Size
  - ✓ **Region:** North, East, South, West
- **Demographic**: Demographic Segmentation is the most common approach to Market Segmentation. Its variables are:
  - ✓ Age
  - ✓ Gender (male/female)
  - ✓ Income
  - ✓ Occupation
  - ✓ Education
  - ✓ Household (family - style) size
- **Psychographic:** Psychographic segmentation divides the market into groups based on social class, lifestyle and personality characteristics. It is based on the assumption that the types of products and brands an individual purchases will reflect that personality characteristics and patterns of living.
  - ✓ Social Class
  - ✓ Lifestyle
  - ✓ Personality

- **Behavioural:**
  - ✓ **Benefits:** It is based on the attributes (characteristics) of products, as seen by the customers. For example, people buy something because it causes a benefit ie.Diet coke- Less sugar, lose weight
    ie. Close Up - Extra white toothpaste, whiter teeth, better smile
  - ✓ **Occasions**: Regular Occasion / Special Occasion
  - ✓ **User Status**: Non-user, Ex-user, Potential user, First–time user, Regular user
  - ✓ **Usage Rate**: Light user, Medium user, Heavy user
  - ✓ **Loyalty Status:** None/ Medium/ Strong/ Absolute
  - ✓ **Readiness Stage:** Unaware/Aware/Informed/ Interested
  - ✓ **Attitude towards product:** Enthusiastic/ Positive/ Indifferent/ Negative

Target Marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments. Target marketing can be the key to a small business's success. The beauty of target marketing is that it makes the promotion, pricing and distribution of your products and/or services easier and more cost-effective.

Factors to Be Considered While Target Market Selection:

a) Attractiveness of the segment:

- Size of the segment (number of customers and/or number of units).
- The growth rate of the segment.
- Competition in the segment.
- Brand loyalty of existing customers in the segment.
- Attainable market share is given promotional budget and competitors' expenditures.
- Required market share to break even.
- The sales potential for the firm in the segment.
- Expected profit margins in the segment

b) The fit between the segment and the firm's resources:

- Whether the firm can offer superior value to the customers in the segment
- The impact of serving the segment on the firm's image
- Access to distribution channels required to serve the segment
- The firm's resources vs. capital investment required to serve the segment

Positioning:

After the organisation has selected its target market, the next stage is to decide how it wants to position itself within that chosen segment. Positioning refers to 'how organizations want their consumers to see their product'. For example, Pantene has positioned itself as "the hydration".

Various positioning strategies are:

- **Positioning By Product Attributes And Benefits:**

  A common approach is setting the brand apart from competitors based on the specific characteristics or benefits offered. Sometimes a product may be positioned on more than one product benefit. For example,
  - Maruti Suzuki offers benefits of maximum fuel efficiency and safety over its competitors
  - Ariel offers a specific benefit of cleaning even the dirtiest of clothes
- **Positioning By Price/ Quality:**

  Marketers often use price/ quality characteristics to position their brands. One way they do it is with advertisements that reflect the image of a high-quality brand where cost, while not irrelevant, is considered secondary to the quality benefits derived from using the brand. For example Parle Bisleri – "Bada Bisleri, same price"
- **Positioning By Use or Application:**

  Another way to communicate a specific image or position for a brand is to associate it with a specific use or application. For example, Surf Excel is positioned as stain remover 'Surf Excel Hai Na!'

  Also, Clinic All Clear – "Dare to wear Black".
- **Positioning By Product Class:**

  Often the competition for a particular product comes from outside the product class. For example, airlines know that while they compete with other airlines, trains and buses are also viable alternatives. Manufacturers of music CDs must compete with the cassettes industry. The product is positioned against others that while not the same, provide the same class of benefits.
- **Positioning By Product User:**

  Positioning a product by associating it with a particular user or group of users is yet another approach. For example:
  - Fair and Lovely have made products both for men and women.
  - Esteem- What Men with Drive will Drive
  - Cielo- A Chosen few will Steer the Cielo
  - Yamaha Bike- The Rugged Personality
  - Louis Phillipe- The Upper Crest
  - Raymond's- The Complete Man
  - Weekender- Wear your Attitude
- **Positioning By Competitor:**

  Competitors may be as important to positioning strategy as a firm's own product or services. In today's market, an effective positioning strategy for a product or brand may focus on specific competitors. This approach is similar to positioning by product class, although in this case, the competition is within the same product category.

Onida was positioned against the giants in the television industry through this strategy, Onida colour TV was launched with the message that all others were clones and only Onida was the leader - "Neighbour's Envy, Owners Pride".

- **Positioning By Cultural Symbols:**
  An additional positioning strategy where the cultural symbols are used to differentiate the brands. Examples would be Hamara Bajaj, Tata Tea, Ronald McDonald. Each of these symbols has successfully differentiated the product it represents from competitors.

Check Your Progress-2:

1. **What are the stages of marketing research?**

____
____
____
____
____
____

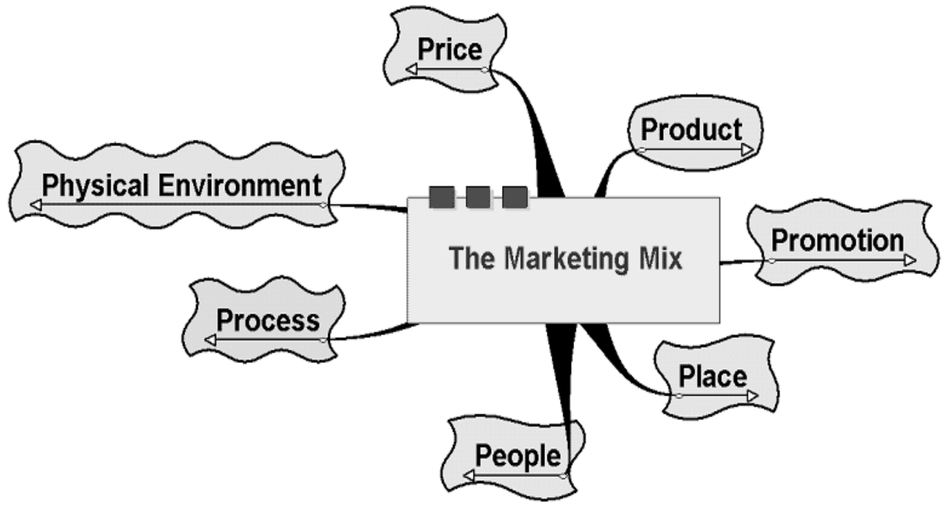
2. **What factors are considered while selecting the target market?**

____
____
____
____
____
____

3.3.4 Creating Market Mix Decisions:

The Chartered Institute of Marketing defines marketing as: "The process which is responsible for identifying, anticipating and satisfying customer requirements profitably"

Marketing mix refers to the primary elements that must be attended to properly market a product or service. The marketing mix is the combination of seven elements: Product, Place, Price, Promotion, People, Physical Evidence and Process. They are called the "Seven Ps of the marketing mix".



a) Product:

Before making a product the company should focus on what customers want and need and then accordingly they should develop a product to meet the need of the potential customers.

Let's consider, the competitor's products offer the same benefits, same quality, and same price. In such a scenario you should differentiate your product with the following:

- Design
- Technology
- Usefulness
- Convenience
- Quality
- Packaging
- Accessories
- Warranty

b) Price: A product is only worth it if a customer is prepared to pay for it. Therefore, the companies focus on various pricing strategies while pricing their products:

- **Premium Pricing:**

This strategy involves using high pricing where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are a charge for luxuries such as Cruises, Luxury Hotel rooms, Designer products.

- **Penetration Pricing:**

It is the strategy of entering the market with a low initial price to capture greater market share.

- **Price Skimming:**

The practice of 'price skimming' involves charging a relatively high price for a short time where a new, innovative, or much-improved product is launched into a market. The prices are set high to attract the least price-sensitive customers to generate high profits.

- **Competitive pricing:**

If your product is sold at the lowest price regarding all your competitors, you are practising competitive pricing. Sometimes, competitive pricing is essential. For instance, when the products are the same, this strategy will usually succeed.

c) Promotion:

This is how you communicate to your potential customers about your product. It includes the various ways of communicating to the customers what the company has to offer. It is about communicating the features/ benefits of using a particular product or service.

- **Advertisement:** It takes many forms like TV, radio, internet, newspapers, yellow pages, Leaflets, Posters etc.
- **Sales Promotion:** Buy One Get One Free. Others include couponing, money-off promotions, free accessories (such as free blades with a new razor), introductory offers (such as buying digital TV and getting free installation) and so on.
- **Personal Selling:** It is an effective way to manage personal customer relationships. The salesperson acts on behalf of the organization.

d) Place:

It refers to the place where the customers can buy the product and how the product reaches out to that place. This is done through different channels like:

- Retails
- Wholesale
- Internet
- Mail orders
- Direct Sales

e) People:

An essential ingredient to any service provision is the use of appropriate staff and people. Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organization wants to obtain a form of competitive advantage. Staff should have the appropriate interpersonal skills, attitude, and service knowledge to provide the service that consumers are paying for.

f) Process:

It refers to the methods and processes of providing service which helps the customers get what they want. Always keep customers informed. This can be done at the store or through faxes and emails.

g) Physical Evidence:

This is particularly important in services marketing as it is the only physical item that a customer will see and so it must reflect the image that the service is trying to project. It includes some of the following:

- Internet/web pages.
- Brochures.
- Furnishings.
- Signage (such as those on aircraft and vehicles).
- Uniforms.
- Business cards.
- The building itself (such as prestigious offices or scenic headquarters).

Example: If you walk into a restaurant your expectations are of a clean, friendly, hygienic environment that will want you to visit again.

Check Your Progress-3:

---

1. What are the 7 Ps of marketing?

____

____

____

____

____

____

2. What role does physical evidence play while in marketing?

____

____

____

____

____

____

3.3.5 Prepare a Marketing Plan:

Successful marketing requires planning and careful execution. A marketing plan serves several purposes within a company.

- It serves as a base for all marketing activities of the firm for the next year
- It ensures that marketing activities are in agreement with the corporate strategic plan.
- Helps in the budgeting process
- Monitors actual result against the expected result

The marketing plans should be written every year because plans which are written for more than a year are not very effective. While planning only the manager should not be responsible rather he should sit with his team and make marketing plans. It not only helps in team building but also provides training to the young team members who have a long way to go.

A marketing plan should contain the following sections:

a) Executive Summary– This section must be given importance and written carefully in short because the top management does not read the entire plan but goes through the executive summary in detail. It should include a few charts and graphs as well.
b) Corporate Connection– It is imperative that while framing the marketing plans they should be in line with the strategic plans of the organizations like:

- Corporate goals concerning profit, growth
- Positioning of the company
- Vertical and horizontal integration
- Product line breadth and depth

c) Environmental Analysis and Forecasting– While formulating the plans the team should keep in mind several environmental factors that are likely to affect the industry and what impact will it have on marketing. The team should also design ways to respond quickly and intelligently to new trends and events. Major environmental factors are:

- **Social**– For example, crime, AIDS, and changing demographics will vary in intensity and geographical incidence. "The hotel market within India had long been considered as uninteresting by many hotel chains. In the 1990s, India's social and economic structure suddenly became conducive to midpriced hotel development."
- **Political–** Laws affecting taxation, pension benefits, casino gambling are a few political decisions that are likely to hit marketing decisions. "The opening of Vietnam to investors and tourists after years of being off-limits provides risk as well as potential rewards for the hospitality industry."

- **Economic–** Changes in employment, income, savings and interest rate should be recognized because the hospitality industry is sensitive to such issues

Apart from this, the team should also focus on the market trends like:

- Visitor trends – spending habits, length of stay, demographics etc.
- Competitive trends – location, type of products offered, occupancy level, average rate etc.
- Related industry trends – It means dependence of industry on other industries. For instance, the hotel industry will depend on flight schedules, convention centres, construction of airports and highways etc.

d) Segmentation Analysis– A marketing plan will not be successful if it does not get its segmentation and target market right. While selecting the segment firstly, one should determine what the company is and what it wishes to be, secondly, study the available segments and see whether they fit in the company's desires and capabilities.

Target markets are selected from the list of available segments. If the wrong target market is selected then all efforts of promoting and advertising will go to waste. Let us take the example of the hotel industry. Women travellers considered security, room service and low priced hotels whereas men preferred fax machines, suite rooms with separate space for bed and office. Therefore, marketers should keep into mind these preferences and design their plans accordingly.

e) Next Year's Objectives and Quotas – The organization's objectives provide direction to the marketers for making their plans. Objectives should be:

- S– Specific
- M- Measurable
- A- Achievable
- R- Realistic
- T– Time-bound

Quotas – Without quotas, the probability of accomplishing objectives is not possible. To be effective a quota must be:

- Based on next year's objectives
- Individualized
- Realistic and obtainable
- Broken down into small units (E.g. each sales person's quota per week)

f) Action Plans: Strategies and Tactics – Strategies and tactics should be made in such a manner that they fit the needs and culture of a company and allow it to meet and exceed objectives. Let us discuss the strategies in detail:

- **Sales Strategies:** These include:
  - Prevent erosion of key accounts
  - Grow key accounts

- Grow selected marginal accounts
- Eliminate selected marginal accounts
- Retain selected marginal accounts

Each strategy is followed with a tactic:

External tactics– Telephone, direct mail and personal sales calls
Trade booths at trade shows
Organizing lunch for key customers etc.

Internal tactics- Training of sales staff
Motivational and control programs
Involvement and support of management

- **Advertising and Promotion Strategies:** These should be established by people who are working within the company. It is essential that while formulating these strategies the team should work closely with supporting groups like advertising agencies, promotion firms etc. It is not recommended that the supporting group must be given the utmost responsibility because even though they may produce the best of advertisements in most cases, they may fail to meet the objectives of the company.
- **Pricing Strategy –** Pricing is one of the crucial factors that need a lot of attention. If the products and services are not priced right then they may prove to be a failure in the market. Different pricing strategies need to be adopted as per the clientele and location.
- **Product Strategies –** Every product has its life cycle. There comes a time when the existing product needs to be improved or new products need to be developed. This is where marketing plays a major role. Marketing can help to enhance revenue from product changes as additions to the current product line.

g) Resources Needed To Support Strategies and Meet Objectives–

- Personnel
- Equipment and space
- Monetary support (E.g. travel expenses, motivational costs)
- Research, consulting and training
- Budgets

h) Presenting and Selling The Plan– One must never assume that the marketing plan that has been developed is so practical/logical that it will sell itself. For a plan to be successful it must be sold to various people:

- **Members of the marketing/sales department–** Many people within the department consider planning a waste of time. Such an issue exists because of a lack of experience and fear of the process. Marketing / Sales managers need the support of their subordinates in the planning process. Rather than forcing the acceptance of the plan, it is better to sell the benefits of the process to the team.

- **Vendors /Ad agencies–** These people should be made aware that they are also an integral part of the planning process and without their involvement, things may not turn out to be great.
- **Top management–** Marketing/Sales managers must sell the plan to top management in the form of meetings over lunch or coffee and through presentations as well.

i) Preparing For the Future– Market planning is considered as a tool for growth both for the organisation as well as for the people working in the organisation.

In times of good or bad situations in the market or the organisation, consistent planning pays good dividends to the firm. If marketing strategies are well planned and in place then it helps in the better functioning of the organisation. Corporate culture and management support also play an important role while planning.

Check Your Progress-4:

1. What are the resources needed to support strategies?

2. Why is it essential to sell the marketing plan to internal customers?

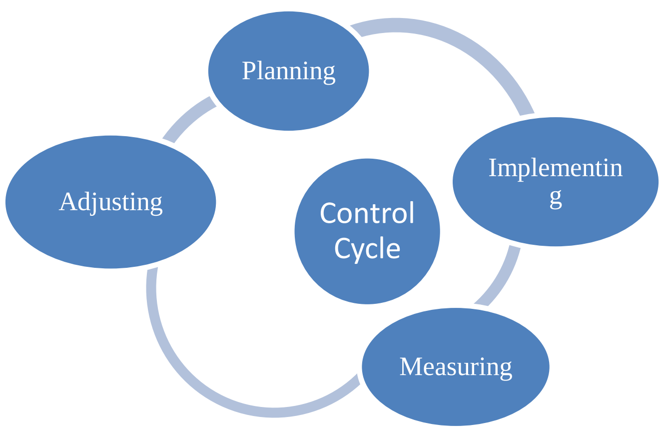
3.3.6 Implementing and Controlling the Marketing Effort:

This is the stage where the marketing plan has already been developed and the product has been launched in the market. The result of the marketing efforts should be monitored closely because certain environments are static. As the market changes, the marketing mix should be changed accordingly to accommodate the changes.

Marketing is not a controlled process it is prone to mishaps, last-minute changes, conceptual shifts, political upheavals, the volatility of markets, and, in short, subject to human nature and natural disasters. Therefore, marketing requires constant fine-tuning and adjustments concerning the changing environment.

Maximum benefits are guaranteed if a rigorous Marketing Implementation, Evaluation, and Control plan are in place.

The first task is to set realistic quantitative and qualitative final targets for the marketing program- and then to constantly measure its actual performance and compare it to the hoped-for outcomes.



The five modules of MIEV (Marketing Implementation, Evaluation, and Control plan) are:

1. Annual plan control:

This is done through various financial statements which are further broken down into various monthly and quarterly figures of "sales" and profitability. It comprises at least five performance gauging tools:

- Sales analysis– It compares sales targets to actual sales
- Market-share analysis– It compares its "sales" with those of its competitors.
- Expense-to-sales analysis– It lists down the range of costs - both explicit and hidden (implicit)– for achieving the target.
- The financial analysis calculates various performance ratios such as profits to sales (profit margin), sales to assets (asset turnover), profits to assets (return on assets),

assets to worth (financial leverage), and, finally, profits to worth (return on the net worth of infrastructure).

- Customer satisfaction is the ultimate indicator of tracking goal achievement. The firm should actively seek, facilitate, and encourage feedback, both positive and negative by creating friendly complaint and suggestion systems. Frequent satisfaction and customer loyalty surveys should form an integral part of any marketing drive.

2. Profitability control:

There is no point in wasting scarce resources on marketing efforts that guarantee nothing except name recognition. Sales, profits, and expenditures must be counted prominently while evaluating the various campaigns organized by the firm. It is imperative to identify what products and consumer groups yield the most. Money, time, and manpower should be allocated to cater to the needs and desires of these top-earners.

3. Efficiency control:

Again, it is not sufficient just to go ahead with various sales promotions but it is indispensable to have an overview of the marketing and sales efforts and their relative success (or failure. What is the sales force doing, where, and how well? What are the localized reactions to the advertising, sales promotion, and distribution drives? Are there appreciable differences between the reactions of various market niches and consumer types?

4. Implementation Control:

Implementing a strategy takes place as a series of steps, activities, investments and acts that occur over a lengthy period. One needs to mobilize resources, carry out special projects and employ or reassign staff. Implementation control is the type of strategic control that must be carried out as events unfold. There are two types of implementation controls: strategic thrusts or projects, and milestone reviews. Strategic thrusts provide you with information that helps you determine whether the overall strategy is shaping up as planned. With milestone reviews, you monitor the progress of the strategy at various intervals or milestones.

5. Marketing audit:

The marketing audit is, in some respects, the raw material for strategic control. Its role is to periodically make sure that the marketing plan emphasizes the country's strengths in ways that are compatible with shifting market sentiments, current events, fashions, preferences, needs, and priorities of relevant market players. This helps to identify marketing opportunities and new or potential markets.

Case Study: Let Us Consider the Following Example:

TITAN– Successful Segmentation and Targeting:
After carrying out an in-depth market study, Titan identified three distinct market segments for its watches. The segments were arrived at using benefit and income level as the bases.
a) The first consisted of the high income/elite consumers who were buying a watch as a fashion accessory, not as a mere instrument showing time. They were also willing to buy a watch on impulse. The price tag did not matter to this segment.
b) The next segment consisted of consumers who preferred some fashion in their watches but to them price did matter. While they could pay the price required for a good watch, they would not purchase a watch without comparing various offers in the market.
c) The third segment consisted of the lower-income consumers who saw a watch mainly as a time-keeping device and bought mainly based on price.

For the first segment, Titan offered Aurum and Royale in the gold/jewellery watch range. They were stylish dress watches in all gold and precious metals. The prices ranged between Rs.20,000 and Rs. 1 lakh. For the middle segment, Titan offered the Exacta range in stainless steel, aimed at withstanding the rigours of daily life. There were 100 different models in the range. The price range was Rs.500-700. Titan also offered the RAGA range for women in this segment. And, for the third segment, Titan first offered the TIMEX watches and later, when the arrangement with Timex was terminated, the SONATA range. The price range was Rs. 350 – 500. It was offered in 200 different models. Titan also offered the "Dash!" range for children. In-depth segmentation helped Titan launch segment-specific products.

3.4 Summary:

In this chapter, we have learnt about marketing and its process. The marketing management process involves some steps where strategies are formulated to prepare the best marketing plan so that maximum benefits can be derived.

3.5 Glossary:

1) **Segmentation**- It is referred to as grouping people according to their similarity related to a particular product category.
2) **Psychographic segmentation**– It divides the market into groups based on social class, lifestyle and personality characteristics.
3) **Target Marketing**– It involves breaking a market into segments and then concentrating the marketing efforts on one or a few key segments.
4) **Positioning**- It refers to how organizations want their consumers to see their product.

5) **Marketing mix** – It refers to the primary elements that must be attended to properly market a product or service. It is essential while making a plan that customer and their preferences should be kept in mind.

3.6 References Books:

- George Belch and Michael Belch, Advertising and Communication Management, 6th edition, Irwin, 2003.
- Mirian Jordan, "In India demand for mid-priced hotel soars and companies are changing in" The Wall Street Journal (January 4, 1995)
- Perry, J.S. Hobson, Henry C.S.Vincent, Kye-Sung Chon, "Vietnam's Tourism Industry; Can it be kept afloat?" Cornell Hotel and Restaurant Administration Quarterly (October 1994)
- Greg Marshall and Mark Johnston; "Marketing Management"; 2010
- Charles Lamb, Joseph Hair, Carl McDaniel; "Essentials of Marketing"; 2009
- Kotler, Philip; Marketing for Hospitality and Tourism, 2nd Edition, Pearson Education, New Delhi
- http://www.bestbusinessinfo.com/1_5/tutorials/11501.html#a2
- http://www.hindustanstudies.com/files/marketmanage.pdf

3.7 Suggested Readings:

- Kotler, Philip; Bowen, John; Makens, James; "Marketing for Hospitality and Tourism", 2nd Edition, Pearson Education, New Delhi.

3.8 Terminal Questions:

1) Explain the importance of segmentation and what are the bases for segmenting a market?
2) What are the various positioning strategies?
3) Explain the 7Ps of marketing?
4) Explain the various pricing strategies.
5) What are the various steps in market research?
6) Why is it essential to create a marketing plan?

Unit-4
Services Marketing

Structure:

4.1 Introduction:

The 21st century has seen profound changes in the global economy. Services have played a crucial role in these changes because services have become the way organizations meet with their markets. Organizations have identified that success in future does not merely depend upon the products but also on the services that are associated with the products. Industries like airlines, travel agencies, banking, hospitality, hospitals etc are pure services-driven organizations. Innovative organizations that offer new services, as well as unique customer services, are now succeeding in markets where established organizations have failed. Services marketing concepts, frameworks and strategies were developed as the result of interlinked the forces of many industries, organizations, and individuals who have realized the increasing role services are playing in the current world economy. Initially, the development of services marketing focused on services industries. However, today providing a service is no longer an option but a necessity. Providing a service is a people business. The interaction between customers and service employees is vital for the actual success of service delivery. Customers are becoming educated and demand not only quality products but also high levels of service to accompany them. Service organizations, therefore, need to adapt to customers views on services to assess whether the services they provide are perceived by customers as better than those provided by other service providers. The objective of this chapter is to address the issues surrounding services, services marketing challenges and the human element of service processes.

4.2 Objectives:

After studying this unit, you should be able to:

1. Explain the meaning of services
2. Recall the importance of services
3. Distinguish between services and goods
4. Understand the components of the services marketing mix
5. Differentiate between the type of services
6. Understand service-goods continuum
7. Recall unique characteristics of services
8. Explore different strategies to manage services

4.3 What are Services?

As we begin our discussion of services marketing and management, it is important to draw distinctions between service industries and companies, services as products, customer service and derived service. Sometimes when people think of service, they think only of customer service, but service can be divided into four distinct categories.

- Service industries and companies include those industries and companies typically classified within the service sector whose core product is a service. Organizations in these sectors provide or sell services as their core offering.
- Services as products represent a wide range of intangible product offerings that customers value and pay for in the marketplace. Service products are sold by service companies and by non-service companies such as manufacturers and technology companies.
- Customer service is also a critical aspect of what we mean by 'service'. Customer service is the service provided in support of a company's core products. Companies typically do not charge for customer service. Customer service usually entails answering questions, handling complaints, dealing with queries, taking orders, the provision of maintenance and repairs and other after-sales services. Although customer service is inherent in services marketing it is carried out as an additional function by many industries.
- Derived service is yet another way to look at what service means. In an article in the Journal of Marketing, Steve Vargo and Bob Lusch argue for a new dominant logic for marketing that suggests that all products and physical goods are valued for the services they provide.

Another way to look at the nature and scope of services is to view

- Service as an organization, that is the entire business or not-for-profit structure that resides within the service sector. For example, a restaurant, an insurance company, a charity.
- Service as the core product, that is, the commercial outputs of a service organization such as a bank account, an insurance policy or a holiday.
- Service as product augmentation, that is any peripheral activity designed to enhance the delivery of a core product. For example, provision of a courtesy car, complimentary coffee at the hairdressers.
- Service as product support, that is, any product or customer-oriented activity that takes place after the point of delivery. For example monitoring activities, a repair service, up-dating facilities.
- Service as an act, that is served as a mode of behaviour such as helping out, giving advice.

Services marketing typically refers to both business to consumer (B2C) and business to business (B2B) services and includes marketing of services like telecommunications services, financial services, all types of hospitality services, car rental services, air travel, health care services and professional services. Put in the simplest terms, services are deeds, processes, and performances.

Kotler (1996) defines service as "an activity that one party offers another that is essentially intangible and does not result in the ownership of anything". Its production may or may not be tied to a physical product. Grönroos (1990) identifies a service as an activity or series of activities of a more or less intangible nature that normally, but necessarily, takes place in the interaction between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as a solution to customer problems. The term "services" covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees.

Services marketing relates to the marketing of services, as opposed to tangible products. A service (as opposed to a good) is typically defined as follows:

- The use of it is inseparable from its purchase (i.e., a service is used and consumed simultaneously)
- It does not possess material form, and thus cannot be touched, seen, heard, tasted, or smelled.

The use of service is inherently subjective, meaning that several persons experiencing a service would each experience it uniquely. A service is a set of singular and perishable benefits.

4.4 Why Services Marketing?

Many forces have led to the growth of services marketing. First, services marketing concepts and strategies have developed in response to the tremendous growth of service industries, resulting in their increased importance to the world economy. Further, the quick pace of developing technologies and increasing competition makes it difficult to gain strategic competitive advantage through physical products alone. Plus, customers are more demanding. Not only do they expect excellent, high-quality goods and technology, they also expect high levels of customer service and total service solutions along with them.

The turn of the century has seen profound changes in the global economy. Services had played a crucial part in these changes because services are becoming the way organizations interact with their market. Organizations have discovered that their survival no longer exclusively depends on the products they offer, but also on the additional offerings they make to their customers that differentiate from their competitor's innovative organizations, offering new services as well as unique customer services, are now succeeding in markets where established organizations have failed.

Services marketing concepts, frameworks and strategies were developed as the result of interlinked the forces of many industries, organizations and individuals who have realized the increasingly important role services are playing in the current world economy. Initially, the development of services marketing focused on service industries. However, manufacturing and technology industries recognized services as a prerequisite to complement their products, to compete successfully in the marketplace. Therefore it can be argued that in most industries, providing a service is no longer an option but a necessity.

Incorporating the concepts of services marketing helps a business in the following areas:

- **A key differentiator:** Due to the increasing homogeneity in product offerings, the attendant services provided are emerging as a key differentiator in the mind of the consumers. Eg: In the case of two fast-food chains serving a similar product (Pizza Hut and Domino's), more than the product it is the service quality that distinguishes the two brands from each other. Hence, marketers can leverage the service offering to differentiate themselves from the competition and attract consumers.
- **Importance of relationships:** Relationships are a key factor when it comes to the marketing of services. Since the product is intangible, a large part of the customers' buying decision will depend on the degree to which he trusts the seller. Hence, the need to listen to the needs of the customer and fulfil them through the appropriate service offering and build a long-lasting relationship which would lead to repeat sales and positive word of mouth.
- **Customer Retention:** Given today's highly competitive scenario where multiple providers are vying for a limited pool of customers, retaining customers is even more important than attracting new ones. Since services are usually generated and consumed at the same time, they involve the customer in the service delivery process by taking into consideration his requirements and feedback. Thus they offer greater scope for customization according to customer requirements thus offering increased satisfaction leading to higher customer retention.

4.5 Difference Between Services and Goods:

There is general agreement that differences between goods and services exist and that the distinctive characteristics discussed in this section result in challenges (as well as advantages) for managers of services. The table below summarizes the differences between goods and services and the implications of these characteristics. The term "services" covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees.

Table 1: Difference between goods and services

Goods	Services	Resulting implications
Tangible	Intangible	Services cannot be inventoried Services cannot be easily patented Services cannot be readily displayed or communicated Pricing is difficult
Standardized	Heterogeneous	Service delivery and customer satisfaction depend on employee and customer actions Service quality depends on many uncontrollable factors There is no sure knowledge that the service delivered matches what was planned and promoted
Production separate from consumption	**Inseparability** – simultaneous production and consumption	Customers participate in and affect the transaction Customers affect each other Employees affect the service outcome Decentralization may be essential Mass production is difficult
Non-perishable	Perishable	It is difficult to synchronize supply and demand with services Services cannot be returned or resold

Let us analyse the difference between products and services. There are several differences between services and tangible products, let us discuss some of them, which include:

- **Intangibility:** The most basic distinguishing characteristic of services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted or touched in the same manner that you can sense tangible goods. Service is an activity that you can experience or feel after its execution. For example, a friendly treatment or service makes the guest feel special and affects their experience, during their stay in the hotel. Intangibility presents several marketing challenges. Services cannot be patented easily, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenging, as is pricing. The actual costs of a 'unit of service' are hard to determine, and the price-quality relationship is complex.
- **Heterogeneity:** Because services are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eyes, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or uniquely experience the service. Thus the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers). Because services are

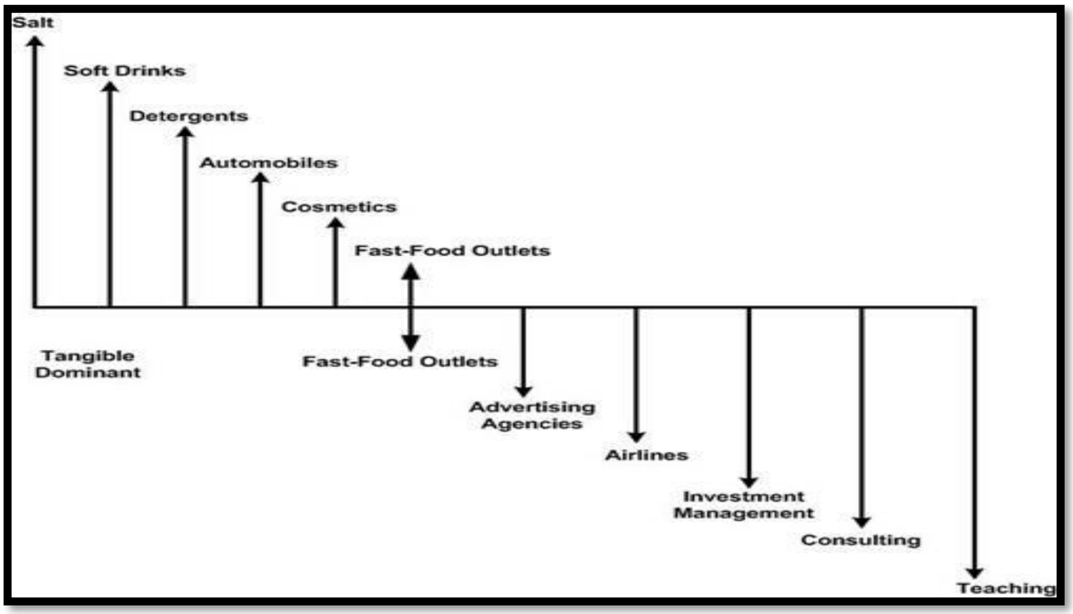
heterogeneous across time, organizations and people, ensuring consistent service quality is challenging.

• **Simultaneous production and consumption:** Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed simultaneously. For example, restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this situation also means that the customer is present while the service is being produced, and thus views and may even take part in the production process. Simultaneity also means that customers will frequently interact with each other during the service production process and thus may affect each others' experiences. For example, strangers seated next to each other in an aeroplane may well affect the nature of the service experience for each other. Because services are often produced and consumed at the same time, mass production is difficult. The quality of service and customer satisfaction will be highly dependent on what happens in 'real time', including the actions of employees and the interactions between employees and customers.

• **Perishability:** Perishability refers to the fact that services cannot be saved, stored, resold or returned. A seat on a flight or in a restaurant, an hour of a lawyer's time or telephone line capacity not used cannot be reclaimed and used or resold at a later time. Perishability is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy. Services cannot be produced in mass quantities and stored for consumption in the later stages. Let us take the example of the travel industry. Holidays are the peak season in the travel industry when buses, cars, aeroplanes, trains, and crew members will be utilised to the maximum. For lean months when people travel very less, the travel industry will have the same number of aeroplanes, cars, buses, trains and so on. This example exemplifies the fact that the services cannot be produced and stored for future usage, unlike goods. A primary issue that marketers face about service perishability is the inability to hold stock. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas.

4.6 The Service-Goods Continuum:

The broad definition of services implies that intangibility is a key determinant of whether an offering is a service. Although this is true, it is also true that very few products are purely intangible or tangible. Instead, services tend to be more intangible than manufactured products, and manufactured products tend to be more tangible than services. The dichotomy between physical goods and intangible services should not be given too much credence. These are not discrete categories. Most business theorists see a continuum with pure service on one terminal point and pure commodity on the other terminal point. Most products fall between these two extremes. For example, a restaurant provides a physical good (the food), but also provides services in the form of ambience, the setting and clearing of the table, etc. And although some utilities deliver physical goods— like water utilities which deliver water— utilities are usually treated as services. In a narrower sense, service refers to the quality of customer service: the measured appropriateness of assistance and support provided to a customer. This particular usage occurs frequently in retailing.



4.7 Services Marketing Mix:

One of the most basic concepts in marketing is the marketing mix, defined as the elements an organization controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four Ps: product, price, place (distribution) and promotion The service marketing mix, also known as an extended marketing mix, is an integral part of a service blueprint design. The service marketing mix consists of 7 P's as compared to the 4 Ps of a product marketing mix. Simply said, the service marketing mix assumes the service as a product itself. However, it adds 3 more P's which are required for optimum service delivery. The extended service marketing mix includes People, Process and Physical evidence. All of these factors are necessary for optimum service delivery. Let us discuss the same in further one by one:

Product– The product in the service marketing mix is intangible in nature. Like physical products such as soap or a detergent, service products cannot be measured. The tourism industry or the education industry can be an excellent example. At the same time, service products are heterogeneous, perishable and cannot be owned. The service product thus has to be designed with care. Generally, service blueprinting is

done to define the service product. For example – a restaurant blueprint will be prepared before establishing a restaurant business. This service blueprint defines exactly how the product (in this case the restaurant) is going to be.
Place- Place in case of services determine where is the service product going to be located. The best place to open up a petrol pump is on the highway or in the city. A place where there is minimum traffic is the wrong location to start a petrol pump. Similarly, a software company will be better placed in a business hub with a lot of companies nearby rather than being placed in a town or rural area.

Promotion– Promotions have become a critical factor in the service marketing mix. Services are easy to be duplicated and hence it is generally the brand that sets a service apart from its counterpart. You will find a lot of banks and telecom companies promoting themselves rigorously. Why is that? It is because competition in this service sector is generally high and promotions are necessary to survive. Thus airlines, travel companies, destinations, banks, IT companies, and dotcoms place themselves above the rest by advertising or promotions.

Pricing– Pricing in the case of services is rather more difficult than in the case of products. If you were a restaurant owner, you can price people only for the food you are serving. But then who will pay for the nice ambience you have built up for your customers? Who will pay for the band you have for music?

Thus these elements have to be taken into consideration while costing. Generally, service pricing involves taking into consideration labour, material cost and overhead costs. By adding a profit mark up you get your final service pricing.

Here we start towards the extended service marketing mix which is also explained in Table 2.

People– People is one of the elements of the service marketing mix. People define a service. If you have an IT company, your software engineers define you. If you have a restaurant, your chef and service staff defines you. If you are into banking, employees in your branch and their behaviour towards customers defines you. In the case of service marketing, people can make or break an organization. Thus many companies nowadays are involved in especially getting their staff trained in interpersonal skills and customer service with a focus towards customer satisfaction. Many companies have to undergo accreditation to show that their staff is better than the rest. Because of the simultaneity of production and consumption in services the staff occupies the key position in influencing customers' perceptions of product quality. The service quality is inseparable from the quality of the service providers. An important marketing task is to set standards to improve the quality of services provided by employees and monitor their performance. Without training and control employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate forms of behaviour and trainees adopt the best practices of the company.

Process– this means procedures, mechanism and flow of activities by which a service is acquired. The actual delivery steps that the customer experiences, or the operational flow of the service, also give customers evidence on which to judge the service. Process decisions radically affect how a service is delivered to customers. The service process is how a service is delivered to the end customer. Let's take the example of two very good companies – Cox & Kings and Makemytrip.com. Both the companies thrive on their quick service and the reason they can do that is their confidence in their processes. On top of it, the demand for these services is such that they have to deliver optimally without a loss in quality. Thus the process of a service company in delivering its product is of utmost importance. It is also a critical component in the service blueprint, wherein before establishing the service, the company defines exactly what should be the process of the service product reaching the end customer.

Physical Evidence– The last element in the service marketing mix is a very important element. This is the environment in which the service is delivered and any tangible goods that facilitate the performance and communication of the service. Customers look for clues to the likely quality of service also by inspecting the tangible evidence. To create a better customer experience tangible elements are also delivered with the service. Take an example of a restaurant which has only chairs and tables and good food, or a restaurant which has ambient lighting, nice music along with good seating arrangement and this also serve good food. Which one will you prefer? The one with a nice ambience. That's physical evidence. Several times, physical evidence is used as a differentiator in service marketing. Imagine a private hospital and a government hospital. A private hospital will have plush offices and well-dressed staff. The same cannot be said for a government hospital. Thus physical evidence acts as a differentiator.

Table 2: Expanded Services Marketing Mix

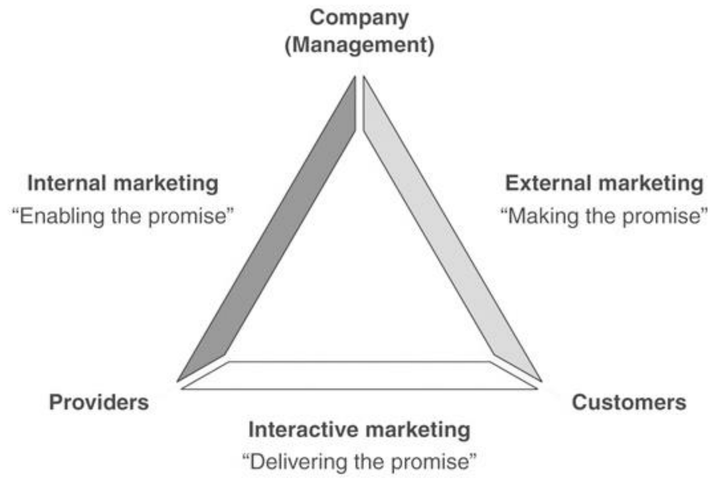
Product	Place	Promotion	Price
Physical good features	Channel type	Promotion blend	Flexibility
Quality level	Exposure	Salespeople	Price level
Accessories	Intermediaries	Selection	Terms
Packaging	Outlet locations	Training	Differentiation
Warranties	Transportation	Incentives	Discounts
Product lines	Storage	Advertising	Allowances
Branding	Managing channels	Media types	
		Types of ads	
		Sales promotion	
		Publicity	
		Internet/Web strategy	

People	Physical Evidence	Process
Employees	Facility design	Flow of activities
Recruiting	Equipment	Standardized
Training	Signage	Customized
Motivation	Employee dress	Number of steps
Rewards	Other tangibles	Simple
Teamwork	Reports	Complex
Customers	Business cards	Customer involvement
Education	Statements	
Training	Guarantees	

4.8 Management Strategies For Service Business:

4.8.1 The services triangle:

It is important to understand that services marketing is about promises – promises made and promises kept to customers. A strategic framework known as the services triangle shows the three interlinked groups that work together to develop, promote and deliver these service promises. Internal marketing (IM) is a process that occurs within a company or organization whereby the functional process aligns, motivates and empowers employees at all management levels to deliver a satisfying customer experience. Interactive marketing means that perceived service quality depends heavily on the quality of buyer-seller interaction during the service encounter. Service employees have to master interactive marketing skills or functions as well.



4.8.2 Managing Differentiation:

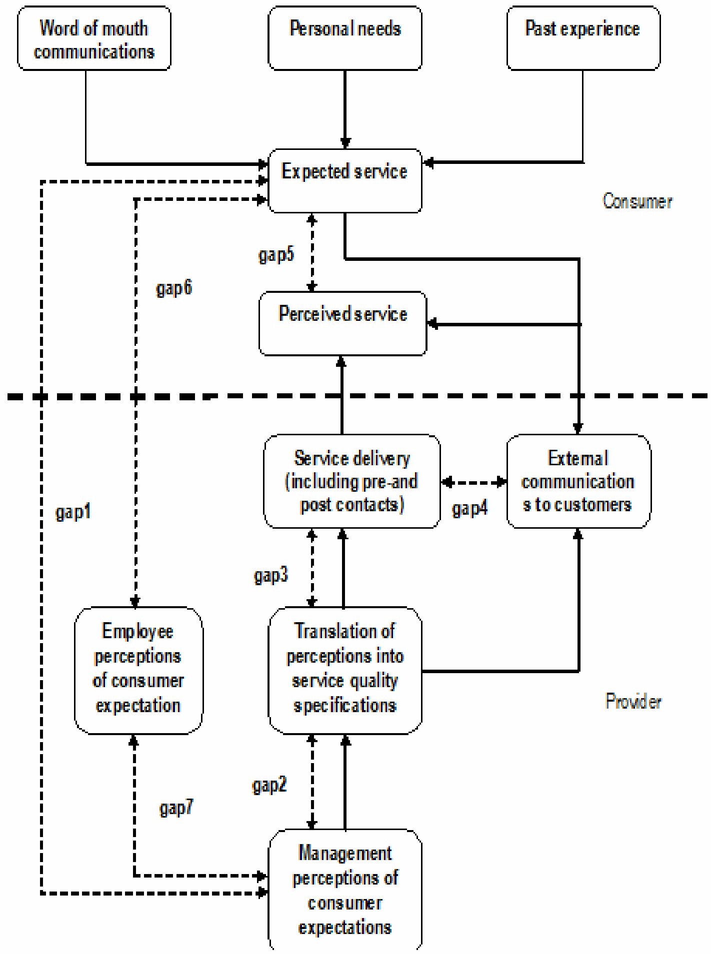
As competition and costs increase and as productivity and quality decrease, more marketing sophistication is needed. One of the most challenging jobs of marketers is to create differentiation in the service offering. Service companies can differentiate their offerings in three ways – through people, physical environment and process

4.8.3 Managing Service Quality:

One of how a company can differentiate itself from competitors is to deliver high-quality services as compared to its competitors. Service quality is a term that describes a comparison of expectations with performance. Service quality can be defined as the difference between customer expectations of service and perceived service If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs. The key to delivering high-quality service is to exceed customer expectations. There are seven major gaps in the service quality concept, which are shown below. The model identifies seven key discrepancies or gaps relating to managerial perceptions of service quality, and tasks associated with service delivery to customers. The first six gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6 and Gap 7) are identified as functions of how service is delivered, whereas Gap 5 pertains to the customer and as such is considered to be the true measure of service quality.

Gap-1: Customers' expectations versus management perceptions: as a result of the lack of a marketing research orientation, inadequate upward communication and too many layers of management.

Gap-2: Management perceptions versus service specifications: as a result of the inadequate commitment to service quality, a perception of unfeasibility, inadequate task standardization and an absence of goal setting.



Gap-3: Service specifications versus service delivery: as a result of role ambiguity and conflict, poor employee-job fit and poor technology-job fit, inappropriate supervisory control systems, lack of perceived control and lack of teamwork.

Gap-4: Service delivery versus external communication: as a result of inadequate horizontal communications and propensity to over-promise.

Gap-5: The discrepancy between customer expectations and their perceptions of the service delivered: as a result of the influences exerted from the customer side and the shortfalls (gaps) on the part of the service provider. In this case, customer expectations are influenced by the extent of personal needs, word of mouth recommendations and past service experiences.

Gap-6: The discrepancy between customer expectations and employees' perceptions: as a result of the differences in the understanding of customer expectations by front-line service providers.

Gap-7: The discrepancy between employee's perceptions and management perceptions: as a result of the differences in the understanding of customer expectations between managers and service providers. There exists an important question: why should service quality be measured? Measurement allows for comparison before and after changes, for the location of quality-related problems and the establishment of clear standards for service delivery. One service quality measurement model that has been extensively applied is the SERVQUAL model developed by Parasuraman and other researchers. SERVQUAL as the most often used approach for measuring service quality has been to compare customers' expectations before a service encounter and their perceptions of the actual service delivered. The SERVQUAL instrument has been the predominant method used to measure consumers' perceptions of service quality. It has five generic dimensions or factors and is stated as follows:

- **Tangibles:** Physical facilities, equipment and appearance of personnel.
- **Reliability:** Ability to perform the promised service dependably and accurately.
- **Responsiveness:** Willingness to help customers and provide prompt service.
- **Assurance:** (including competence, courtesy, credibility and security). Knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy:** (including access, communication, understanding the customer). Caring and individualized attention that the firm provides to its customers.

The other business strategies that are critical as part of managing services are:

4.8.4 Resolving Customer Complaints:

A service company cannot always prevent service problems, but it can learn from them. A good recovery can turn angry customers into loyal ones. Resolving customer complaints is a critical component of customer retention.

Marketers should be aware of the fact that most dissatisfied customers do not complain. Strategies should be developed that encourage the customers to come forward and complain. This allows the company to improve its processes.

4.8.5 Managing Employees as part of the Product:

Employees for a critical part of the marketing mix and are instrumental in determining the perceived quality of service. Excellent service companies understand this and therefore invest heavily to have a positive attitude among employees. A committed employee will work at his best to deliver quality services and therefore will win customer loyalty. As discussed earlier, internal marketing aims at training and motivating employees so that they provide quality service.

4.8.6 Managing Capacity and Demand:

As discussed earlier, one of the characteristics of services is perishability. The implication is managing capacity and demand. The options available with the marketing manager is to either change the capacity or change the demand. Marketing managers can adopt the following strategies to manage the capacity – **(i)** involve the customer in the service delivery system **(ii)** Cross-train employees so that they can perform multiple roles **(iii)** use part-time employees **(iv)** rent or share extra facilities and types of equipment **(v)** schedule downtime during periods of low demand **(vi)** change the service delivery system. One of these strategies can be adopted by the company to manage the capacity available with the firm to deliver quality services. On the other hand, marketing managers can also adopt the following strategies to manage the demand– **(i)** Use price to create or reduce demand **(ii)** Use reservations **(iii)** Overbook to minimize the risk of fluctuating demand **(iv)** Adopt the revenue management system **(v)** Use queuing strategies **(vi)** create promotional events or **(vii)** shift the demand.

4.9 Summary:

Services have become an integral part of the world economy. The continuous shift to an information society has led to an increase in service demand from customers, meaning that organizations no longer regard services as an option but rather a necessity to gain a competitive advantage. Kotler (1996) defines service as "an activity that one party offers another that is essentially intangible and does not result in the ownership of anything". The term "services" covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees. Service has the following unique characteristics – intangibility, inseparability, variability, perishability and ownership. The characteristics offer unique challenges for marketers to attract and retain customers.

The service marketing mix, also known as an extended marketing mix, is an integral part of a service blueprint design. The service marketing mix consists of 7 P's as compared to the 4 Ps of a product marketing mix. Simply said, the service marketing mix assumes the service as a product itself. However, it adds 3 more P's which are required for optimum service delivery which are people, process and physical evidence.

The following management strategies for a service business are **(a)** the services triangle **(b)** Managing Service Differentiation **(c)** Managing Service Quality **(d)** Resolving Customer Complaints **(e)** Managing Employees as part of the Product and **(f)** Managing Capacity and Demand

4.10 References:

- Bittel, Lester R. and John W. Newstrom. What Every Supervisor Should Know. St. Louis: McGraw-Hill, Inc., 1990.

- Frunzi, George L. and Patrick E. Savini. Supervision: The Art of Management. Upper Saddle River, New Jersey: Prentice-Hall, Inc., 1997.
- Goeldner, C. R. and Ritchie, J. R. B. (2006), Tourism – Principles, Practices, Philosophies, John Wiley & Sons, Inc., New Jersey, USA.
- Jha, S. M. (1995), Tourism Marketing, Himalaya Publishing House, Girgaon (Mumbai).
- Kotler, P., Bowen, J. T., and Makens, J. C. (2006), Marketing for Hospitality and Tourism, Pearson Education, UK.
- Shostack, G. L. "Designing Services that Deliver", Harvard Business Review, January – February 1984, pp. 133 -139.
- Schlesinger, L. A. and Heskett, J. L. "The Service-Driven Service Company", Harvard Business Review, September - October 1991, pp. 71-81.
- Tsiotsou, R. and Goldsmith, R. E. (2012), Strategic Marketing in Tourism Services, Emerald Group Publishing Limited, United Kingdom.
- Zeithaml, V. A., Bitner, M. J., and Gremler, D. (2008), Services Marketing, McGraw Hill, St. Louis.

4.11 Terminal Questions:

1. Explain the term 'services' as stated by Kotler.
2. Explain briefly the differences between services and goods
3. Mention the unique characteristics of services.
4. What do you understand by Service Quality? What are the dimensions of SERVQUAL?
5. Explain the Gaps model of service quality
6. What are various strategies available to manage capacity and demand?

Unit-5
Marketing Information System and Market Research

Structure:

5.1 Introduction:

A Marketing Information System (MIS) is a management information system designed to support marketing decision making. Jobber defines it as a "system in which marketing data is formally gathered, stored, analysed and distributed to managers following their informational needs regularly." Kotler, et al. (2006) define it more broadly as "people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision-makers." A formal MIS can be of great benefit to any organization whether profit-making or non-profit making, no matter what its size or the level of managerial finesse. It is true today that in many organizations, MIS is integrated as part of a computerized system. Management Information System (MIS) is an indispensable resource to be carefully managed just like any other resource that the organization may have e.g. human resources, productive resources, transport resources and financial resources. A marketing information system (MIS) is a set of procedures and methods designed to generate, analyze, disseminate, and store anticipated marketing decision information on a regular, continuous basis. A marketing information system can be used operationally, managerially, and strategically for several aspects of marketing. Some enterprises approach marketing intelligence gathering more deliberately and train their sales force, after-sales personnel and district/area managers to take cognizance of competitors' actions, customer complaints and requests and distributor problems.

5.2 Objectives:

This chapter has the purpose of leading the reader towards:

1. Knowledge of the major components of a marketing information system
2. An appreciation of the different types and levels of marketing decision making
3. An awareness of the often under-utilised internal sources of information available to enterprises
4. An ability to clearly distinguish between marketing research and marketing intelligence

5.3 Why Marketing Information System:

To understand the proper role of information systems one must examine what managers do and what information they need for decision making. We must also understand how decisions are made and what kinds of decision problems can be supported by formal information systems. One can then determine whether information systems will be valuable tools and how they should be designed.

We all know that no marketing activity can be carried out in isolation, know when we say it doesn't work in isolation that means various forces could be external or internal, controllable or uncontrollable which are working on it. Thus to know which forces are acting on it and its impact the marketer needs to gather the data through its resources which in terms of marketing we can say he is trying to gather the market information or form a marketing information system. This collection of information is a continuous process that gathers data from a variety of sources synthesizes it and sends it to those responsible for meeting the market places needs. Depending on a firm's resources and the complexity of its needs, a marketing intelligence network may or may not be fully computerized. The ingredients for a good MIS are consistency, completeness, and orderliness. Marketing plans should be implemented based on information obtained from the intelligence network.

5.4 Sources of Marketing Information System:

The information needed by marketing managers comes from three main sources:

1) Internal company information–Eg. sales, orders, customer profiles, stocks, customer service reports etc

2) Marketing intelligence– This can be information gathered from many sources, including suppliers, customers, and distributors. Marketing intelligence is a term that includes all the everyday information about developments in the market that helps a business prepare and adjust its marketing plans. It is possible to buy intelligence information from outside suppliers (e.g. IDC, ORG, and MARG) who set up data gathering systems to support commercial intelligence products that can be profitably sold to all players in a market.

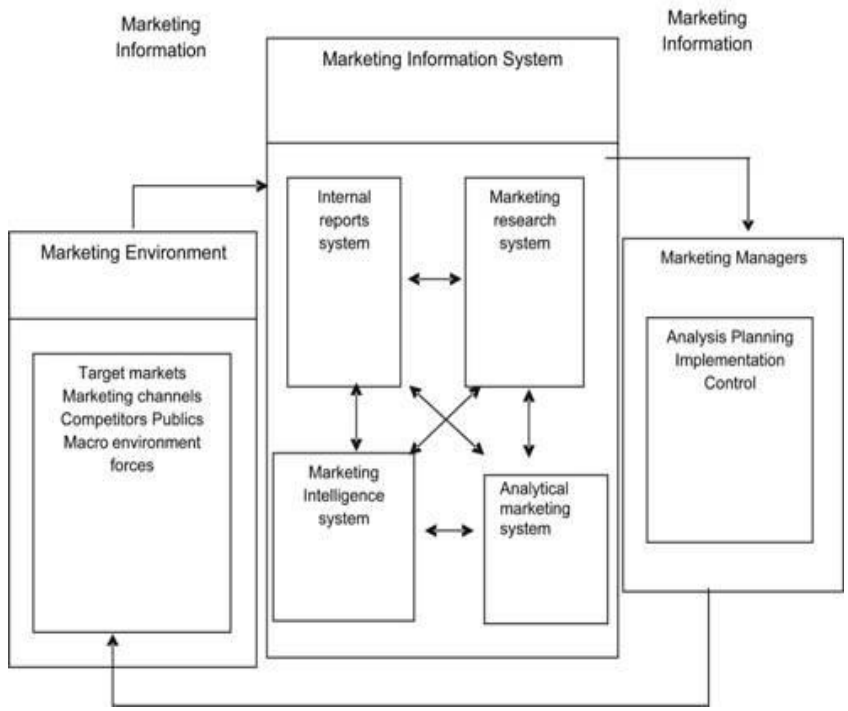
(3) Market research– Management cannot always wait for information to arrive in bits and pieces from internal sources. Also, sources of market intelligence cannot always be relied upon to provide relevant or up-to-date information (particularly for smaller or niche market segments). In such circumstances, businesses often need to undertake specific studies to support their marketing strategy – this is market research.

5.5 Components of a Marketing Information System:

A marketing information system (MIS) is intended to bring together disparate items of data into a coherent body of information. As per Kotler's1 definition says, an MIS is more than a system of data collection or a set of information technologies: "A marketing information system is a continuing and interacting structure of people, equipment and procedures to gather, sort, analyze, evaluate, and distribute pertinent, timely and accurate information for use by marketing decision-makers to improve their marketing planning, implementation, and control".

The figure below illustrates the major components of an MIS, the environmental factors monitored by the system and the types of marketing decisions that the MIS seeks to underpin.

Fig.-5.5: The marketing information systems and its subsystem



The explanation of this model of an MIS begins with a description of each of its four main constituent parts: the internal reporting systems, marketing research systems, marketing intelligence systems and analytical marketing systems.

5.5.1 Internal Reporting Systems:

An organization that is working has a tremendous amount of information. However, this information often remains underutilised. Information is usually categorised according to its nature, for example, financial, production, manpower, marketing, stockholding and logistical data. Often the entrepreneur, or various personnel working in the functional departments holding these pieces of data, do not see how it could help decision-makers in other functional areas. Similarly, decision-makers can fail to appreciate how information from other functional areas might help them and therefore do not request it. The internal records that are of immediate value to marketing decisions are: orders received, stockholdings and sales invoices. These are but a few of the internal records that can be used by marketing managers, but even this small set of records is capable of generating a great deal of information.

5.5.2 Marketing research system:

Marketing research is a proactive search for information. In many cases, data is collected in a purposeful way to address a well-defined problem (or a problem that can be defined and solved within the course of the study). The other form of marketing research centres not around a specific marketing problem but is an attempt to continuously monitor the marketing environment.

5.5.3 Marketing intelligence systems:

Whereas marketing research is focused, market intelligence is not. A marketing intelligence system is a set of procedures and data sources used by marketing managers to shift information from the environment that they can use in their decision making. This scanning of the economic and business environment can be undertaken in a variety of ways. The sources of marketing intelligence can be classified as internal sources vs. external sources. The internal sources of marketing intelligence include company executives, front desk staff, service staff, purchasing agents, and sales force. The external sources of marketing intelligence include suppliers, convention and tourist bureaus, travel agencies, trade publications, associations, consultants, banks and financial institutions.

5.5.4 Analytical Marketing System:

Within the MIS there have to be a means of interpreting information to give direction to the decision. These models may be computerized or may not. These mathematical, statistical, econometric and financial models are the analytical subsystem of the MIS.

5.6 Functions of Marketing Information System:

The functions of a good MIS can be divided into the following:

Assessing Information Needs– It is important to balance information that managers need against that which they need and is feasible to obtain. The company must obtain the value of having an item of information against the cost of obtaining it. Since the cost of obtaining, processing, storing and delivering information can add up quickly, managers must carefully identify their real information needs which they think shall add value in decision making.

Developing Information– As discussed earlier information can be obtained through internal databases, marketing intelligence and marketing research. Internal databases usually can be accessed more quickly and cheaply than other information sources, but they also present some problems. It is important to know that every company contains more information than any manager can know or analyze. Today most companies are creating data warehouses to store customer data in a single more accessible location. In the case of the hospitality industry, guest information is vital to improve service, create effective advertising and sales promotion programmes, develop new products, improve existing products, develop marketing and sales programmes and in revenue management.

An effective MIS in the hospitality industry will collect guest history information, guest information trends. Other sources like guest registration forms, guest comment cards, guest verbal feedback and point of sale information can provide useful insights to design marketing programmes. In addition to internal databases, marketing intelligence can be useful in developing information. The marketing intelligence system aims at developing macro marketing information, competitive information and innovations and trends. The third source to develop information is conducting market research which is discussed in the next section.

5.7 Advantages of Marketing Information System:

Marketing Information System offers many advantages:

1. Organized data collection.
2. A broad perspective.
3. The storage of important data.
4. An avoidance of crises.
5. Coordinated marketing plans.
6. Speed in obtaining sufficient information to make decisions.
7. Data amassed and kept over several periods.
8. The ability to do a cost-benefit analysis.

The disadvantages of a Marketing information system are high initial time and labour costs and the complexity of setting up an information system. Marketers often complain that they lack enough marketing information or the right kind, or have too much of the wrong kind. The solution is an effective marketing information system.

5.8 Marketing Research:

Marketing research is a process that identifies and defines marketing opportunities and problems, monitors, and evaluates marketing actions and performances, and communicates the findings and implications to the management. According to American Marketing Association, "Marketing research is the function that links the consumer, customer, and public to the marketer through information--information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."

Marketing research is the systematic gathering, recording, and analysis of data about issues relating to marketing products and services. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behaviour. The term is commonly interchanged with market research; however, expert practitioners may wish to draw a distinction, in that market research is concerned specifically with markets, while marketing research is concerned specifically about marketing processes.

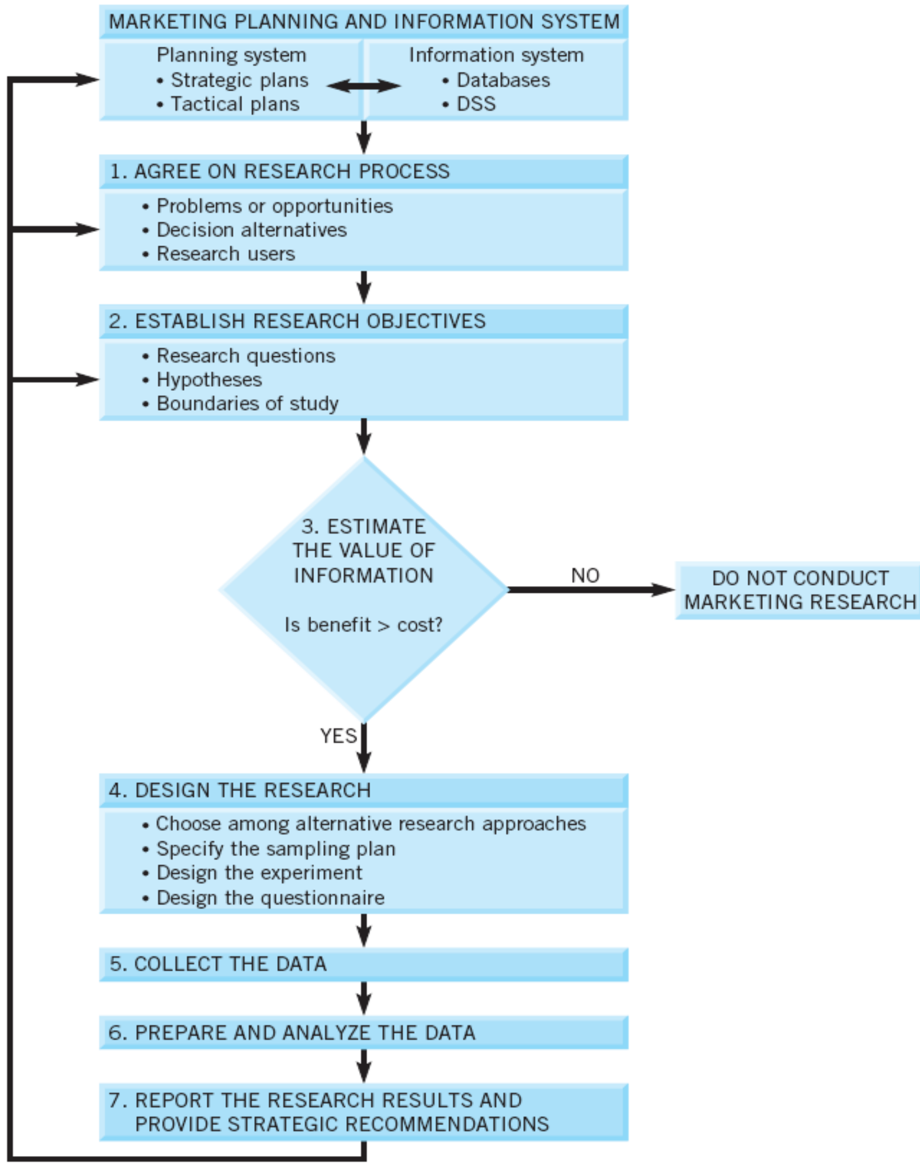
The most frequently common activities of marketing research include – measurement of market potentials, market share analysis, determination of market characteristics, sales analysis, studies of business trends, short-range forecasting, competitive product studies, long-range forecasting, market information system studies and testing of existing products.

5.9 Process of Market Research:

Marketing research exercises may take many forms but systematic inquiry is a feature common to all such forms. Being a systematic inquiry requires careful planning of the orderly investigation process. The typical marketing research process that is followed in practice is as given below in the figure.

Marketing research is needed when decision-makers must make a decision and they do not have the information to help them make the decision. Another use of marketing research is to identify problems. Marketing research is needed to determine what problems exist. We also know that marketing research is needed to generate, refine, and evaluate marketing actions and to monitor marketing performance. Companies conduct research to identify problems so that they can correct them. Research problems are more likely to be poorly defined; only partially understood, and missing possible decision alternatives that should be analyzed. Defining problems accurately is a combination of data and judgment that demands real thought and effort.

Fig.-5.6: The Marketing Research Process



5.9.1 Identify the Research Purpose:

The research purpose comprises a shared understanding between the manager and the researcher of:

1. Problems or opportunities to be studied?
- Which problems or opportunities are anticipated?
- What are the scope of the problems and the possible reasons?

2. Decision alternatives to be evaluated
- What are the alternatives being studied?

- What are the criteria for choosing among the alternatives?
- What is the timing or importance of the decision?

3. Users of the research results

- Who are the decision-makers?
- Are there any covert purposes?

Defining the problem is the most important step in the research process. Why? What else matters if we have defined the problem incorrectly? Unfortunately, managers are good at clearly seeing symptoms and are less adept at seeing the real problem. Clear problem definition is of crucial importance in marketing research as in terms of both time and money research is a costly process. Careful attention to problem definition allows the researcher to set the proper research objectives which in turn facilitate relevant and economic data collection.

5.9.2 Establish Research Objectives:

Research objectives, although related to and determined by the problem definition, are set so that, when achieved, they provide the information necessary to solve the problem. The research objective is a statement, in as precise terminology as possible, of what information is needed. The research objective should be framed so that obtaining the information will ensure that the research purpose is satisfied. Research objectives have three components. The first is the research question. The second element is the development of hypotheses that are alternative answers to the research question. The third is the scope or boundaries of the research.

Research Question: The research question asks what specific information is required to achieve the research purpose. If the research question is answered by the research, then the information should aid the decision-maker. It is possible to have several research questions for a given research purpose. The researcher will always try to make the research question as specific as possible. Suppose the research question as to which customer types use the various bank services could be replaced by the following research question: What are the lifestyle and attitude profiles of the users of credit cards, automatic overdraft protection, and traveller's checks?

Development of Hypothesis: A hypothesis is a possible answer to a research question. The researcher should always take the time and effort to speculate as to possible research question answers that will emerge from the research. First, the researcher can draw on previous research efforts; in fact, it is not uncommon to conduct exploratory research to generate hypotheses for future large-scale research efforts. The second source of hypotheses is the theory from such disciplines as psychology, sociology, marketing, or economics. A third and perhaps the most important source of hypotheses is the manager's experience with related problems, coupled with knowledge of the problem situation and the use of judgment.

Scope of Research: Hypothesis development helps make the research question more precise. Another approach is to indicate the scope of the research or the research boundaries. Is the interest in the total population restricted to men, or those in South India? Is the research question concerned with the overall attitude toward the proposed new tour package, or is it necessary to learn customer attitudes about specific components of the tour package? Much of the dialogue between the researcher and the decision-maker will be about clarifying the boundaries of the study.

5.9.3 Estimate the Value of Information:

Before a research approach can be selected, it is necessary to have an estimate of the value of the information—that is, the value of obtaining answers to the research questions. Such an estimate will help determine how much, if anything, should be spent on the research.

5.9.4 Design the Research

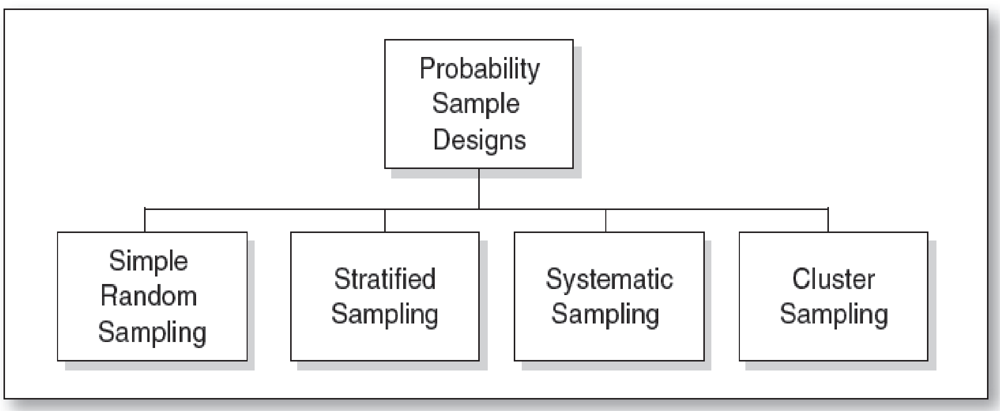
All research studies can be categorized under the following three types, which are referred to as research designs: **(1)** exploratory research, **(2)** descriptive research, and **(3)** causal research.

- **Exploratory Research:** It is defined as collecting information in an unstructured and informal manner. It is often used when little is known about the problem. Analyzing secondary data in a library or over the Internet is one of the most common ways of conducting exploratory research.
- **Descriptive Research:** Descriptive research designs refer to a set of methods and procedures that describes marketing variables. Descriptive studies portray these variables by answering who, what, why, and how questions. These types of research studies may describe such things as consumers' attitudes, intentions, and behaviours, or the number of competitors and their strategies. Although most descriptive studies are surveys in which respondents are asked questions, sometimes descriptive studies are observational studies that observe and record consumers' behaviour in such a way as to answer the problem.
- **Causal Research:** Causal Research explores the effect of one thing on another and more specifically, the effect of one variable on another. The research is used to measure what impact a specific change will have on existing norms and allows market researchers to predict hypothetical scenarios upon which a company can base its business plan. For example, if a clothing company currently sells blue denim jeans, causal research can measure the impact of the company changing the product design to the colour white. Following the research, company bosses will be able to decide whether changing the colour of the jeans to white would be profitable. To summarize, causal research is a way of seeing how actions now will affect a business in the future.

5.9.5 Sampling Plan:

A sampling plan is a detailed outline of which measurements will be taken at what times, on which material, in what manner, and by whom. Sampling plans should be designed in such a way that the resulting data will contain a representative sample. Probability sampling methods are based on probability theory, a mathematical concept based on accepted statistical principles that refer to the ability to predict the statistical likelihood that a random event will occur. Probability sampling methods require that: **(a)** every program element has a chance of being chosen (note: elements do not have to have an equal chance, only a chance), **(b)** it is possible to calculate the probability of each element being selected, and **(c)** random chance determines which elements are chosen.

Conversely, non-probability sampling methods are not based on probability theory. With these methods, samples are not chosen by random chance. These methods can include: ä obtaining a sample of subjects based on opportunity, **(a)** using your judgment to choose what you think is a representative sample of a larger population, or **(b)** basing sample selection on referrals from other samples subjects.



5.9.5.1 Probability Sampling Methods:

(a) Simple Random Sampling: Simple random sampling is a probability sampling procedure that gives every element in the target population, and each possible sample of a given size, an equal chance of being selected. There are two types of simple random sampling: sampling with replacement and sampling without replacement. In sampling with replacement, after an element has been selected from the sampling frame, it is returned to the frame and is eligible to be selected again. In sampling without replacement, after an element is selected from the sampling frame, it is removed from the population and is not returned to the sampling frame. Sampling without replacement is more common than sampling with replacement.
(b) Systematic Sampling: Systematic sampling (or interval random sampling) is a probability sampling procedure in which a random selection is made of the first

element for the sample, and then subsequent elements are selected using a fixed or systematic interval until the desired sample size is reached. At a technical level, systematic sampling does not create a truly random sample. It is often referred to as "pseudo-random sampling," "pseudo simple random sampling," or "quasi-random sampling." Systematic sampling may be classified into three major types: linear systematic sampling, circular systematic sampling, and repeated (or replicated) systematic sampling. Linear systematic sampling is the most frequently used form of systematic sampling.

For example, if the population has 1000 elements and a sample size of 100 is needed, then k would be 1000/100 = 10. If number 7 is randomly selected from the first ten elements on the list, the sample would continue down the list selecting the 7th element from each group of ten elements. Care must be taken when using systematic sampling to ensure that the original population list has not been ordered in a way that introduces any non-random factors into the sampling.

(c) Stratified Sampling: Stratified sampling is a probability sampling procedure in which the target population is first separated into mutually exclusive, homogeneous segments (strata), and then a simple random sample is selected from each segment (stratum). The samples selected from the various strata are then combined into a single sample. This sampling procedure is sometimes referred to as "quota random sampling." There are two major subtypes of stratified sampling: proportionate stratified sampling and disproportionate stratified sampling. Stratified sampling and quota sampling are somewhat similar to each other. Both involve dividing the target population into categories and then selecting a certain number of elements from each category. Both procedures have as a primary purpose the selection of a representative sample and/or the facilitation of subgroup analyses. However, there are important differences. Stratified sampling utilizes a simple random sampling once the categories are created; quota sampling utilizes availability sampling.

(d) Cluster Sampling: Cluster sampling is a probability sampling procedure in which elements of the population are randomly selected in naturally occurring groupings (clusters). In the context of cluster sampling, a "cluster" is an aggregate or intact grouping of population elements. In cluster sampling, the population that is being sampled is divided into groups called clusters. Instead of these subgroups being homogeneous based on a selected criterion as in stratified sampling, a cluster is as heterogeneous as possible to match the population. A random sample is then taken from within one or more selected clusters.

5.9.5.2 Non-Probability Sampling Methods:

(a) Convenience sampling: A sample is drawn based on opportunity. For example, the sample could include youth attending a school activity, service providers attending a conference or parents attending a school event.

(b) Haphazard Sampling: There are also other types of sampling that, while non-statistical (information about the entire population cannot be extrapolated from the sample), may still provide useful information. In haphazard sampling, samples are selected based on convenience but preferably should still be chosen as randomly as possible.

(c) Judgmental Sampling: Another non-statistical sampling method is judgmental sampling. In judgmental sampling, the person doing the sample uses his/her knowledge or experience to select the items to be sampled.

(d) Snowball sampling: Data is collected from a small group of people with special characteristics, who are then asked to identify other people like them. Data is collected from these referrals, who are also asked to identify other people like them. This process continues until a target sample size has been reached, or until additional data collection yields no new information. This method is also known as network or chain referral sampling.

5.9.5.3 Difference between Probability and Non-Probability Sampling Methods

Advantages and Disadvantages of Probability and Non-Probability Sampling Methods		
Type of Sampling Method	**Advantages**	**Disadvantages**
Probability Sampling	(a) Less prone to bias (b) Allows estimation of magnitude of sampling error, from which you can determine the statistical significance of changes /differences in indicators	(a) Requires that you have a list of all sample elements (b) More time-consuming (c) More costly (d) No advantage when small numbers of elements are to be chosen
Non Probability Sampling	(a) Less costly (b) Less time-consuming (c) Judgmentally representative samples may be preferred when small numbers of elements are to be chosen (d) More flexible	(a)Greater risk of bias (b)May not be possible to generalize to program target population (c) Subjectivity can make it difficult to measure changes in indicators over time (d) No way to assess precision or reliability of data

5.9.6 Data Collection Methods:

The data can be classified in the following three ways:

(a) Quantitative and Qualitative Data: Quantitative data are those sets of information that are quantifiable and can be expressed in some standard units like rupees, kilograms, litres, etc. Qualitative data, on the other hand, are not quantifiable, that is, cannot be expressed in standard units of measurement.

(b) Sample and Census Data: The data can be collected either by census method or sample method. Information collected through sample inquiry is called sample data and the one collected through census inquiry is called census data.

(c) Primary and Secondary Data: The primary data are collected by the investigator through a field survey. Such data are in raw form and must be refined before use. On the other hand, secondary data are extracted from the existing published or unpublished sources, that is from the data already collected by others.

Data are obtained through two types of investigations, namely, Direct Investigation which implies that the investigator collects information by observing the items of the problem under investigation. Investigation through Secondary Sources means obtaining data from the already collected data. Broadly speaking we can divide the sources of secondary data into two categories: published sources and unpublished sources. The primary data can be collected through the following methods:

a) Direct Personal Investigation
b) Indirect Oral Investigation
c) Use of Local Reports
d) Questionnaire method

5.9.7 Data Analysis:

Once data are collected, data analysis is used to give the raw data meaning. Data analysis involves entering data into computer files, inspecting the data for errors, and running tabulations and various statistical tests. Typically, data analysis is conducted with the assistance of a computerized data analysis program such as SPSS.

Data analysis is very important. In its absence, all we could do is to interpret our data in an entirely subjective way. Data analysis has the great advantage that it allows us to be as precise as possible in our interpretations of the findings we have obtained. Data analysis sometimes seems difficult, but it is a crucial ingredient in marketing research.

5.9.8 Report Writing:

The last step in the marketing research process is to prepare and present the final research report—one of the most important phases of marketing research. Its importance cannot be overstated because it is the report, or its presentation, that properly communicates the study results to the client. Sometimes researchers not only turn in a written research report but also make an oral presentation of the research methods used to conduct the study as well as the research findings to their client.

The various sections of a research report include:

- Title Page
- Table of Contents

- Executive Summary (Abstract)
- Introduction
- Method
- Results / Findings
- Discussion
- Conclusion
- Recommendation
- Glossary
- References/Bibliography
- Appendix

5.10 Marketing Research in Small Businesses and Nonprofit Organizations:

Marketing research does not only occur in huge corporations with many employees and a large budget. Marketing information can be derived by observing the environment of their location and the competitions location. Small scale surveys and focus groups are low-cost ways to gather information from potential and existing customers. Most secondary data (statistics, demographics, etc.) is available to the public in libraries or on the internet and can be easily accessed by a small business owner.

Below are some steps that could be done by SMEs (Small Medium Enterprises) to analyze the market:

- Provide secondary and or primary data (if necessary);
- Analyze Macro & Micro Economic data (e.g. Supply & Demand, GDP, Price change, Economic growth, Sales by sector/industries, interest rate, number of investment/ divestment, I/O, CPI, Social analysis, etc.);
- Implement the marketing mix concept, which is consist of: Place, Price, Product, Promotion, People, Process, Physical Evidence and also Political & social situation to analyze global market situation);
- Analyze market trends, growth, market size, market share, market competition (e.g. SWOT analysis, B/C Analysis, channel mapping identities of key channels, drivers of customers loyalty and satisfaction, brand perception, satisfaction levels, current competitor-channel relationship analysis, etc.), etc.;
- Determine market segment, market target, market forecast and market position;
- Formulating market strategy & also investigating the possibility of partnership/ collaboration (e.g. Profiling & SWOT analysis of potential partners, evaluating business partnership.)

Combine that analysis with the SME's business plan/ business model analysis (e.g. Business description, Business process, Business strategy, Revenue model, Business expansion, Return of Investment, Financial analysis (Company History, Financial assumption, Cost/Benefit Analysis, Projected Profit & Loss, Cashflow, Balance sheet & business Ratio, etc.).

5.11 Role of Marketing Research (MR):

The task of marketing research (MR) is to provide management with relevant, accurate, reliable, valid, and current information. The competitive marketing environment and the ever-increasing costs attributed to poor decision making require that marketing research provide sound information. Sound decisions are not based on gut feeling, intuition, or even pure judgment. Marketing managers make numerous strategic and tactical decisions in the process of identifying and satisfying customer needs. They make decisions about potential opportunities, target market selection, market segmentation, planning and implementing marketing programs, marketing performance, and control. These decisions are complicated by interactions between the controllable marketing variables of product, pricing, promotion, and distribution.

Further complications are added by uncontrollable environmental factors such as general economic conditions, technology, public policies and laws, political environment, competition, and social and cultural changes. Another factor in this mix is the complexity of consumers. Marketing research helps the marketing manager link the marketing variables with the environment and the consumers. It helps remove some of the uncertainty by providing relevant information about the marketing variables, environment, and consumers. In the absence of relevant information, consumers' responses to marketing programs cannot be predicted reliably or accurately. Ongoing marketing research programs provide information on controllable and non-controllable factors and consumers; this information enhances the effectiveness of decisions made by marketing managers.

Traditionally, marketing researchers were responsible for providing the relevant information and marketing decisions were made by the managers. However, the roles are changing and marketing researchers are becoming more involved in decision making, whereas marketing managers are becoming more involved with research.

5.12 Summary:

Marketing information systems are intended to support management decision making. Management has five distinct functions and each requires support from an MIS. These are planning, organizing, coordinating, decisions and controlling. Information systems have to be designed to meet how managers tend to work. Research suggests that a manager continually addresses a large variety of tasks and can spend relatively brief periods on each of these. Given the nature of the work, managers tend to rely upon information that is timely and verbal (because this can be assimilated quickly), even if this is likely to be less accurate than more formal and complex information systems.

Managers play at least three separate roles: interpersonal, informational and decisional. MIS, in electronic form or otherwise, can support these roles in varying degrees. MIS has less to contribute in the case of a manager's informational role than for the other two.

Three levels of decision making can be distinguished from one another: strategic, control (or tactical) and operational. Again, MIS has to support each level. Strategic decisions are characteristically one-off situations. Strategic decisions have implications for changing the structure of an organization and therefore the MIS must provide information that is precise and accurate. Control decisions deal with broad policy issues and operational decisions concern the management of the organization’s marketing mix. A marketing information system has four components: the internal reporting system, the marketing research system, the marketing intelligence system and marketing models. Internal reports include orders received, inventory records and sales invoices. Marketing research takes the form of purposeful studies either ad hoc or continuous. By contrast, marketing intelligence is less specific in its purposes, is chiefly carried out informally and by managers themselves rather than by professional marketing researchers.

Marketing research is "the function that links the consumers, customers, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. With the help of this model, marketing research is undertaken to understand a marketing problem better. Effective marketing research involves the following steps:

- Defining the problem and research objectives
- Developing the research plan
- Collecting the information
- Analysing the information
- Presenting the findings.

5.13 References:

- Marketing Research: Text and Cases- H.W. Boyd. Ralph Westfall and S.F. Stasch. Homewood, Lllinois, Richard D. Irwin Inc.,
- Basic Marketing Research - Gilbert A. Churchill (Jr.) Hinsdale, Illinois, Dryden Press, Handbook of Marketing Research - Rober Ferber (Ed.) New York, McGraw Hill.
- Research for Marketing Decisions- Paul E. Green and Donald S. Tull. Englewood Cliffs N.J. Prentice-Hall. Inc.,

- Marketing Research: Applications and Problems - Arun K. Jain, Christian Pinson and Brian T. Rachford, New York, Wiley,.
- Marketing Research: An Applied Approach Thomas C. Kroner and James R. Taylor, Singapore, McGraw Hill.
- Marketing Research: Text, Applications and Case Studies - Ramanuj Majuntdar, New Delhi, Wiley, 1990.
- Marketing Research: Information Systems and Decision Making- Bertrem Schoner and K.P. Uhl, New York, Wiley.
- Marketing Research: Meaning, Measurements and Methods-D.S. Tull and D.I. Hawkings New York: Macmillan.
- Marketing Research: Fundamentals and Dynamics - Cerald Zaltman and P. S. Berger. Hinsdale, Dryden Press.

5.14 Terminal Questions:

- Name the four components of an MIS.
- What were the functions of management that Henry Fayol identified?
- To which management role does the textbook suggest MIS has the least to contribute?
- What are the 3 levels of decision making outlined in this chapter?
- According to Kotler, what are the contributing elements to an MIS?
- Which elements of the marketing environment are mentioned in the chapter?
- What differences are there between marketing research and marketing intelligence?
- What are the similarities and differences between stratified sampling and quota sampling?
- What are the principal differences and similarities between the major categories of probability sampling: simple random sampling, systematic sampling, stratified sampling, and cluster sampling?
- Discuss in detail the research process. Also, highlight what are the precautions to be taken while designing the research.
- What are the steps in the marketing research process?
- Use an example to illustrate that the steps in the marketing research process are not always taken in sequence.
- Explain why firms may not need marketing research.
- Why is defining the problem the most important step in the marketing research process?
- Explain why research objectives differ from the definition of the problem.
- What are the three types of research that constitute research design?
- Which part of the research process ensures that the sample is representative?

Unit-6
Measuring /Forecasting Market Demand

Structure:

6.1 Introduction:

From your study of the previous chapters, you have seen that marketing management continually scans the marketing environment for signs of opportunities and threats. It is not only the present market potential that is important and gives an indication of opportunities, but the firm must also be interested in market forecasts. As discussed in earlier chapters, the firm wants to survive in the long term and achieve its primary goal being to maximise profitability. Consequently, market forecasting is also a very important aid for decision making by marketing management. Measuring and forecasting demand requires an analysis of the market to express it in quantitative (numeric) quantities both present and the future. The quantitative measurement and forecasting of the market, together with its qualitative characteristics, are used as a basis for decision making by marketing management. Market measurement and forecasting can be seen as a sub-division of market research which was discussed in the previous chapter.

Forecasting can be described as predicting what the future will look like, whereas planning predicts what the future should look like. Forecasting is one of the critical activities of any manager. In the hospitality industry, managers are expected to forecast revenue streams for both immediate and long-term needs. Some of the simple applications of forecasting include forecasting of revenues to schedule employees; forecasting of revenues to plan food and supply orders; forecasting of revenues to correspond with marketing efforts, etc. Forecasting can be accomplished by using sophisticated quantitative models or qualitative and intuitive managerial decisions. The choice depends on the complexity of the organization and the importance of the forecasting decision.

6.2 Objectives:

After studying this unit, you should be able to:

1. Understand the concept of demand forecasting
2. Understand demand measurement terminology
3. Know the methods of estimating current demand
4. Know the methods of estimating future demand
5. Understand the importance of demand forecasting
6. Recall the process of demand forecasting and types of forecasts

6.3 Importance of Market Measurement and Forecasting:

Forecasting product demand is crucial to any supplier, manufacturer, or retailer. Forecasts of future demand will determine the quantities that should be purchased, produced, and shipped. Demand forecasts are necessary since the basic operations process, moving from the suppliers' raw materials to finished goods in the customers' hands, takes time. Most firms cannot simply wait for demand to emerge and then react to it. Instead, they must anticipate and plan for future demand so that they can react immediately to customer orders as they occur. In other words, most manufacturers "make to stock" rather than "make to order"– they plan ahead and then deploy inventories of finished goods into field locations. Thus, once a customer order materializes, it can be fulfilled immediately– since most customers are not willing to wait the time it would take to process their order throughout the supply chain and make the product based on their order. An order cycle could take weeks or months to go back through part suppliers and sub-assemblers, through the manufacture of the product, and through to the eventual shipment of the order to the customer. The ability to accurately forecast demand also affords the firm opportunities to control costs through levelling its production quantities, rationalizing its transportation, and generally planning for efficient logistics operations. In general practice, accurate demand forecasts lead to efficient operations and high levels of customer service, while inaccurate forecasts will inevitably lead to inefficient, high-cost operations and/or poor levels of customer service. The main goal of market measurement and forecasting is to serve as an aid in the decisions that marketing management has to make.

6.4 Key Concepts of Market Measurement and Forecasting:

Market Demand: The first step in evaluating marketing opportunities is to estimate the total market demand. Market demand for a product is the total volume that would be brought by a defined customer group in a defined geographical area in a defined period in a defined marketing environment under a defined marketing program. In other words, the market demand is a function of stated conditions and therefore is generally known as a market demand function

Market Potential: You have probably often heard of the concept "market potential". In marketing terms, this means the maximum potential demand for a certain product in a specific market as a whole. In other words market potential is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. The market potential is relevant to a specific geographical area, a specific time, specific types of products, a specific market segment, and is expressed in terms of all of these.

Company Demand: It is the company's estimated share of market demand at alternate levels of the company's marketing effort in a given period. It depends on how the company's products, services, prices and communication are perceived relative to the competitor's.

Sales Potential: Another concept that is used is "sales potential", which pertains to the maximum demand for a firm's product. The company sales potential is the sales limit approached by company demand as company marketing effort increases relative to that of competitors. Sales potential, however, does not pertain to the types of products a firm deals with, but a specific product (brand) of the firm.

Potential market share: It is the difference between market potential and sales potential and gives an indication of which part of the potential market the firm expects to gain.

Market potential, sales potential and potential market share can pertain either to the present and/or the future. A firm strives to enjoy its sales potential to the full. Market measurement and forecasting, however, are not only relevant to potential demand but also to present and future sales. The actual sales of a type of product in a specific area, period and market segment can also be called the effective demand. The market share of one of a firm's products is calculated by the ratio of the actual sales of the product concerned to the actual sales in terms of that type of product. This ratio is expressed as a percentage.

You have now learned the meaning of a few elementary concepts in terms of market measurement and forecasting. The marketer can compare these measurements to each other to gain insight into an important indicator of the success of the market offering concerning other firms, the total market and the market potential.

6.5 Process of Market Measurement and Forecasting:

The measurement and forecasting of demand must be approached in a systematic and planned fashion to obtain the best value. Several steps can be mentioned for approaching market measurement and forecasting.

(a) Describe the problem and information needs: The information comes at a cost and the process of gathering information is expensive. It is therefore suggested that this step must be very carefully planned. The problem about which information should be gathered must be very clearly defined. Definition of the problem will determine which information must be acquired so that only relevant data is gathered.

(b) Gathering relevant information: Gathering information serves a dual purpose. Firstly, it provides sufficient data for the information need that is required to solve a problem, and secondly, it serves as a basis for the choice of particular methods of measurement and/or forecasting that are to be used.

(c) Selecting the methods of market measurement and forecasting: The choice of measurement and forecasting methods begins with the evaluation of the data that has been gathered. There must be sufficient data of the right quality to provide a satisfactory answer to the problem employing existing methods of analysis. Thereafter a suitable method can be selected by comparing the information needed and the abilities of the methods to meet the needs.

The method is selected by taking the following factors into account:

- The nature and availability of data. Is there sufficient data of the right nature that can be processed with the help of the specific method? What pattern does the data follow? Certain methods of forecasting can only handle some data patterns effectively. The accuracy that is required for decision making is influenced by the choice of methods, as some methods supply a much more accurate answer than others.
- Costs play a role here, in the same way as they do in most business activities. Just as in the case of marketing research, the costs involved in the chosen method must be weighed up against the accuracy and importance of the required information. Some methods can deliver very reliable information but at extra cost and time.
- Careful consideration is necessary for deciding whether the period needed for measurement or forecasting will provide the desired result. Furthermore, the application of certain methods takes much more time than others.

Application: The results must be useful to the people who have to base their decisions thereon. This means that the results must be of a nature that will enable these people to interpret and understand them effectively.

(d) Execution and evaluation:

Once suitable methods have been selected, processing of the information can begin. The results of measuring and forecasting must be evaluated for their accuracy so that corrections can be made in the future. Market forecasting pertains to the long term and unpredictable changes are likely to necessitate an adaptation of the results.

6.6 Types /Methods of Forecasting:

One way of classifying forecasting problems is to consider the timescale involved in the forecast i.e. how far forward into the future we are trying to forecast. Short, medium and long-term are the usual categories but the actual meaning of each will vary according to the situation that is being studied, e.g. in forecasting energy demand to construct power stations 5-10 years would be short-term and 50 years would be long-term, whilst in forecasting consumer demand in many business situations up to 6 months would be short-term and over a couple of years long-term. The table below shows the timescale associated with business decisions.

The basic reason for the above classification is that different forecasting methods apply in each situation, e.g. a forecasting method that is appropriate for forecasting sales next month (a short-term forecast) would probably be an inappropriate method for forecasting sales in five years (a long-term forecast). In particular note here that the use of numbers (data) to which quantitative techniques are applied typically varies from very high for short-term forecasting to very low for long-term forecasting when we are dealing with business situations.

No.	Timescale	Type of Decision	Examples
1.	Short-term Up to 3-6 months	Operating Production planning	Inventory control distribution
2.	Medium-term 3-6 months - 2 years	Tactical Employment changes	Leasing types of equipment
3.	Long-term Above 2 years	Strategic Acquisitions and mergers	Research and development Product changes

All forecasting methods can be divided into two broad categories: qualitative and quantitative. Many forecasting techniques use past or historical data in the form of time series. A time series is simply a set of observations measured at successive points in time or over successive periods. Forecasts essentially provide future values of the time series on a specific variable such as sales volume. Division of forecasting methods into qualitative and quantitative categories is based on the availability of historical time series data.

6.6.1 Qualitative Forecasting Methods:

Qualitative forecasting techniques generally employ the judgment of experts to generate forecasts. A key advantage of these procedures is that they can be applied in situations where historical data are simply not available. Moreover, even when historical data are available, significant changes in environmental conditions affecting the relevant time series may make the use of past data irrelevant and questionable in forecasting future values of the time series. Qualitative forecasting methods offer a way to generate forecasts in such cases. Three important qualitative forecasting methods are the Delphi technique, scenario writing, and the subjective approach.

(a) Delphi Technique: In the Delphi technique, an attempt is made to develop forecasts through "group consensus." Usually, a panel of experienced people are asked to respond to a series of questionnaires. These people, who should ideally come from a variety of backgrounds (marketing, production, management, finance, purchasing, etc.) are asked to respond to an initial questionnaire. Sometimes, a second questionnaire that incorporates information and opinions of the whole group is distributed for further discussion or study. Each expert is asked to reconsider and revise his or her initial response to the questions. This process is continued until some degree of consensus among experts is reached. It should be noted that the objective of the Delphi technique is not to produce a single answer at the end. Instead, it attempts to produce a relatively narrow spread of opinions—the range in which opinions of the majority of experts lie.

(b) Scenario Writing Approach: Under the scenario writing approach, the forecaster starts with different sets of assumptions. For each set of assumptions, a likely scenario of the business outcome is charted out. Thus, the forecaster generates several different future scenarios (corresponding to the different sets of assumptions). The decision-maker or business person is presented with the different scenarios and has to decide which scenario is most likely to prevail.

(c) Subjective Approach: The subjective approach allows individuals participating in the forecasting decision to arrive at a forecast based on their feelings, ideas, and personal experiences. Many corporations across the world have started to increasingly use the subjective approach. Internally, these subjective approaches sometimes take the form of "brainstorming sessions," in which managers, executives, and employees work together to develop new ideas or to solve complex problems. At other times, the subjective approach may take the form of a survey of the company's salespeople. The advantage of using the salespeople's forecasts is that (in theory) salespeople are most qualified to explain the demand for products, especially in their territories. The disadvantage is that salespeople may tend to be optimistic in their estimates if they believe that a low estimate might lead to the loss of their job.

(d) Judgemental Approach: The essence of the judgmental approach is to address the forecasting issue by assuming that someone else knows and can tell you the right answer. That is, in a judgment-based technique we gather the knowledge and opinions of people who are in a position to know what demand will be. For example, we might survey the customer base to estimate what our sales will be next month.

6.6.2 Quantitative Forecasting Methods:

Quantitative forecasting methods are used when historical data on variables of interest are available—these methods are based on an analysis of historical data concerning the time series of the specific variable of interest. There are two major categories of quantitative forecasting methods. The first type uses the past trend of a particular variable to make a future forecast of the variable. In recognition of this method's reliance on time series of past data of the variable that is being forecasted, it is commonly called the "time series method." The second category of quantitative forecasting techniques also uses historical data. But in forecasting future values of a variable, the forecaster examines the cause-and-effect relationships of the variable with other relevant variables such as the level of consumer confidence, changes in consumers' disposable incomes, the interest rate at which consumers can finance their spending through borrowing, and the state of the economy represented by such variables as the unemployment rate. Forecasting techniques falling under this category are called causal methods since such forecasting is predicated on the cause-and-effect relationship between the variable forecasted and the other selected elements. The various quantitative approaches are:

(a) Experimental Approach: One of the approaches to demand forecasting is through the use of experiments. When an item is "new" and when there is no other information upon which to base a forecast is to conduct a demanding experiment on a small group of customers and extrapolate the results to a larger population. For example, firms will often test a new consumer product in a geographically isolated "test market" to establish its probable market share. This experience is then extrapolated to the national market to plan the new product launch. Experimental approaches are very useful and necessary for new products, but for existing products that have an accumulated historical demand record, it seems intuitive that demand forecasts should somehow be based on this demand experience.

Customer Surveys are sometimes conducted over the telephone or on street corners, at shopping malls, and so forth. Consumer Panels are also used in the early phases of product development. Here a small group of potential customers are brought together in a room where they can use the product and discuss it among themselves. Test Marketing is often employed after new product development but before a full-scale national launch of a new brand or product. The idea is to choose a relatively small, reasonably isolated, yet somehow demographically "typical" market area. Scanner Panel Data procedures have recently been developed that permit demand experimentation on existing brands and products. In these procedures, a large set of household customers agrees to participate in an ongoing study of their grocery buying habits.

(b) Relational/Causal Approach: The assumption behind a causal or relational forecast is that simply put, there is a reason why people buy our product. If we can understand what that reason (or set of reasons) is, we can use that understanding to develop a demand forecast. For example, if we sell umbrellas at a sidewalk stand, we would probably notice that daily demand is strongly correlated to the weather– we sell more umbrellas when it rains. Once we have established this relationship, a good weather forecast will help us order enough umbrellas to meet the expected demand.

Various advanced mathematical and statistical procedures are used to develop and test these explanatory relationships and to generate forecasts from them. Causal methods include the following **(a)** Econometric models, such as discrete choice models and multiple regression. **(b)** Input-output models estimate the flow of goods between markets and industries. **(c)** Life cycle models look at the various stages in a product's "life" as it is launched, matures, and phases out. These techniques examine the nature of the consumers who buy the product at various stages ("early adopters," "mainstream buyers," "laggards," etc.) to help determine product life cycle trends in the demand pattern and **(d)** Simulation models which are used to model the flows of components into manufacturing plants based on production schedules and the flow of finished goods throughout distribution networks to meet customer demand.

(c) Time-Series Approach: A time series procedure is fundamentally different from the first two approaches we have discussed. In a pure time series technique, no judgement expertise or opinion is sought. We do not look for "causes" or relationships or factors which somehow "drive" demand. We do not test items or experiment with customers. By their nature, time series procedures are applied to demand data that are longitudinal rather than cross-sectional. That is, the demand data represent the experience that is repeated over time rather than across items or locations. The essence of the approach is to recognize (or assume) that demand occurs over time in patterns that repeat themselves, at least approximately. If we can describe these general patterns or tendencies, without regard to their "causes", we can use this description to form the basis of a forecast.

In one sense, all forecasting procedures involve the analysis of historical experience into patterns and the projection of those patterns into the future in the belief that the future will somehow resemble the past. The differences in the four approaches are in the way this "search for pattern" is conducted. Judgmental approaches rely on the subjective, ad-hoc analyses of external individuals. Experimental tools extrapolate results from small numbers of customers to large populations. Causal methods search for reasons for demand. Time-series techniques simply analyze the demand data themselves to identify temporal patterns that emerge and persist.

6.7 Recent Developments in Tourism Demand Modeling and Forecasting:

The increasing interest in tourism demand studies has been motivated by the rapid growth of the tourism industry across the globe since the ending of World War II. The last four decades have seen great developments in tourism demand analysis, in terms of the diversity of research interests, the depth of theoretical foundations, and advances in research methodologies. Modelling tourism demand to analyze the effects of various determinants, and accurate forecasting of future tourism demand, are two major focuses of tourism demand studies.

The developments in tourism forecasting methodologies fall into two categories: quantitative and qualitative methods. The latest quantitative forecasting literature is dominated by three sub-categories of methods: non-causal time-series models, the casual econometric approaches and other emerging methods such as Artificial Intelligent (AI) techniques. The difference between the first two categories is whether the forecasting model identifies any causal relationship between the tourism demand variable and its influencing variables. Emerged as a new forecasting stream in tourism literature, AI uses techniques derived from rule-based and logic programming systems, with its current interests being focused on less precise heuristic methods, notably genetic algorithms, fuzzy logic, artificial neural networks and support vector machines. The empirical research on qualitative forecasting in the tourism field is very limited.

The Delphi method of forecasting is the qualitative forecasting that has attracted the most attention in the tourism literature, which also becomes increasingly popular among forecasters and practitioners. This method seeks to combine the knowledge and experience of a selected group of "experts" in the tourism field to form a consensus about the likely occurrence of specific future events and the probability that these events will take place within specified periods. Other qualitative forecasting tools, such as risk assessment, historical research, and scenarios design are also used to deal with different types of future projections (i.e., economic crisis, disasters, etc.).

6.8 Summary:

Forecasting is the process of making statements about events whose actual outcomes (typically) have not yet been observed. A commonplace example might be estimation for some variable of interest at some specified future date. Prediction is a similar, but more general term. Both might refer to formal statistical methods employing time series, cross-sectional or longitudinal data, or to less formal judgemental methods. In any case, the data must be up to date for the forecast to be as accurate as possible. Usage can differ between areas of application: for example in hydrology, the terms "forecast" and "forecasting" are sometimes reserved for estimates of values at certain specific future times, while the term "prediction" is used for more general estimates, such as the number of times floods will occur over a long period.

One way of classifying forecasting problems is to consider the timescale involved in the forecast i.e. how far forward into the future we are trying to forecast. Short, medium and long-term are the usual categories but the actual meaning of each will vary according to the situation that is being studied, e.g. in forecasting energy demand to construct power stations 5-10 years would be short-term and 50 years would be long-term, whilst in forecasting consumer demand in many business situations up to 6 months would be short-term and over a couple of years long-term. The table below shows the timescale associated with business decisions. All forecasting methods can be divided into two broad categories: qualitative and quantitative. Many forecasting techniques use past or historical data in the form of time series. A time series is simply a set of observations measured at successive points in time or over successive periods. Forecasts essentially provide future values of the time series on a specific variable such as sales volume. Division of forecasting methods into qualitative and quantitative categories is based on the availability of historical time series data.

The developments in tourism forecasting methodologies fall into two categories: quantitative and qualitative methods. The latest quantitative forecasting literature is dominated by three sub-categories of methods: non-causal time-series models, the casual econometric approaches and other emerging methods such as Artificial Intelligent (AI) techniques. The difference between the first two categories is whether the forecasting model identifies any causal relationship between the tourism demand variable and its influencing variables. Emerged as a new forecasting stream in tourism literature, AI uses techniques derived from rule-based and logic programming systems, with its current interests being focused on less precise heuristic methods, notably genetic algorithms, fuzzy logic, artificial neural networks and support vector machines. The empirical research on qualitative forecasting in the tourism field is very limited.

6.9 References/Bibliography:

- Cooper, C. (2005). Tourism: Principles and Practice, Pearson Education,
- Frechtling, D. C. (2001), Forecasting Tourism Demand: Methods and Strategies, Butterworth-Heinemann Publishing: UK.
- Goeldner, C. R. and Ritchie, J. R. B. (2006), Tourism – Principles, Practices, Philosophies, John Wiley & Sons, Inc., New Jersey, USA.
- Kotler, P., Bowen, J. T., and Makens, J. C. (2006), Marketing for Hospitality and Tourism, Pearson Education, UK.
- Song, H., and Witt, S. F. (2000), Tourism Demand Modelling and Forecasting, Pergamon: UK.
- Tsiotsou, R. and Goldsmith, R. E. (2012), Strategic Marketing in Tourism Services, Emerald Group Publishing Limited, United Kingdom.
- Zeithaml, V. A., Bitner, M. J., and Gremler, D. (2008), Services Marketing, McGraw Hill, St. Louis.
- Tourism Demand Modelling and Forecasting: Modern Econometric Approaches, Haiyan Song, Stephen F. Witt, Pergamon, 2000

6.10 Terminal and Model Questions:

- Why is it important to measure and forecast demand?
- Differentiate between qualitative and quantitative approaches to forecast demand.
- What is the difference between market demand and market potential?
- Explain how the Delphi approach can be used to forecast the demand.
- What are the characteristics of the time series approach to forecasting?
- Write short notes on tourism demand modelling.

Unit-7
Analysis of Consumer Buying Behaviour

Structure:

7.1 Introduction:

Every day, each of us makes numerous decisions concerning every aspect of our daily lives. However, we generally make these decisions without stopping to think about how we make them and what is involved in the particular decision-making process itself. In the most general terms, a decision is the selection of an option from two or more choices. In other words, for a person to make a decision, a choice of alternatives must be available. When a person has a choice between making, purchase and not making a purchase, a choice between brand X and Y, or a choice of spending time doing A, that person is in a position to make a decision. On the other hand, if the consumer has no alternatives from which to choose and is forced to make a particular purchase or take a particular action(e.g. use a prescribed medication) then this single, “no-choice” instance does not constitute a decision; such a no-choice decision is commonly referred to as a “Hobson’s choice”

This chapter draws together many of the psychological, social and cultural concepts developed through the book into an overview framework for understanding how consumers make decisions. This chapter also considers consumers’ decisions not as the endpoint but rather as the beginning point of a consumption process.

The personal consumer buys goods and services for his or her use, for the use of the household or as a gift for a friend. Thus the personal consumer may also be referred to as 'end user' or ultimate user because he is buying not for selling again. The organisational consumer comprises profit and non-profit businesses, government agencies and institutions all of which buys to sell their final product.

The ‘consumer decision making, which will be studied in detail in the present chapter will be confined only to the first category i.e. decision making by personal consumers. In this context ‘consumer decision making’ may be defined as the process of selecting a product/service to buy from two or more choices by a personal consumer. Hobson's choice or 'no choice decision is beyond the scope of the study of ‘consumer decision making.

7.2 Objectives:

Upon completion of the lesson the students should be able to understand:

1. To know the dynamics of the consumer decision-making process.
2. To compare and contrast the economic, passive, cognitive and emotional models of consumer decision making.
3. To understand the various stages of the consumer decision-making process with the help of an example.

4. To get themselves acquainted with the reasons behind the gap which exists between existing consumer position and desired consumer position in the need recognition stage of the consumer decision-making process

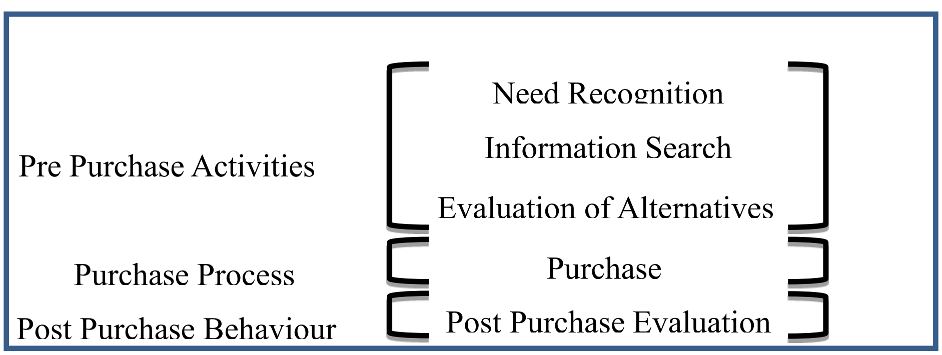
7.3 Consumer Decision Making Process:

The present world of liberalisation, privatisation and globalisation perhaps has complicated the consumers' decision making. It is so because the choices are now wide and divergent in the present buyers' markers. The consumer purchase decision generally revolves around four decision categories. These are:

- **Basic Purchase or Consumption Decisions:** It signifies whether to purchase or not a product or service.
- **Brand Purchase or Consumption Decisions:** It signifies which brand to -purchase out of available brands.
- **Channel Purchase Decisions:** It signifies from which store to purchase out of available stores.
- **Payment Purchase Decisions:** It signifies whether to purchase with cash or with a credit card, whether to pay the bill in full or purchase in instalments.

The consumer decision-making process, which comprises the above-mentioned decision categories, is explained with the help of figure-1.
Figure-1 makes it clear that there are five stages in the consumer decision-making process which can be clubbed into three broad activities i.e. pre-purchase activities, purchase activities and post-purchase activities. A detailed discussion of these five stages follows:

Fig.-1: Consumer Decision Making Process

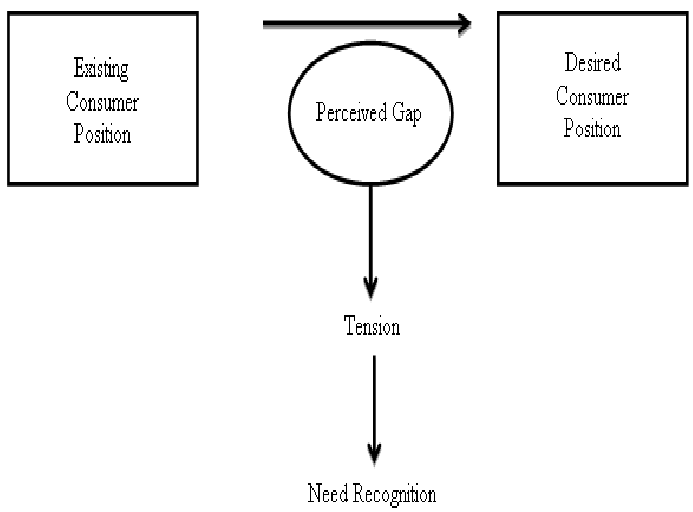


7.3.1 Need Recognition:

The first stage in the consumer decision-making process i.e., the need recognition stage is considered to be very important because it provides an initial clue about why a buyer buys what he or she intends to. The marketers themselves try to induce needs for their products or services. The need arises because consumers want to switch over from their existing position to the desired position. Why and how a need is recognized is explained with the help of fig.-2.

Figure-2 makes it clear that consumers prefer switching over to the desired position from the existing position. This perceived gap leads to tension and hence need recognition. The question which assumes significance at this stage is why there exists an above-mentioned perceived gap. The said gap exists because of the following reasons:

Figure-2: Need Recognition



Marketing Efforts by the Companies:

The firm's marketing activities are a direct attempt to teach, inform and "persuade consumers to buy and use its products. For example, Maggi initially came out with 2 minutes appeal. Many consumers recognised the need for something which can be prepared immediately and can be replaced with traditional foodstuff. Thus such marketing efforts consisting of mass-media advertising, direct marketing personal selling etc. can lead to needing recognition by the potential consumers.

- **Socio-Cultural Environment**– Socio-cultural environment also exerts a major influence on the consumer. Socio-cultural inputs consist of non-marketing influences such as editorial comments, family influences, comments of a friend etc. Such factors go a long way in the problem/need recognition of the consumers.
- **Stock-Out**- Stock out of a product/service at present also leads to needing recognition because it paves the way for recognizing alternative products/services which can satisfy existing needs.

- **Dissatisfaction with the present stock**- If the present stock is not serving the consumers need properly the need for new stock starts emerging.
- **Decrease/Enhancement in Funds**- It also paves the way for recognition of needs because the consumers may find existing alternatives too expensive or less lucrative.

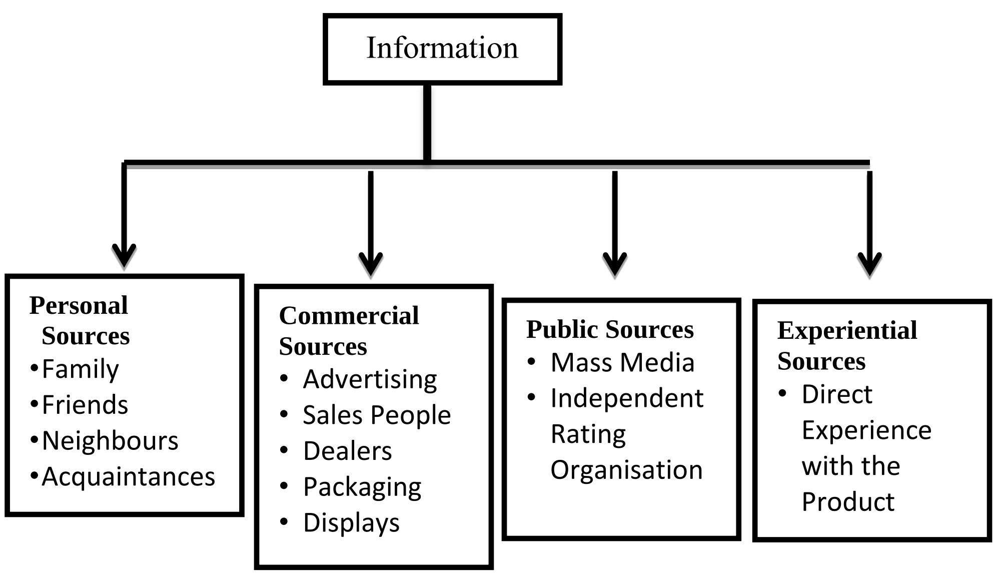
In nutshell, it can be said that marketing and non-marketing stimuli can go a long way in need recognition of potential customers. Need recognition is the outcome of a perceived gap between existing consumer position and desired consumer position. Once the need is recognised by the potential buyer the stage is set for information search by him.

7.3.2 Information Search:

An aroused consumer undertakes an information search related to the need. The consumer can obtain information from any of the several sources. The prominent sources generally used by the consumers are explained with the help of figure-3.

Figures-3 points out the prominent sources generally used by consumers while searching for information. The question that one may raise is which of the above-mentioned sources is most influential. The general opinion is that maximum information is given by commercial sources through advertising and other mediums. However, more reliable is the information given by personal sources and public sources. Direct experience with the product on a limited basis may remove the doubt, if any, from the minds of the consumers. However, the most influencing source varies from consumer to consumer and product to product.

Fig.-3: Information Sources



Marketers should try not to 'overload' the potential consumers with information. In their effort to influence consumers the marketers have generally the tendency of overloading the consumers with too much unnecessary information. The concept of information overload cautions marketers against the popular assumption that: 'if some information is good more information must be better.

7.3.3 Evaluation of Alternatives:

Information search leads consumers to a stage where a set of brand choices will emerge from evaluation. A critical aspect of alternatives' evaluation is a decision on how many brand alternatives will engage the consideration of consumers. Figure 4 further makes it clear.

Fig.-4: Evaluation of Alternatives

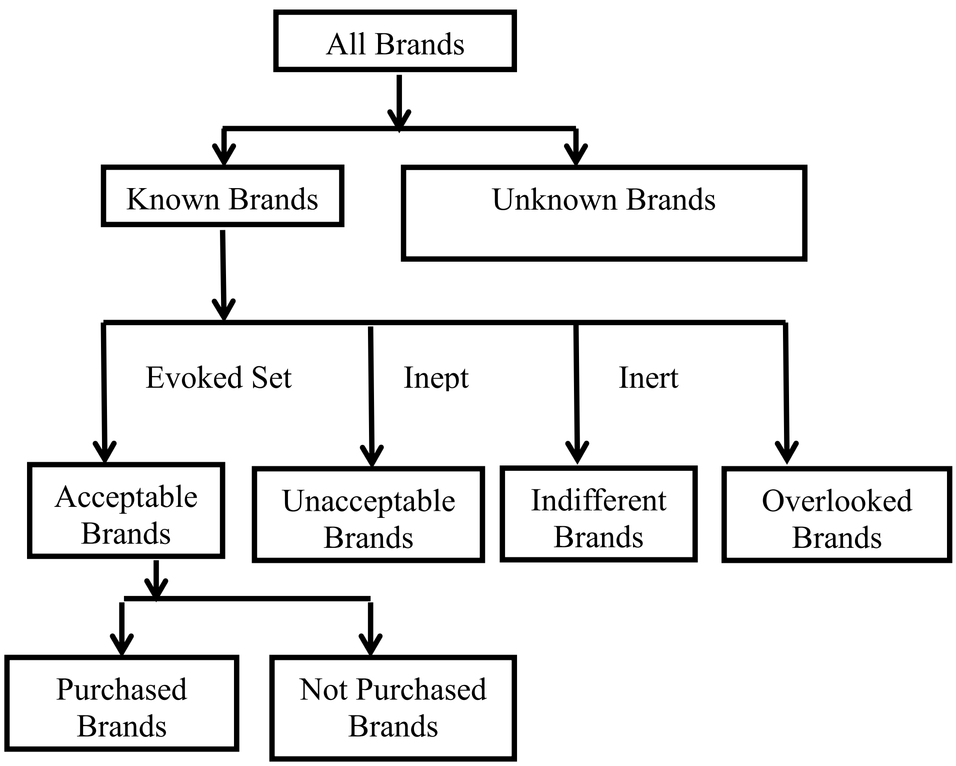


Figure-4 makes it clear that out of all the available brands only some brands are known to the potential consumers. Even in known brands, only a few are acceptable to consumers. Out of acceptable only one or a few are finally purchased. Following key terms deserves a more detailed discussion here:

Evoked Set: The evoked set (also called consideration set) refers to the specific brands consumer considers in making a purchase choice in the particular product category. For ex-Zen, Indica and Santro while planning to purchase a car.

Inept Set: Inept set consists of the brands which the consumers exclude from purchase consideration.

Inert Set: Inert set consists of the brands the consumer is indifferent toward because they are perceived as not having any particular advantages.

The aim of all the marketers should be that their product must find a place in the 'evoked set' of consumers. If this is not the case there is all the likelihood that it may not fall in the alternatives that the potential consumer is considering for the final purchase. The implication for the marketer is that promotional techniques should be designed to impart a more favourable product image to the target consumers. There are certain decision rules of consumers which help him in evaluating the various available alternatives. In general, there are five decision rules:

(i) Compensatory Rule
(ii) Conjunctive Rule
(iii) Disjunctive Rule
(iv) Lexicographic Rule; and
(v) Affect Referral Rule

Fig.-5: Product Attributes in Certain Product

Car	Colour TVs	Cellular Phone
• Milege • Price • Driving Comfort • Seating Capacity • Accessories • Resale Value	• Picture Quality • Price • Screen Size • Warranty • Number of Channels	• Price • Services like roaming SMS • Reach

Before discussing these decision rules we may take into consideration some product categories having certain attributes which can be used as a purchase criterion.

Considering these product categories we will discuss all the above-mentioned decision rules:

- **Compensatory Rule:** In this rule consumer rates all the attributes of different brands of a product category. For example, In the case of cars, he may rate all the available brands like Zen, Santro and Indica on all the attributes like mileage, price, resale value etc. Whichever brand is scoring maximum will finally be selected.
- **Conjunctive Rule:** In the conjunctive rule, the consumer establishes a separate, minimum acceptable level a cut-off point for each attribute. If any brand falls below the cut off point on any attribute that brand is not further taken into consideration. For

example, In our case of cars suppose the minimum cut off point is 6 out of 10 and on price factor one brand is scoring 5 then that brand will not be taken into further consideration irrespective of the fact that the brand has scored more than 6 on all other attributes.

- **Disjunctive Rule:** Like in conjunctive rule the minimum cut off point is also fixed. However, this cut off point is usually higher than that in the conjunctive rule. If any attribute of a brand can achieve that cut-off limit the brand is accepted. For example, the cut-off limit kept is 8. If on any attribute, the brand is scoring more than 8 the brand is selected irrespective of the fact that on other attributes the brand has not scored 8 points. Thus the disjunctive rule is the mirror image of the conjunctive rule.
- **Lexicographic Rule:** In the Lexicographic rule the consumer first ranks the attributes in terms of perceived importance. The consumer then compares all the available brands on that single attribute. The brand which scores maximum on that attribute is selected. If two brands have the same score on that attribute, a second most important attribute is taken into consideration and the process is repeated. For example, suppose the most important attribute for a consumer while choosing a car is price. He will compare all the available brands on price and will select the cheapest one. If the two cars are priced at the same level second most important attribute is considered.
- **Affect Referral Rule:** This is the simplest of all the rules and the consumer simply selects the brand with the highest perceived overall rating. Marketers need to keep an eye on the decision rules the consumers apply in selecting a product or service. The promotional^ message can be prepared in a format that would facilitate consumer information processing.

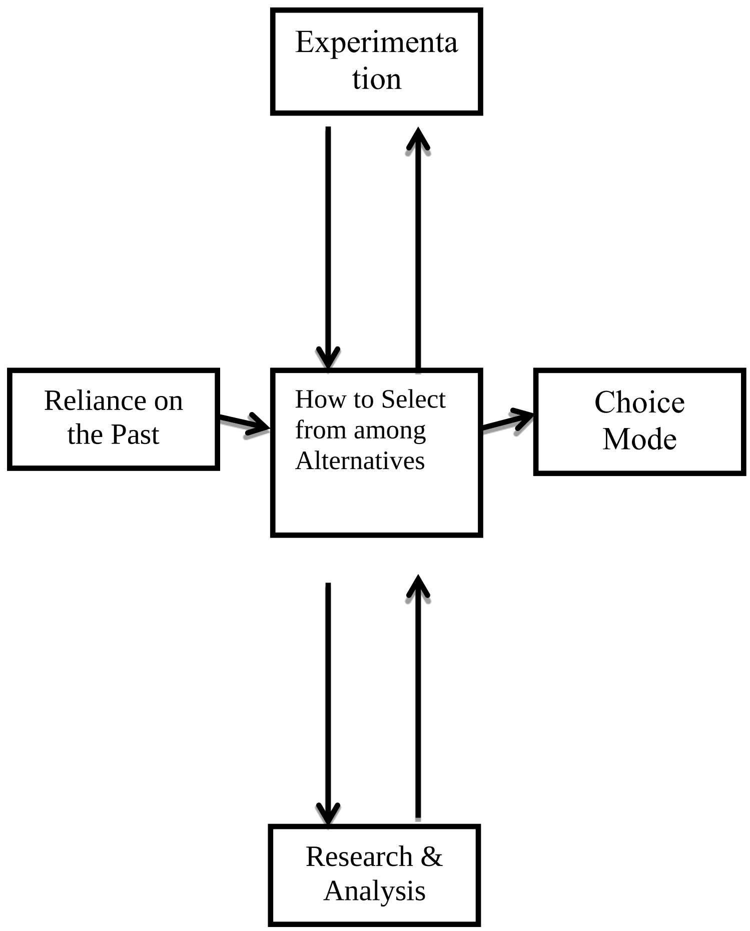
Besides the above decision rules, there are certainly other factors that can help the consumer in evaluating various alternatives. Such factors are discussed in Fig 6. It makes clear that three basic approaches are being used by the consumer while evaluating alternatives. These are:

(i) Experience
(ii) Experimentation, and
(iii) Research and Analysis

Reliance on the past plays an important role in evaluating various alternatives. Past experiences can guide consumers about the points which can help them in evaluating various alternatives.

However, one cannot rely entirely on the past. Lessons of experience in a particular product/brand category may not be entirely applicable in new problems. Direct first-hand experience of the alternatives to be evaluated may also help in the selection. For instance, test driving a car can be considered a first-hand experience gained. However, experimentation is restricted to only those product categories which can be used on a limited basis. One of the most important techniques for selecting alternatives is research and analysis. It calls for gathering all the necessary information about a product category and then analysing the same in the light of the decision to be made.

Fig.-6: Factors influencing selection from among alternatives

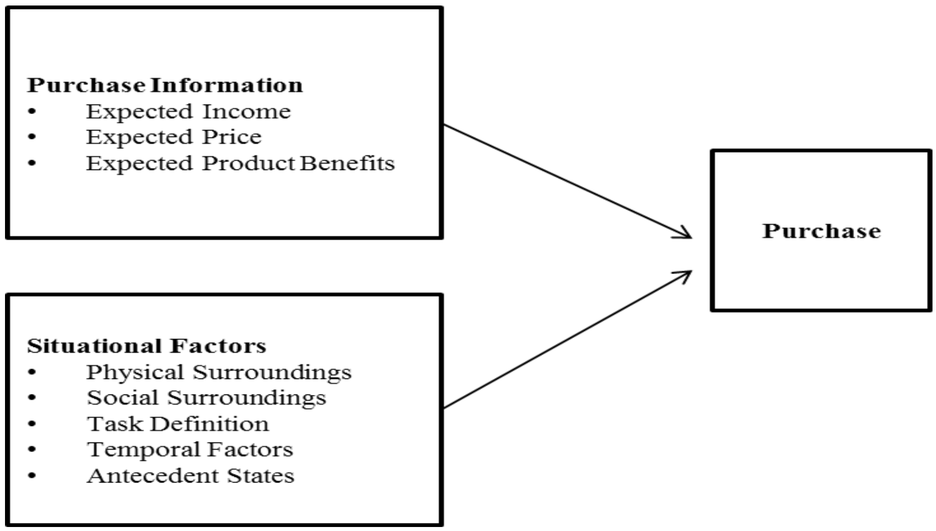


7.3.4 Purchase:

In the evaluation stage, the consumer ranks brands and forms purchase intention. Two factors generally play an important role while purchasing. These are: **(a)** Purchase intention and **(b)** Situational influences. This is further explained with fig.-7.

Fig.-7 makes it clear that purchase is dependent on purchase intention i.e. factors already decided and situational factors i.e. factors coming into the picture unintentionally at the time of purchase. Such factors are discussed in subsequent paragraphs.

Fig.-7: Factors Influencing Purchase



7.3.4.1 Purchase Intention:

- **Expected Income**: The income of the consumers play a very important role in the purchase behaviour of the consumers. The choice of product categories and brands to a large extent is dependent on the income of the consumers.
- **Expected Price**: Price always plays a very important role in purchase decisions. This is especially true in the case of developing countries like India
- **Expected Product Benefits**: The product benefits accruing to consumers also are very important in the purchase.

7.3.4.2 Situational Factors:

- **Physical Surroundings**: Physical surroundings include geographical location, sounds, lighting, weather or other material surroundings in the purchase process. These stimuli affect sensory organs and hence the purchase decisions of consumers. Marketers may deliberately use music and related stimuli to induce a point of purchase.
- **Social Surroundings**: Social surroundings refer to the presence of other people and the influence they make on the purchase of the consumer. If an overwhelming number of consumers are buying a particular brand in the store, it may induce the consumer to buy the same irrespective of the fact he might have thought of purchasing some other brand before coming to the store.
- **Task Definition**: Task definition includes the motives which can influence the purchase. The motive of purchase may affect the purchase outcome. For example, if

the purchase is made for others their choice will play an important role rather than the buyer's own choice.

- **Temporal Factors**: Temporal factors or timing also play an important role in the purchase. On routine purchase time required for purchasing a product is less while in case if time gap is higher between two purchases greater information is searched by the consumers. Similarly in 'window shopping' less information is sought while in the case of serious shopping, shoppers spend considerable time before making the actual purchase.
- **Antecedent States**: Moods and the physical state of consumers also play an important role in the purchase. For instance, a person is not so happy a frame of mind is likely to finish his shopping earlier than one who is deeply involved in the same. Marketers can use both situations profitably to induce their customers to buy their products or services.

7.3.5 Post Purchase Evaluation:

After purchasing the product, the consumers evaluate its performance in light of their expectations. Possible outcomes of these evaluations are depicted in fig. 8.

Fig. 8: Post Purchase Evaluation

Actual Performance	Expected Performance	Ultimate Outcome
Same	Same	Neutral Feeling
Better	Worst	Satisfaction
Worst	Better	Dissatisfaction

Fig. 8 makes it clear that if the actual performance of the product/service matches the expected performance there is likely to be a neutral feeling in the mind of the consumers. If actual performance is better than expected performance satisfaction will be there and dissatisfaction will be the outcome if vice-versa happens.

In most of the cases immediately after purchase past-purchase, cognitive dissonance takes place. The phenomenon of cognitive dissonance is explained with the help of an example. Suppose before purchase the consumer was having two options i.e. either to purchase Bajaj Chetak or Vespa. After considering all factors suppose he purchased a Vespa scooter. Immediately after purchase, a dissonance may take place in the minds of consumers and he may think he could have gone for Chetak. The arguments he might have considered in favour of Chetak before the purchase may again overpower him. The decision for which close alternatives are available thus generally lead to cognitive dissonance. The aim of the marketer should be to reduce such dissonance. It can be done in the following ways:

- The marketer should try to relieve the consumer by including messages in its advertising specifically aimed at reinforcing consumer decisions.
- Detailed brochures for product use may also go a long way in reducing such dissonance.
- Relationship marketing is perhaps the buzzword for marketers these days.

All the consumers encounter the above mentioned five stages of the decision making process with a difference of degree. However, the fact remains that almost all decisions are made in an environment of at least some uncertainty. Because of this uncertainty risk factor comes into the picture. In general, the decisions can be classified into three broad headings. The same is explained with the help of Fig. 9.
A detailed discussion follows:

7.3.5.1 Decision Making Under Certainty:

In a situation involving certainty, people are more or less sure about the outcome of their decision. They are reasonably assured as to what will happen if they are persisting with a particular alternative. In such a case there is no scarcity of information and such a piece of information is considered to be fairly reliable. Such a decision is the least cumbersome to be made by the consumers. Moreover, cognitive dissonance, discussed earlier has the least role to play in such a situation. Thus it can be said that decision making under certainty poses few problems to consumers.

7.3.5.2 Decision Making Under Uncertainty:

Decision making under uncertainty is the mirror image of decision making under certainty. In such a situation although the consumers do have access to information yet such a piece of information is not reliable. It is so because first of all the information is not adequate and secondly evaluation of different alternatives is difficult. Suppose the consumer is interested in buying a PC. The source of information available to him may only be the promotional efforts of different players of PC. For want of more reliable information, such a situation may put a consumer in a dilemma. The clouds of uncertainty hover around him.

7.3.5.3 Decision Making Under Risk:

In a risk situation, factual information may exist, but it may be incomplete. Here the consumers have no alternative but to play a gamble. The consumers may have to rely on probabilities and take the decision. However, a certain risk is involved in such a

case. Decision making under risk is considered to be the potential source of 'Cognitive Dissonance at the later stages. At this juncture, it is important to further classify decisions under different types. One such type is explained with the help of fig. 10.
A discussion follows:

7.3.5.4 Programmed Decisions:

The programmed decision is applied to structured or routine problems. This kind of decision is used for routine and repetitive work. It relies primarily on previously established criteria. In such a decision making the consumer is considered to be having pre-established criteria for selecting a particular alternative. He has not to stress his mind in these routine decisions. Such a decision applies in the case of frequently used, not so high valued products and services.

7.3.5.5 Non-Programmed Decisions:

Non-programmed decisions are used for unstructured, novel and ill-defined situations of a non-recurring nature. Such decisions demand serious thinking on part of consumers. It is so because such a decision is applicable in the case of occasionally purchased, high valued products and services. If a middle-class person is thinking of purchasing a car then one may assume that he is confronted with non-programmed decision making. Marketers need to classify their target customers according to the above-mentioned classification criteria. It is so because such a classification may help him in understanding his target customers in a better way and hence segmenting and positioning the offer accordingly.

In the present competitive era, the consumers are now more frequently encountered with non-programmed decisions and that too is under a high degree of uncertainty and risk. In such a situation the consumers generally pursue the following strategies:

- Evaluating the importance of a decision
- Seeking guidance from others
- Creativity and innovation
- Risk Analysis
- Decision Tree
- Personal Values

For consumers the decisions which are of lesser importance do not require thorough analysis and the decisions which are of significant importance requires a detailed analysis of the situation. A proper understanding of how important a decision is for consumers may help them in distributing the time and effort properly.

For high valued products and in non-programmed decision making the consumers may seek reassurance from others. It helps them a lot in overcoming the tension associated with such decisions. Creativity and innovation are important weapons in the armoury of the consumers to help themselves in the complicated decision-making processes. Creativity refers to the ability and power of consumers to develop new ideas while innovation refers to the use of these ideas. All intelligent decision-makers dealing with uncertainty like to know the size and nature of the risk they are taking in choosing a course of action. Risk analysis may help the consumer in knowing the risk associated with different alternatives. Although difficult for an average individual customer, risk analysis is used directly or indirectly by most of the consumers at the time of making the decision. One of the difficult but best ways to analyse a decision is to use a decision tree. The decision tree depicts decision points, chance events and probabilities involved in various courses that might be undertaken. However, owing to the limited capacity of the individual customers such precision is difficult to be practised.

The personal values of the consumers may also guide them in the various stages of decision making. For instance, if a consumer thinks that one should buy only 'Made in India' brands there is all the possibility that foreign brands may not be there in his consideration set. This will ease his decision making. The procedure for making a decision remains the same in all cases. However, there are certain models of 'man' that depicts consumer decision making differently. These models tell us why individuals behave as they do.

7.4 Marketers Response to Consumer Decision Making:

There is a general perception that consumer decision making revolves around consumers only. The decision-making model discussed earlier clearly points out that consumer passes through different stages before finally making a decision. However, from the marketers' point of view consumer decision making is not only consumer-centric marketers come into the picture in every stage of consumer decision making and with the right strategies in each stage they can influence consumers to decide in favour of their products or services.

There are numerous instances of success stories of different companies where success can directly be attributed to the fact that such companies did their homework well in different stages of consumer’s decision making. The response of the marketers to different stages of consumer decision making is discussed in subsequent paragraphs. Marketers' response to consumer decision making will be discussed under the following headings:

- Marketers' response to the need recognition stage.

- Marketers' response to the information search stage.
- Marketers' response to the evaluation stage.
- Marketers' response to purchase stage.
- Marketers' response to the post-purchase stage.

A detailed discussion of these responses of the marketer to consumer decision making is as follows:

7.4 .1 Marketers response to need recognition stage:

Marketers may induce need deliberately so that they may influence consumers to think of satisfying such a need. Marketers' employ the following strategies to induce such a need.

- Inducing consumers to use unused products/services.
- Inducing consumers to buy by modifying any element of the marketing mix.
- Inducing dissatisfaction in the consumers for the current stock of products and services.

The marketers may try to induce consumers by aggressively promoting any unused offering. Bowling is not a very popular game in India. Dacos Bowling Equipment & Services Ltd., a South Korea based company launched a range of bowling equipment in India. The company provides everything from the lanes to the pins to complete installation. The company realised that the game was not popular in India. They promoted the game aggressively by sponsoring bowling tournaments in the country. Thus in a way, they induced the need to play the game.

From the time immortal the corporates are also trying to induce need by inducing dissatisfaction in the consumers for the current stock of products and services. Before the launch of Good Knight repellent coils, the company tried to convey the limitations of 'Net' and 'odomos'. The company claimed that under 'net' one can not enjoy his sleep and 'odomos' is something which has to be applied to the body and hence can be dangerous. Similarly, the multinational giants dealing in bottled mineral water business initially came out with the statement that Indian water is not fit for drinking.' This method is however a negative way of inducing a need. Inducing the need by changing/modifying any element of the marketing mix has always been a very popular tool. Coca-Cola India once decided to enhance the appeal of Limca in people's minds by changing the colour of Limca can from white to green. Green was chosen because it connotes freshness, the brand's basic attribute. The company thought that white was associated with milk and milk was uncool and un-refreshing for the youngsters. The basic aim was to induce the need for something as fresh as nature.

Thus it can be said that marketers can play an important role in inducing the need for a product/service. There is no denying the fact that need may be recognized by individuals without marketing efforts of marketer but then subsequent efforts by marketers may intensify the need recognized by the individuals and further may lead to initial-inclination of the prospective consumers towards the marketers' products/services.

7.4 .2 Marketers response to Information search stage:

As discussed earlier once the prospective consumer has recognized the need, he starts searching for information about the various products/services that can satisfy his need. In this stage, the role of the marketer should be to provide all possible information to prospective consumers so that they may know about the offering of the company. If the marketer is not making sincere efforts in this stage to provide the relevant information to the prospective consumers it may happen that they may not become aware of the offering of the company and that offering may not find a place in the consideration stage later on. Today marketers have several sources to provide information to potential customers. The prominent among these are.

- Television
- Radio
- Online Services and Internet
- Cinema
- Video Castes
- Newspapers
- Magazines
- Billboards
- Transit Advertisements
- Word of Mouth Publicity
- Opinion Leaders

Which of the above-mentioned source is best for providing information depends upon the offering of the company and the profile of potential customers. These days the companies are employing newer and very interesting sources to spread information. A short time back one of the top FMCG companies in the United States came out with a unique offer to the customers. The problem with the company was that information was to be spread at the earliest. The CMD of the company employed a unique and non-conventional method to spread information. He mailed the unique offer electronically to the top five managers of the company with a request that each manager should mail the offer on the e-mail id of 5 more persons with the same request to carry forward the chain. Within a matter of days, more than one lakh people were aware of the offer of the company. Thus it can be said that in the information search stage consumers tries to get the information from different sources. The corporates should try to grab the opportunities with both hands. They should miss no opportunity whatsoever in informing the consumers about their offering. However, there is a limit to which potential customers can be exposed to information. Overexposure to Information may give an impression that the information provided by the company is more hype and less content.

7.4.3 Marketers response to evaluation stage:

As discussed earlier, once the consumer is having sufficient information about the availability of brands that can satisfy his needs, he starts comparing different brands to decide which brand to purchase. Although there may be many brand alternatives available for the consumers, only a few brands enter into the consideration set and further even fewer brands in the choice set. The aim of the marketers must be to ensure that their brand is in the consideration set and further in the choice set. It is so because then only there will be any hope that the consumer may go on purchasing the marketers' brand.

The marketers should:

- Try to find where their brand rank in terms of consumer knowledge.
- Know how to reinforce their efforts to push their brand further in the consideration and choice set.
- Try to keep their brands out of the inept sets as far as possible.

The companies are coming out with newer and interesting marketing strategies to ensure that their brand is finding a place in the consideration set and further in the choice set of customers. Here is an interesting example to prove this point. A short time back a well-reputed automobile company of the United States came out with a new car Altima in the market. The company realised that customers consider a car a high-value product and hence generally look at others for reassurance. The company came out with a unique strategy to make customers buy Altima. Its first car, which was already hit in the market was also used as a part of the strategy. Those who owned the first car of the company and were getting their car serviced from the company-owned service stations were given a free ride of the new car Altima for a week. Because of this offer, sooner the entire market was overcrowded by Altima car. Those who were thinking of purchasing a car thought that the newly launched Altima is a great hit and the car found a place in their choice set. The car later became a great success.

In general, the marketer should consider the following strategies for the evaluation stage.

1) Position the product strictly following the target market.

2) Continuously reviewing product positioning with proper communication support.
3) Enriching consumers with fresh and distinct information.
4) Using consumer perceptions and attitudes to design new products.
5) Developing a regular attitude checking system.

7.4 .4 Marketers response to purchase stage:

The purchase stage carries special relevance for the marketer because this stage may tell him how successful his marketing efforts are. The purchase process is directly linked with the marketing mix strategies of the marketer. If customers purchase the evaluated item it confirms the effectiveness of the marketing mix being employed by the marketer. However, if the case is otherwise it means the marketing mix employed is wanting on certain parameters and it should be an eye-opener for the marketer. He should address the problem in the right earnest and should try to modify/change his marketing mix strategies. In general, marketers should ensure following in the purchase stage.

(i) The actual product /service offering should be commensurate with the premised one.
(ii) The marketer should try different mediums so that the product/service is reached in time to consumers.
(iii) An adequate product warranty/guarantee should be given.
(iv) Due consideration to physical/social surroundings must be accorded.

Initially, the marketer should ensure that promised product/service should match the actual offering. This must be ensured in all cases ranging from product/service quality to price. It is so because promotion may sell the bad products only once. The consumers will not return if the actual offering is in no match with the promised one. It also generates ill will among consumers. The company must also ensure that in the present world of competition reaching customers in all possible ways has become very important. The company's product must not only find a place in retail shops but alternative ways like direct in home sales, Internet marketing etc. have also become a necessity to reach customers. Product warranty/guarantee in case of nonperformance of the product is also a confidence-building exercise that gives the consumers relief from tension at the time of purchase. Cutthroat competition has made it almost mandatory for the companies to come out with such schemes as warranty/guarantee, cash or credit purchase etc.

Finally, due consideration should be given to physical and social surroundings at the time of purchase. Physical surroundings are visible features of the purchase situation and have a significant bearing on the consumers' minds at the time of purchase. The physical surrounding includes geographical location, sounds, lighting etc. The marketers may use the concept of 'atmospherics' by devising and controlling the right mix of physical and social surroundings during the purchase process.

7.4 .5 Marketers response to the post-purchase stage:

The role of marketers' does not end once the consumers have purchased the product. The more challenging situation starts emerging afterwards. The first impression is the last. If the consumers are not satisfied with the after-sales efforts of the company they may think of other alternatives for the future. Moreover, word of mouth publicity may be adverse for the company. In the post-purchase stage, the marketer should pursue the following strategies.

(i) Regular monitoring of customer satisfaction.
(ii) Maintenance of effective and multiple communication channels with the customers to get timely feedback from them.
(iii) Taking the extra cases of satisfied customers.
(iv) Asking dissatisfied customers to the complaint.
(v) Handling the complaints quickly and responsibly.
(vi) Maintaining a separate grievance handling cell.
(vii) Bringing customer satisfaction to the mission statement of the company.
(viii) Maintaining long term relations by satisfying all.

The above strategies can go a long way in pursuing the concept of 'Relationship Marketing' which is the buzzword today. The emphasis of relationship marketing is on developing long-term bonds with customers by making them feel good about how the company does business. Customer loyalty to the brand and the company is directly dependent on how the company is maintaining long term relations with them.

In nutshell, it can be said that although the consumer decision-making process has more to do with the consumers the companies can come out with different strategies for the different stages of the process to make their presence felt in the said process.

7.5 Consumer-Related Models of 'Man'

Important consumer-related models of 'man' are:

- Economic man
- Passive man
- Cognitive man
- Emotional man

A detailed discussion of these models is as follows:

7.5.1 Economic Man:

Before Keynes, economists used to assume that there exist perfect competition in the market. The economic man model is essentially based on this thought of there. One of the assumptions of perfect competition is that buyers and sellers have perfect knowledge of the market. In the 'economic man' model also it is assumed that the consumer is aware of all available product alternatives. It is further assumed that the consumer is having the capacity to select the best available alternative. Thus this model assumes that a consumer cannot be be-fooled by the marketing activities of the producer. He is portrayed as a person who will always make rational decisions because of his knowledge of the market. The consumer in this model is perceived as 'market maven'. However, in reality, the consumers rarely have sufficient information about the product alternatives. Leading social scientists have severely criticised the model on the ground that people are limited by the extent of their knowledge and by their existing values and goals. The present-day consumer is operating in a world of imperfect competition. He is overpowered with the alternatives available for any purchase. To know about each alternative and to choose the best one is not that easy. Under such circumstances, the consumer may have to be content with a 'satisfactory decision' rather than a rational decision. Thus one may say that the 'economic man' model is too idealistic and too simple.

7.5.2 Passive Man:

The passive man model is exactly the opposite .to the 'economic man' model. Here the consumer is portrayed as an irrational rather than rational purchaser. The promotional efforts of marketers can induce him to purchase the needed product/service. This model has depicted the consumer as a person who can be manipulated by the marketers at will. The passive man does not possess the knowledge of an economic man. He is not very willing either to pressurize himself by searching for various alternatives which can satisfy his need. If such is the situation then shrewd marketers come into the picture and by their efforts, they can induce this hesitant man to buy their products or services.

The marketers over the years have relied on the 'A (DA (Attention, Interest, Desire, Action) model to influence such 'Passive Man'. They are always trying to gain attention, hold interest, arouse desire and elicit the action of the prospective consumers. AID A model is not applicable in the case of an economic man because he is very knowledgeable but in the case of Passive Man, this model assumes special significance.

Like the 'economic man' model, the 'Passive man' model has also invited criticism from the experts. The present-day customer cannot be easily manipulated by the marketers.

The consumers of today are actively seeking information about product alternatives. They cannot be befooled by aggressive marketers.

7.5.3 Cognitive Man:

The cognitive man model has portrayed the consumer as the one who is seeking and evaluating information about selected brands and retail outlets. Cognitive man is different from both 'economic man' and 'passive man'. He is not the man operating in the environment of perfect competition where buyers have full knowledge of the market. He is also not so passive that he will purchase what the marketers are wanting from him to purchase. In the cognitive man model, the consumer is depicted as the thinking problem solver. The cognitive man is not a perfectionist. If he is having sufficient information to make a decent decision perhaps he will go ahead with that decision.

The cognitive man model is more realistic than the economic man and passive man model. Cognitive man lies somewhere in between the two extremes i.e. economic man and passive man. Because of being near to reality, the cognitive man model has not invited as much criticism as the earlier discussed models. Even the study of consumer behaviour as a subject revolves around the concept of cognitive man.

7.5 .4 Emotional Man:

Man is a social animal. The feelings of joy, sorrow, fear, love always play an important role in his life. Such feelings have an important say in the purchase decision as well. A person who met with an accident on his newly purchased motorbike may not purchase that brand again although it may happen that fault was somewhere else. The horrifying feeling afterwards may prevent him to go far the same brand again. The 'emotional man' model emphasizes that more than spending time in getting information, the current mood and feelings of the consumer will play an important role in decision making. The above four models give us an idea as to why individuals behave as they do. Every individual purchaser may fall in the scope of one model or the other. Marketers' knowledge of their consumers helps them in framing better marketing strategies.

7.6 Summary:

Consumer decision making involves selecting a particular alternative out of all the available alternatives concerning the purchase of a product or a service. The consumer decision-making process consists of the following stages:

(i) Need Recognition
(ii) Information Search
(iii) Evaluation of Alternatives

(iv) Purchase
(v) Post Purchase Behaviour

7.7 Self-Assessment Questions:

1. Compare and contrast the economic, passive, cognitive and emotional models of consumer decision making.
2. Elaborate the various stages of the consumer decision-making process with the help of an example.
3. What are the reasons behind the gap which exists between existing consumer position and desired consumer position in the need recognition stage of the consumer decision-making process?
4. What are the various sources of Information generally used by the consumer for deciding to purchase a product?
5. Define **(a)** Evoked Set,**(b)** Inept Set, **(c)** Inert Set
6. What kind of decision rules a consumer usually follows while evaluating the various available alternatives?
7. What kind of product attributes should a consumer consider which can be used as a purchase criterion? Describe by taking an example.
8. Throw light on various approaches used by the consumer while evaluating alternatives.
9. Elaborate various situational factors which play an important role while purchasing
10. What is Post Purchase evaluation? How a consumer evaluates its performance in light of their expectations.
11. Write an explanatory note describing the response of marketers towards the various stages of the consumer decision-making process.

7.8 Suggested Readings:

(i) Batra, S, K & Kazmi, S, H, H (2004), "Consumer Behavior Text and Cases", New Delhi: Excel Books
(ii) Engel, J, M, Blackwell, R, D & Miniard, P, W, (1990), "Consumer Behavior" London: Dryden Press.
(iii) Schiffman, L, G & Kanuk, L, L, (2004), "Consumer Behavior" New Jersey: Prentice-Hall Inc.
(iv) J. Paul Peter, Olson, (2010), "Consumer Behaviour: a Marketing Strategy" Tata McGraw Hill Publishing Co.
(v) Kumar, Ramesh, S, (2009), "Consumer Behaviour and Branding: Concepts, Readings and Cases-The Indian Context" Pearson Education India
(vi) Hawkins, Delbert & Mothersbaugh, David (2010), "Consumer Behaviour" Tata Mcgraw Hill Publishing Co.

Unit-8
Concept of Market Segmentation and Market Targeting

Structure:

8.1 Introduction:

A market is an aggregate of people who, as individuals or organizations, have needs for products in a product class and who have the ability, willingness and authority to purchase such products (conditions needed for an exchange). Companies today realize that all customers are not similar and therefore all of them cannot be satisfied with the same product or service. Today most companies have moved from the concept of mass marketing to target marketing i.e. identifying market segments, selecting one or more of them and then developing products and marketing mix elements for each of these segments. Market segmentation can be defined as the process of dividing a market into different homogeneous groups of consumers. The market consists of buyers and buyers vary from each other in different ways. The variation depends upon different factors like wants, resources, buying attitude, locations, and buying practices. By segmentation, large heterogeneous markets are divided into smaller segments that can be managed more efficiently and effectively with products and services that match their unique needs. So, market segmentation is beneficial for the companies serving larger markets.

Marketing not based on segmentation is essentially inefficient because some segments get more value and features in their product/services than are desired by the customers. For more than 30 years segmentation has been proclaimed to be the cornerstone of successful marketing. Ever since the publication of Theodore Levitt's seminal text, The Marketing Imagination in 1983, segmentation has continued to be promoted as the sine qua non of successful marketing. Levitt's original assertion that 'if you're not thinking segments, you're not thinking marketing' has stood the test of time. Put simply, segmentation is critical to competitive advantage and should underpin every decision that needs to be made about all aspects of the tourism marketing mix. The recognition that the needs and requirements of the visitor market are heterogeneous rather than homogenous should become the starting point in developing value propositions that are unambiguously targeted at distinct and identifiable groups of visitors who are all similarly motivated in their decision to visit a destination. Implementing a tourism marketing plan based on needs-based segmentation is difficult, but not impossible.

Traditional marketing theory emphasises the importance of actively managing the segmentation, targeting and positioning process to inform how tourism organisations implement the marketing concept and satisfy visitors and other tourism consumer needs successfully. In other words, segmentation aims to provide tourism organisations with a commercially viable method of understanding their markets and developing strategies for serving their consumers.

The process of target marketing involves the following three major steps:

(i) Market Segmentation– To divide the market into distinct groups who might need a different product or a service
(ii) Market Targeting- To evaluate each segment attractiveness and then select one or more segments
(iii) Market Positioning– To develop competitive positioning for the product and an appropriate marketing mix.
There are several important reasons why businesses should attempt to segment their markets carefully. These are:

- **Better matching of customer needs:** Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution
- **Enhanced profits for business:** Customers have different disposable incomes. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits
- **Better growth opportunities:** Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product
- **Retain more customers:** Customer circumstances change, for example, they grow older, form families, change jobs or get promoted, change their buying patterns. By marketing products that appeal to customers at different stages of their life ("life-cycle"), a business can retain customers who might otherwise switch to competing products and brands
- **Target marketing communications:** Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that (1) the key customers are missed and **(2)** the cost of communicating to customers becomes too high/unprofitable. By segmenting markets, the target customer can be reached more often and at a lower cost
- **Gain share of the market segment:** Unless a business has a strong or leading share of a market, it is unlikely to be maximising its profitability. Minor brands suffer from a lack of scale economies in production and marketing, pressures from distributors and limited space on the shelves. Through careful segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors. In other words, segmentation offers the opportunity for smaller firms to compete with bigger ones.

8.2 Objectives:

After studying the unit, you should be able to:
1. Understand the concept of market segmentation.
2. Understand why market segmentation is important.
3. Tell about the criteria's for market segmentation.
4. Know what are the bases of segmentation.

5. Understand the concept of market targeting.
6. Recall how to develop a target marketing strategy.
7. Understand the important variables for target marketing.

8.3 Bases For Market Segmentation:

A company can segment the market in many ways. There is no single way to segment the market. Broadly two categories of variables are used to segment the market. Some use descriptive characteristics i.e. demographic, geographic and psychographic variables. Others segment the market based on behavioural considerations such as consumer responses to benefits, use occasions or brands.

8.3.1 Geographic Segmentation:

This segmentation process calls for diving the market into different geographical units such as nations, states, regions, districts, cities or localities. The marketer here believes that consumers have varied tastes and preferences according to their geographic location or on the assumption that behaviour is influenced by where people live. In other words, marketers need to understand and appreciate Australian tourists and different from American tourists. Similarly, the food preferences of an Indian tourist will be different from a Russian or an African tourist. In the Asian context marketers even tend to believe that there is an urban-rural divide i.e. the consumers living in urban areas or cities are different from the consumers living in the rural areas and hence their product preferences are also different.

Various hospitality companies make effective use of geographic information to design targeted promotions, special packages and introduce regional foods for their guests. Cultural differences across geographic locations can create communication challenges. It is widely believed among managers that the success of local and regional tourism depends upon creative geographic segmentation.

8.3.2 Demographic Segmentation:

When the market is divided based on variables like age, family size, family life cycle, gender, income, occupation, education, religion, race, generation and social class we call that the basis of segmenting the market is demographic. Since demographic variables are easy to measure, this basis of most frequently used to segment the market. Another reason for the popularity of demographic variables to segment the market is that they are often associated with consumer needs and wants.

Age and Life-Cycle Stage– With the change of age, consumer wants and preferences also change. Therefore age and life cycle stage are important variables to segment the market. For example, we see McDonald target the children to their outlets by offering innovative packages to celebrate their birthday's. Through their collection of toys, they attract kids to the outlet. A destination like Switzerland has positioned itself as a honeymoon destination. Newlywed couples in the age group of 25 – 30 years look forward to celebrating their honeymoon at this destination. Various television channels like Cartoon Network, POGO, Sanskar etc are addressing consumers in different age groups. Various travel agencies across the world are coming up with special offers that are targeted at senior citizens and retired people. The product/service features are customized according to the needs of the people in this age group.

Gender- These bases of segmentation has long been used in various industries especially clothing, cosmetics. The travel and hospitality industry is now widely using this form of segmentation. Women constitute a major segment in the travel and tourism business today. Say for example an Indian company by the name Women on Wanderlust (WoW) offers exclusive packages for solo women keen to travel across the globe. Various hotel properties across the world have come up with the concept of women-only floors in their properties. These rooms are designed keeping in view the needs and requirements of women. The Premier's women-only rooms in Times Square come with curling and flat irons, bath salts and loofahs, nail files, a vanity kit, yoga mats and women's magazines (O, Self, Cosmopolitan)--all at no additional cost. The bathtub is oversized, and there's a stool at the sink (with makeup lighting) so women can sit while doing their faces. Gender marketing is most effective when it is combined with lifestyle and demographic information.

Income– Income determines the ability of consumers to participate in market exchange and hence this is the basic segmentation variable. Airlines and hotels in the travel industry segment the market based on the income of an individual. Say for example Jet Airways in India offers the full-service option whereas Indigo which is a low-cost carrier targets travellers in the middle or low-income group. Income segmentation is commonly believed to affect the pricing strategy. The star classification system is a common one for rating hotels. Higher star ratings indicate more luxury. The underlying assumption behind classifying the hotel is that people from the low or middle-income groups will generally use one or two or maximum a three-star property whereas people in the higher income group will like to stay in first-class or luxury (i.e. 5 stars) properties. The hospitality industry is in for a massive overhaul with over 50 international budget hotel chains foraying into India by 2020. ITC Hotels has set standards for excellence in the hotel industry by pioneering the concept of branded accommodation. The chain has developed three brands of accommodation ITC One', 'Towers' and the 'Executive Club' to differentiate between the needs of various travellers and provide high levels of service.

Social Class– Social class has a strong influence on the preferences of various products and services. The concept of social class in India is influenced by the caste system. This is a very unique system peculiar to India. The SEC Classification (also called the Socio-Economic Classification) is a classification of households used by surveyors, market researchers, media and marketing companies in India to categorize consumer behaviour. Originally developed by IMRB International as a way of understanding market segments, and consumer behaviour it was standardized and adopted by the Market Research Society of India in the mid-1980s as a measure of socio-economic class and is now commonly used as a market segmentation tool in India.

The SEC Classification consists of two grids- The Urban SEC Grid, which uses Education levels and Occupational criteria of the Chief Wage Earner (CWE) of a household as measures to determine socio-economic classification, and segments urban India into 7 groups (A1 to E2) and The Rural SEC Grid, which uses Education and Type of House (pucca, semi-pucca, and Katcha) as measures of socio-economic class, and segments rural India into 4 groups (R1, R2, R3, R4)

In 2011 IMRB presented the New SEC system which classifies Indian households by using two parameters—Educational Qualifications of the chief wage owner in the household; and the Number of Assets Owned (out of a pre-specified list of 11 assets). Based on these two parameters, each household will be classified in one of 12 SEC groups—A1, A2, A3, B1, B2, C1, C2, D1, D2, E1, E2 and E3. These 12 groups apply to both urban and rural India.

8.3.3 Psychographic Segmentation:

The psychological variables derive from two principal types of customers; personality profiles and lifestyle profiles (psychographics). Psychological profiles are often used as a supplement to geographic and demographics when these does not provide a sufficient view of the customer behaviour. While the traditional geographical and demographical bases (sex, age, income etc.) provide the marketer with accessibility to customer segments, the psychological variables provide additional information about these and enhance the understanding of the behaviour of present and potential target markets. Psychographic segmentation, therefore, divides people according to their attitudes, values, lifestyles, interests and opinions.

VALS ("Values, Attitudes and Lifestyles") is a proprietary research methodology used for psychographic market segmentation which was developed in 1978 by social scientist and consumer futurist Arnold Mitchell and his colleagues at SRI International. The main dimensions of the VALS framework are primary motivation (the horizontal dimension) and resources (the vertical dimension). The groups under which the consumers can be segmented according to the VALS Framework are:

(1) Innovator- These consumers are on the leading edge of change, have the highest incomes, and have such high self-esteem and abundant resources that they can indulge in any or all self-orientations.
(2) Thinkers- These consumers are the high-resource group of those who are motivated by ideals. They are mature, responsible, well-educated professionals. Their leisure activities centre on their homes, but they are well informed about what goes on in the world and are open to new ideas and social change.
(3) Believers- These consumers are the low-resource group of those who are motivated by ideals. Their lives are centred on family, mosque, community, and the nation. They have modest incomes.
(4) Achievers- These consumers are the high-resource group of those who are motivated by achievement. They are successful work-oriented people who get their satisfaction from their jobs and families. They favour established products and services that show off their success to their peers.
(5) Strivers- These consumers are the low-resource group of those who are motivated by achievements. They have values very similar to achievers but have fewer economic, social, and psychological resources. Style is extremely important to them as they strive to emulate people they admire.
(6) Experiencers-These consumers are the high-resource group of those who are motivated by self-expression. They are the youngest of all the segments, with a median age of 25. They have a lot of energy, which they pour into physical exercise and social activities. They are avid consumers, spending heavily on clothing, fast-foods, music, and other youthful favourites, with particular emphasis on new products and services.
(7) Makers- These consumers are the low-resource group of those who are motivated by self-expression. They are practical people who value self-sufficiency. They are focused on the familiar family, work, and physical recreation-and have little interest in the broader world. As consumers, they appreciate practical and functional products.
(8) Survivors- These consumers have the lowest incomes. They have too few resources to be included in any consumer self-orientation and are thus located below the rectangle. They are the oldest of all the segments, with a median age of 61. Within their limited means, they tend to be brand-loyal consumers. Predicting tourists' behaviour using a psychographic approach has evolved in response to the weaknesses and limitations of the segmentation methods in helping marketing decision-makers to 'get inside the mind' of their tourist consumers and to understand more clearly the factors that drive their behaviour. Whereas psychographic segmentation was considered to be 'less scientific' than other forms of segmentation, technological developments now mean that this 'softer' or more subtle segmentation approach is recognised as being more appropriate for the tourism sector. Indeed, the increased sophistication of psychographic segmentation is now providing detailed consumer insights to enable tourist destinations to take control of their visitor economy and actively design and

create destination experiences to suit the needs of multiple visitor segments simultaneously.

8.3.4 Behavioural Segmentation:

Behavioural segmentation is based on the customers' attitude toward, use of, or response to a product. People with similar geodemographic and/or psychographic profiles may likely have different interactions with the same destination or other tourism product, it is also necessary to focus on tourists' behaviour about a particular tourism or destination product. This form of segmentation has several dimensions but, in general, it aims to group consumers in terms of their relationship with the destination product, for example, whether they are first-time or regular visitors, the purpose of their visit, loyalty and their attitudes to the destination before segmenting based on behaviour or benefits sought.

Many marketers believe that behavioural variables such as occasions, benefits, user status, usage rate, buyer-readiness stage, loyalty status and attitude are the best starting points for constructing market segments and thus these variables will be described further in the following:

Occasions: Occasions are when the customers are divided into segments based on the time of day, week, month and year. People are therefore being grouped according to the time (occasions) on which they get the idea to buy, make their purchase or use the purchased item. This can for example be during the time around holidays such as Christmas. A company may choose one kind of marketing strategy around Christmas and another at Valentine's Day in February and thus be able to target as many desired target customers as possible.

Benefits: Benefit segmentation divides the customers according to the different benefits they may seek from a product. Benefit segmentation seeks to find the benefits people look for in a certain product, the kinds of people who look for each benefit and the brands that deliver each benefit. Furthermore, the benefit segmentation identifies market segments by casual factors rather than descriptive factors such as e.g. demographics.

User status: By segmenting according to nonusers, ex-users, potential users, first-time users and regular users of a product a company can customize its marketing for each group Where regular users of a certain product request one kind of marketing approach, potential users may request another kind of marketing approach, and thus it is necessary to divide the customers into different segments and target them in different ways.

Usage rate: The usage rate segmentation divides the customers according to how much they use a product. They are divided into groups of non-users, light, medium and heavy product users and companies often seek to target one heavy user rather than several light users. This is because the heavy users constitute a small percentage of the market but account for a high percentage of the total buying. Thus a company should seek to adapt their marketing strategy according to these customers.

Buyer-Readiness stage: Buyer-readiness stage refers to people's awareness and interest in the product. Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product and some intend to buy. The purpose is to lead the customer along so he or she will purchase the product in the end.

Loyalty status: A market can also be segmented according to the loyalty of the customers. It is assumed that customers are always loyal by buying the same product. These customers are referred to as hard-core loyal. Other people that are loyal toward two or three brands and buy these on a random basis are referred to as being split loyals. The third group of people are those who shift from one brand to another and stay with that brand for some time until they shift to another brand. These customers are referred to as shifting loyal. The fourth and final group of locals are those who do not show loyalty or preference towards one particular brand, but rather buy a product or brand that is on sale or available at the time of the occasion. These customers are referred to as switchers.

Attitude: As a final variable to behavioural segmentation is the attitude toward a product. People can be divided into segments based on whether they have an enthusiastic, positive, indifferent, negative or hostile attitude toward a product. By considering the customers' attitudes toward a brand or product the company will get a wide-ranging view of the market and its segments. By combining the different behavioural variables, marketers can get a view of a market and its segments and thereby the marketer can enhance its targeting strategies.

8.4 Requirements for Effective Segmentation:

For the process of segmentation to be effective:

- **Measurable**: A segment should be measurable. It means you should be able to tell how many potential customers and how many businesses are out there in the segment.
- **Accessible**: A segment should be accessible through channels of communication and distribution like salesforce, transportation, distributors, telecom, or the internet. The destination or tourism organisation must be able to reach the segment with a specifically formulated and cost-effective marketing programme.

- **Durable**: Segment should not have frequent changes attribute in it.
- **Substantial**: Make sure that the size of your segment is large enough to warrant as a segment and large enough to be profitable
- **Unique Needs:** Segments should be different in their response to different marketing efforts (Marketing Mix).
- **Actionable:** The destination management organisation must have the resources to exploit identified marketing opportunities that emerge from the segmentation process

  Another way to look at the issue of evaluating segments is that while evaluating the firm must look at three factors namely segment size and growth, segment structural attractiveness and company objective and resources.
- **Segment size and growth:** The first criteria of segment evaluation is whether a potential segment and right growth and size characteristics. The right size is a relative term. Large companies prefer segments with large sales volumes and often overlook or avoid small segments. Small companies in turn avoid large segments because they require too many resources. The segment growth is a described characteristic since companies generally want growing sales and profit.
- **Segment Structural Attractiveness:** A segment might have desirable size and growth and still not be attractive from a profitability point of view. The company has to appraise the impact on the long-run profitability of five groups: a) industry competitors b) Potential entrants c) substitutes d) buyers e) suppliers.

a) **Threat of Intense segment Rivalry:** A segment is unattractive if it already contains numerous strong or aggressive competitors.

b) **Threat of new entrants:** A segment is unattractive if it is likely to attract new competitors who will bring in new capacity, substantial resources and a drive for market share growth.

c) **Threat of substitute Products:** A segment is unattractive if there exist actual or potential substitutes for a product. Substitute place a limit on the potential prices and profits that can be earned in a segment.

d) **Threat of growing bargaining power of buyers:** A segment is unattractive if the buyers possess strong or increasing bargaining power. Buyers will try to force prices down, demand more quality or services and set competitors against each other, all at the expense of seller profitability.

e) **Threat of Growing Bargaining Power of Suppliers:** A segment is unattractive if the company's suppliers raw material and equipment suppliers, banks, trade unions and the like can raise prices or reduce the quality or quality of ordered goods and services.

Company Objectives and Resources:

The company needs to consider its objectives and resources about a segment under consideration. Some attractive segments could be dismissed because they do not mesh with the company's long-run objectives. They may be tempting segments in themselves, but they do not move the company forward towards its goods. Even if the segment fits the company's objectives, the company must consider whether it possesses the requisite skills and resources to succeed in that segment. But even if the company possesses the requisite competencies, it needs to develop some superior advantages to the competition. It should not enter markets or market segments where it cannot produce some form of superior value.

8.4 Developing a Target Market Strategy:

After the process of segmentation, the next step is for the organisation to decide how it is going to target these particular groups (s). In target marketing, the seller distinguishes the major market segments, targets on or more of these segments and develop products and marketing programs tailored to each selected segment. Target marketing help sellers identify marketing opportunities better. The sellers can develop the right offer for each target market. They can adjust their prices, distribution channels and advertising to reach the target market effectively.

A target market consists of a set of buyers sharing common needs or characteristics that the company decides to serve. The company can consider five patterns:

Single-Segment Concentration: In the simplest care, the company selects a single segment. Through concentrated marketing, the firm achieves a strong market position in the segment owing to its greater knowledge of the segment's needs and the special reputation it builds. At the same time, concentrated marketing involves higher than normal risks. The particular market segment can turn sour. Or the competitors may decide to enter the same segment. For these reasons, many companies prefer to operate in more than one segment.

Selective specialization: Here the firm selects several segments, each of which is objectively attractive and matches the firm's objectives and resources. Each segment promises to be a moneymaker. This strategy of multi-segment coverage has an advantage over single segment coverage of diversifying the firm's risk. Even if one segment becomes unattractive, the firm can continue to earn money in other segments.

Product Specialization: Here the firm concentrates on making a certain product that it sells to several segments. Through this strategy, the firm builds up a strong reputation in the specific product area.

Market Specialization: Here the firm concentrates on serving many needs of a particular customer group. The firm gains a strong reputation for specializing in serving this customer group and becomes a channel agent for all new products that this customer group could feasibly use.

Full Market Coverage: Here the firm attempts to serve all customer groups with all the products that they might need. Only large firms can undertake a full market coverage strategy. Examples would include coca-cola (non-alcoholic beverage); IBM (Computer market) etc.

Large Firms can cover a whole market in two broad ways: namely through undifferentiated marketing or differentiated marketing.

- **Undifferentiated Marketing:** The firm might ignore market segment differences and go after the whole market with one market offer. It designs a product and a marketing programme that will appeal to the broadest number of buyers. It relies on mass distribution and mass advertising. Undifferentiated marketing is dependent on the grounds of cost economics. The narrow product line keeps down production, inventory and transportation cost.
- **Differentiated Marketing:** Here the firm operates in most market segments but designs different programmes for each segment. However, it also increases the cost of doing business.

8.6 Summary:

Market segmentation can be defined as the process of dividing a market into different homogeneous groups of consumers. The market consists of buyers and buyers vary from each other in different ways. The variation depends upon different factors like wants, resources, buying attitude, locations, and buying practices. By segmentation, large heterogeneous markets are divided into smaller segments that can be managed more efficiently and effectively with products and services that match their unique needs. So, market segmentation is beneficial for the companies serving larger markets. Without appropriate and effective segmentation, all other marketing activities are likely to be mediocre at best. Whilst the tourism sector has traditionally lagged behind other industries in utilising the concept of segmentation in marketing decision making, there is evidence to suggest that increasingly better market selection is now the basis on which resource allocations decisions at a strategic level are made. There are still far too many destinations, attractions and tourism organisations, however, using the classic, but outdated and unsophisticated segmentation bases to define their markets. Encouragingly, in their search for visitor segmentation variations derived from geodemographic, some destinations have turned to commercial segmentation systems.

8.7 References:

- Tourism Marketing, Manjula Chaudhary, Oxford University Press, 18-Apr-2011
- Bittel, Lester R. and John W. Newstrom. What Every Supervisor Should Know. St. Louis: McGraw-Hill, Inc., 1990.
- Frunzi, George L. and Patrick E. Savini. Supervision: The Art of Management. Upper Saddle River, New Jersey: Prentice-Hall, Inc., 1997.

- Kotler, P., Bowen, J. T., and Makens, J. C. (2006), Marketing for Hospitality and Tourism, Pearson Education, UK.
- Tsiotsou, R. and Goldsmith, R. E. (2012), Strategic Marketing in Tourism Services, Emerald Group Publishing Limited, United Kingdom.

8.8 Terminal Questions

- What is the concept of segmentation? Why is it important to segment the market?
- What are the different bases to segment the market?
- What is psychographic segmentation?
- As a marketer how can you assess the effectiveness of the segmentation process?
- What are the different approaches to target a particular market?

Unit-9
Marketing Mix: Design and Development

Structure:

9.1 Introduction:

This unit will elaborate the learner about the marketing mix and the tools which it gives in the hand of the marketer in the form of 7Ps or 7Cs. Using these tools the marketer may mould future events in the company's favour. It also explains step by step process using which the learner may practice developing a marketing mix for the product of his choice.

The Marketing Mix concept was coined by James Culliton and was popularized by Niel H. Borden in his 1964 article, "The Concept of Marketing Mix" (www.netmba.com). "Marketing Mix is a combination of controllable generating variables, which are manipulated by the company to obtain the desired response from its target market".

9.2 Objective:

After reading this unit the learner will be able to:

1. Understand the concept and elements of the marketing mix.
2. Understand the factors which affect the marketing mix.
3. Understand the step by step process of developing a marketing mix.
4. Apply and develop a marketing mix for a tourism product.
5. Understand the responses of the company to the ever-changing external environment by manipulating its marketing mix.

9.3 Elements of Marketing Mix:

Since 1960 the marketing mix has been associated with McCarthy's 4Ps".

9.3.1 Product:

A product is anything that can be offered to the market for attention, acquisition, use or consumption that might satisfy a want or need (Kotler, Bowen, Makens, 2011).

A product can be a tangible object (good), a destination, an organization or it can be a service like an idea, a style, etc. Most of the products are an amalgamation of goods as well as services (figure 9.1). E.g. a restaurant servicing meals offers tangible food as well as services like offering menu, serving meals etc.

Some product decisions that be made are brand name, functionality, styling, quality, safety, packaging, repairs and support, warranty, accessories and services.

Based on facilitation offered, hospitality and tourism products have four levels:

- Core product
- Facilitating product
- Supporting product

- Augmented product

Fig. 9.1: The Goods Service Continuum

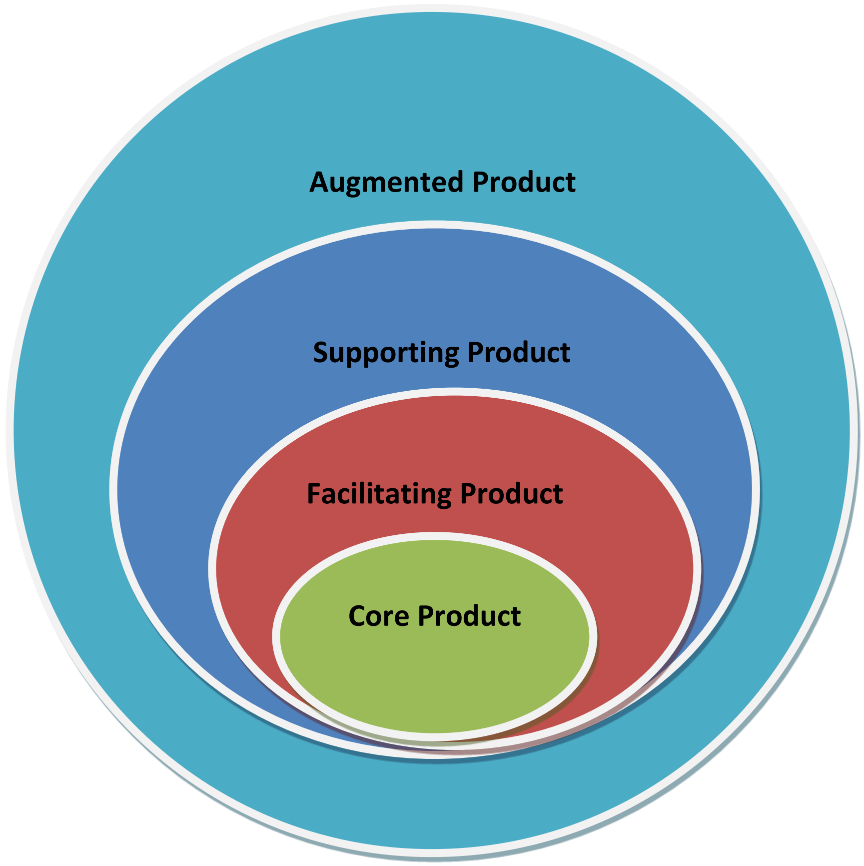
Pure Goods	Core Goods	Core Services	Pure Services
Food products	Appliances	Hotels	Teaching
Chemicals	Data storage systems	Airlines	Medical advice
Book publishing	Automobiles	Internet service providers	Financial consulting

Goods ← → Services

(Gustofsson A. and Johnson M.D., 2003, Competing in service Economy, San Francisco, Jossey – Bass, p.7)

- **Core Product:** It is the essential benefit designed to satisfy the identified needs of the target customer segment. So marketers try to sell these benefits to the customers rather than offering just a combination of features. E.g. in a hotel, the core product is accommodation facility.
- **Facilitating product:** Facilitating products make Core products accessible to the consumer. E.g. for availing of an accommodation check-in facility is essential.
- **Supporting product:** These are extra offerings to add value to the core product and help to differentiate it from the competition. Facilitating a product for one market segment may become the supporting product for another market segment. For E.g. visa services offered to a tourist going to Europe is a facilitating service while the same services offered to a tourist going to Thailand is a supporting service as in Thailand Visa on Arrival (VOA) is granted.
- **Augmented Product:** The Augmented product comprises all the forms of added value producers built into their core product to make them more attractive. It includes accessibility, atmosphere, customer interaction with the service organization, customer's interaction with each other etc. The augmented service offering combines what is offered with how it is delivered.

Fig.: 9.2



9.3.2 Price:

It is the monetary value of the product. This is what the buyer pays to the seller, including discounts, allowances, credit terms, payment period, etc (Chaudhary, 2011). The price of a product directly affects its demand in the market and the profitability of the market. Once Air travel in India was considered to be for the privileged class only while with the introduction of budget airlines around the world now even the middle class also flies with them. Organizations manipulate prices using different pricing strategies as per the demand of the market and the stage of the life cycle of the product.

Some pricing decisions that are to be made are pricing strategy, suggested retail price, volume discounts and wholesale pricing, cash and early payment discounts, seasonal pricing, bundling, price flexibility, price discrimination. According to Kotler et al (2011) factors that marketers keep in mind while deciding the prices are as under:

- **Internal factors affecting pricing decisions:**
  - Marketing objectives like survival, current profit maximization, market–share leadership, product– quality leadership

- Marketing mix strategy e.g. if marketer plans to distribute his offering through channel then he must build enough margins into the per-unit price that the discounts can be offered to the channel partners.
- Cost– company sets their prices in such a way that they cover the production, promotion and distribution costs as well as good return to the investors. E.g. it is difficult for new burger suppliers to compete with McDonald's on cost. Low-cost producers achieve cost savings through efficiency rather than compromising on quality. Lower cost results in lower prices and higher market share.
- Organizational considerations– in small companies, top management, often sets the prices while in large companies regional or unit managers handle prices under the guidelines set by corporate management. E.g. in the hotel marketing plan, monthly average rates and occupancies are given. Sales managers are then responsible for achieving these averages. During the peak season, they can achieve rates above while during low seasons they may charge rates below the average project.

- **External factors affecting pricing decisions:**
  - Market and demand– although costs set the lower limits of prices, the market and demand set the upper limit.
  - Cross-Selling and Upselling–a hotel cross-sells F&B, Gym, Salon, Spa, etc. Upselling involves training sales and reservation employees to continuously offer higher-priced products instead of low–priced products. Hotels can increase their catering revenue by 15% through up-selling.
  - Consumer perceptions of price and value–pricing decisions must be buyer-oriented. Pricing requires creative judgments and awareness of buyers' motivations. Effective pricing requires a creative awareness of the target market and "the why and how" of customers' buying decisions.
- **Other factors affecting pricing decisions:**
  - Prices offered by the competition
  - Prices of certain services are decided by the government
  - Stage of the life cycle of the product

A low-cost base can also serve as a significant barrier to entry for others wishing to enter the market in question. In supporting this strategic choice Evans et al. (2003) provide a range of means by which cost saving can be made (Fyall and Garrod, 2010). These comprise:

- By using economical resources.
- Offering "no-frill" products thus reducing the production cost and increasing the labour productivity.
- Increasing the sale to get economy of scale.
- Using the same suppliers for inputs to avail volume purchasing discount.
- Locating activities in areas where costs are low.

- Obtaining "experience" curve benefits.
- Standardizing products and resource inputs.

9.3.3 Place:

Place includes all the activities done by the company to make its product available to the target customers at a convenient time and place. So it includes distribution, movement and storage of the product at different levels of distribution.

Some distribution decisions to be taken are:
- Channels for distribution
- Span/territory for each channel
- Channel partners and their financial strengths
- Warehousing decisions
- Order and processing period required to execute them

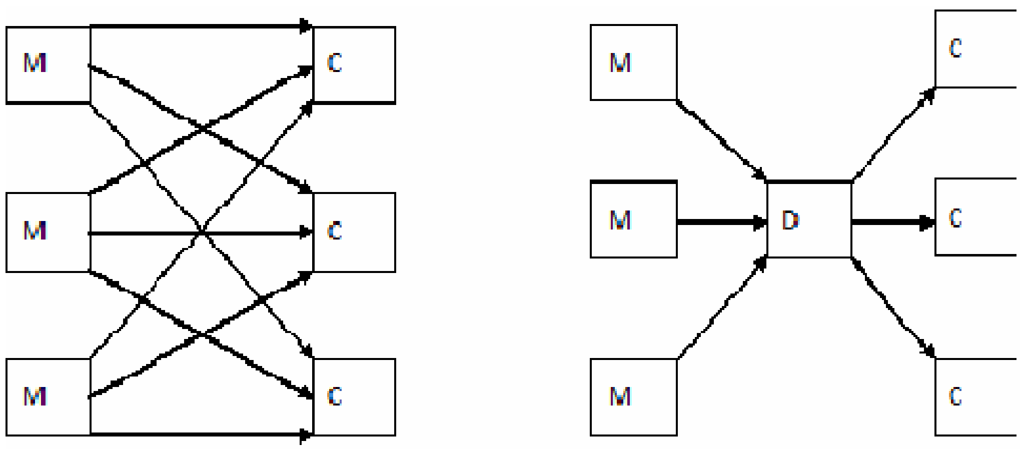


Figure 9.3

A

Number of contacts without a distributor

Number of contacts required = 3 x 3 = 9

* M = Manufacturer, C = Customer, D = Distributor

B

Number of contacts with a distributor

Number of contacts required = 3 + 3 = 6

Why marketing intermediaries are used? Intermediaries provide access to small quantities of products because these become part of a large order. It also means one call to a restaurant supply house and the order of French knife, a dozen plates, a case of candles, a dozen oyster forks, a case of wine glasses, and a case of cocktail napkins although these all are produced by different manufacturers. This becomes clearer in figure 3.

9.3.4 Promotion:

It comprises all the tools used to communicate the offer to the customers. It includes all types of advertising, sales promotion, personal selling, public relations, direct marketing, etc. If we examine the product's design, its price, the shape and colour of its package, and the store that sells it –all these play a role in communicating something to the buyer. Thus entire marketing mix must be coordinated carefully to create the desired effect on the audience.

- **Factors affecting Promotion mix:**

Companies pay a lot of attention to the factors which affect the promotion mix. Product and their market –where the buyers are less, the product is expensive, personal selling is used. E.g. MICE products are expensive and customized so personal selling with only one point of contact is used.

Push and pull– two strategies are in contrast to each other. Push means where the offering can be less customized and it is directed to the customer through the distribution channel. While in the case of Pull the offering has to be attractive enough for the customer to convert it to sale. Here the feedback from the customers is taken more seriously while designing the offering. Readiness of the buyer– As per Kotler et al "Advertising, along with public relations, plays a major role in the awareness and knowledge stages, more important than that played by cold calls from salespeople. Customer liking, preferences, and conviction are more affected by personal selling, which is closely followed by advertising. Finally, closing the sale is accomplished primarily with sales calls and sales promotion. Only personal selling, given its high costs, should focus on the later stages of the customer buying process".

PLC (Product Life Cycle) stage– Following tools are used at different stages:

- In the introduction stage –advertising and public relations for producing awareness.
- Product early-stage –sales promotion.
- Growth stage –personal selling.
- Mature stage –sales promotion again. Advertising is needed only to remind the customers of the product.
- Decline stage –advertising is kept at a reminder level, public relations dropped, sales promotion has to be strong.

Tourism products are essentially service-oriented. Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that is essentially intangible and do not result in the ownership of anything (Kotler & Armstrong, 2002), "4P" marketing mix concept is more applicable for manufacturing enterprises and is not comprehensive for service marketing. So "3P" of marketing is further extended to "7P" by adding process, people and physical evidence also to it.

9.3.5. People:

The human element involved in the manufacturing and consumption of service is the "People" element of the marketing mix. Buyers and sellers are the most obvious people element. Sales personnel serve as the company's link to the customer. Sales are seldom converted on the first call, particularly for large orders. The cost thus is enormously high. Sales representatives perform the following tasks:

- **Prospecting–** finds and cultivates new customers.
- **Targeting–** time allocation among potential customers and existing customers.
- **Communicating–** information dissemination about the products and services.
- **Selling–** approaching, presenting, answering objections, and closing sales.
- **Servicing–** consulting on their problems, rendering technical assistance, arranging to finance and expediting delivery.
- **Information gathering–** collects information from the market and fill call reports.
- **Allocating–** decides product allocation during product shortage.
- **Maintaining strategic partnerships–** senior salesperson provides valuable planning assistance to clients.

9.3.6 Process:

It includes the procedures, task schedules, mechanisms, activities, and routines by which a product or service is delivered to the customer. It is through the process that the service is delivered so it directly affects the satisfaction level of the consumer. The process becomes more important for high contact service products. E.g. all the components of a tourism product are not under the control of the service provider therefore, the provider must include the risk factors to be explained to the tourist. E.g. availability of window seat, activities subject to weather permission, etc. The procedures must be simple, flexible, cost-effective and must assure quality. Communication is a very important aspect of the process. It must be as much standardized as possible and continuous in its flow. Standard operating procedures must be used for repeated and routine processes.

9.3.7. Physical Evidence:

Tourism products being intangible need physical pieces of evidence to create tangibility. Examining all the criteria which create a positive moment of truth is essential so that the right combination of physical pieces of evidence can be presented. For tour operators, physical pieces of evidence include printed brochures, reasonably decorated air-conditioned sales offices which show pictures of different famous destinations and tours under operations. Surroundings are usually designed in such a way that they reinforce the product's positioning in the market. E.g. staff at the front desk in a five-star property, which focuses on business travellers, may wear a formal business suit while in the same city front office staff of a five-star heritage hotel may wear a local traditional dress. Communication should also reinforce the positioning. E.g. Chicky may be an extremely effective mascot for KFC but it does not do the same for Six Senses Resorts and Spas. Some authors argue that there is an eighth "P" also but marketers may say that they include packaging as just one of many product decisions. Some authors argue that the "7P" of marketing depicts the seller's view of the marketing. As per them in today's time customer relationship the customer's point of view is more important, the "7P" might better be described as "7C" of marketing as under–

Fig 9.4: Interpretation of 7Ps as 7Cs of marketing

7Ps	7Cs
• Product	• Customer Solution / Choice
• Price	• Customer Cost
• Place	• Convenience
• Promotion	• Communication
• People	• Consideration
• Process	• Consistency
• Physical Evidence	• Confirmation

9.4 Need, Role and Importance of Marketing Mix:

To understand and design marketing mix marketers are required to understand its fundamental functions. These functions can be summed up as under:

9.4.1 Need fulfilment–till each party involved in the exchange is not satisfied with what is offered the real sale is not possible.

9.4.2 Pricing function–after the first function the marketer has to determine the sacrifice which the customer will be ready to pay to obtain the service.

9.4.3 Communication– informing and creating a positive environment about the offering in the market

9.4.4 Distribution– marketers have to decide where, when and how they make their offering available to the customer/market so that the exchange can take place.

A widely held maxim among academics and practitioners of marketing is that to compete effectively, businesses need to achieve a dynamic fit between their internal resources and capabilities and their external market environments (Drummond & Ensor, 1999).

9.5 Designing and Developing Marketing Mix:

Marketing mix designing and development is the process of developing strategy and tactics for the implementation, monitoring and control of the firm's products, pricing, promotion, distribution, personnel, physical evidence and service provision processes. The basis of the marketing mix plan is the establishment of achievable marketing objectives. Objectives should state "what and when" very clearly and does not state "how" the results are to be achieved (Kitchen and Proctor, 2001). To be achievable the objectives have to be measurable and concrete. A statement saying "Need to increase profit" is abstract because it is not measurable but when we amend it to "Need to increase profit by 15%" then it becomes concrete and measurable. After doing planning for the entire organization, the management does it for each functional division, such as marketing, finance, production, R & D, etc. functional division plans are based on the organization-wide or SBU plans.

According to Evan et al. (2003), there are three key facets of strategic choice:

- Formulation options for future development.
- Evaluating the available options.
- Select which options should be chosen.

According to Porter (1980), competitive strategies can be condensed into three generic types that can be applied equally to any industry. These are:

- Overall low-cost leadership: by achieving the lowest costs of production among competitors.
- Differentiation: through achieving superior performance in an important customer benefit area.
- Focusing: on the needs of one or more small market segments and achieving either cost leadership (cost focus) or product differentiation (focused differentiation).

The company needs to develop and implement that marketing mix that best will suit the attainment of objectives in the target market. Like other planning Developing a marketing mix is also flexible in nature and can be amended as per the changing market situation. It is a continuous, multiple steps process. These steps are Situation Analysis, Deciding competitive rivals, Determining Marketing Objectives, Select Target markets and measuring market demand, Implementation and Control.

9.5.1 Situation Analysis:

Situation analysis means the details are required to be collected on

- Target market in terms of market size, expected growth, trends, completions and their policies.
- Products in the market, new developments and innovations taking place, sales are done and expected change in it, profit margin, trends in sales.

- Marketing strategies of competition and the expected new competitors in the market, the market size of the competition and the expected change in it concerning that of your company's.
- Analysis of a particular distribution channel's status in terms of units sold, profit given.
- The analysis is also required to be done for thorough strategic planning, the company decides what policies are used by competition to deal with the distribution channels, credit periods for each channel separately, maintaining good relations with channel partners, defining and redefining the role of channel partner in increasing the market size.
- Analysis of the change in the trends in the demographic, technological, economical and socio-cultural factors which will affect the company's products.
- If it is declining, identify the problems that exist and be able to change the ones you can. Show how you can adapt to changes that you can't control.
- If your industry is maturing, show how as a new company, you may be able to better adapt to external forces; better than the more mature competition.
- Examine whether or not your industry is growing, maturing or declining.
- In a newly emerging and growing market (the best scenario), differentiate yourself from new competitors. Show how you expect to become a major market shareholder, using a new approach to the marketplace and utilizing the latest technology.
- Identify the older methods of generating your product/service being challenged by your business' approach.
- Acknowledge the problems and challenges of the marketplace you are entering. Use your analysis to construct a strategy that will put you ahead of your competition.
- Look to ways of prolonging the "life" of your business if you recognize that what you are getting into is threatened by newly emerging technologies and business approaches.
- In your market analysis focus is on key areas like industry-wide sales performance. Look to national and provincial averages, citing performance reasons.
- Your focus should also turn to the local scene. Compare the local situation to the national and provincial averages; the trends in sales, and the estimated total market that can be reached by local companies.
- Finally, relate your businesses position to the position of others, reflecting on the maturity and experience of your business competitors (www.nadf.org/upload/documents/your-marketing-plan-template.doc).

9.5.2 Consumer Analysis:

- Identify your target market, describing how your company will meet the needs of the consumer better than the competition does. List the expectations consumers have for your type of product. Since demands may be different, products and services will vary between competitors. Quality, price and after-sales service are just some of the areas where this difference occurs.

- Identify the segment of the market that will benefit from your product and area of expertise as well as your approach to selling your product or service.
- Predict the sales potential that may be realized by tapping into and holding onto your target market, and attracting others through different strategies and approaches. These different approaches can be all done at the same time or be more incremental - obtaining a core audience for your product or service first, then expanding into the rest of the market. Identify the sales potential for each of these target groups. (www.nadf.org/upload/documents/your-marketing-plan-template.doc).

Complete analysis of the company's situation in the market helps in the analysis of the situation in which the company is operating and in the recognition of the potential opportunities to bypass the future upcoming threats by better preparation for the future. At the end of this entire analysis, the company has a list of its weaknesses, strengths and potential threats and opportunities. Aftermarket / situational analysis the firm gets its relative position about its nearest rival in the market. It directly influences the strategic future choice that the company makes.

9.5.3 Deciding competitive rivals

Determining competitive rivals is very important so that competitive strategies can be developed to respond to the changes in the environment and to get an edge on the competition. As per Porter rivalry is extended beyond similar firms. As per him, the forces that drive the competition in the market can be summed up as under and these include even suppliers and buyers too. See figure 9.5. This is called the five forces model.

Suppliers: The power of suppliers is liable to be strong where-

- Control over suppliers is concentrated in the hands of a few players.
- Costs of switching to a new source of supply are high.
- The supplier has a strong brand.
- The supplier is in an industry with a large number of smaller disparate customers.

Potential entrants: The threats of potential entrants will be determined by some barriers to entry that may exist in any given industry where-

- The capital investment necessary to enter the industry is high.
- Gaining access to an appropriate distribution channel is difficult.
- A well-entrenched competitor who moved into the industry early has been able to establish cost advantages irrespective of the size of its operation.
- Government legislation and policies, such as patent protection, trade relations with other states and state-owned monopolies can all act to restrict the entry of competitors.

- The prospects of a well-established organization's hostile reaction to a new entrant are sufficient to act as a deterrent.

Buyers: The power of buyers is liable to be strong when:

- A few buyers control a large percentage of a volume market.
- There is a large number of small suppliers.
- The cost of switching to a new supplier is low.
- The suppliers' product is relatively undifferentiated, effectively lowering barriers to alternative sources of supply.

Substitutes: Substitution can arise in several ways:

- A new product or service may eradicate the need for a previous process.
- A new product replaces an existing product or service.
- All products and services, to some extent, suffer from generic substitution.
  As per Drummond and Ensor, 1999, a strategic group analysis for the airline industry based on price and geographic reach are given below.

Competitive rivalry: The intensity of competition in the industry will be determined by a range of factors:

- The stage of the industry life cycle.
- The relative size of competitors. In an industry where rivals are of similar size, completion is likely to be intense as the strife for a dominant position. Industries that already have a clear dominant player tend to be less competitive.
- In industries that suffer from high fixed costs, businesses will try to gain as much volume throughput as possible. This may create competition based on price discounting. There may be barriers that prevent businesses from withdrawing from an industry.

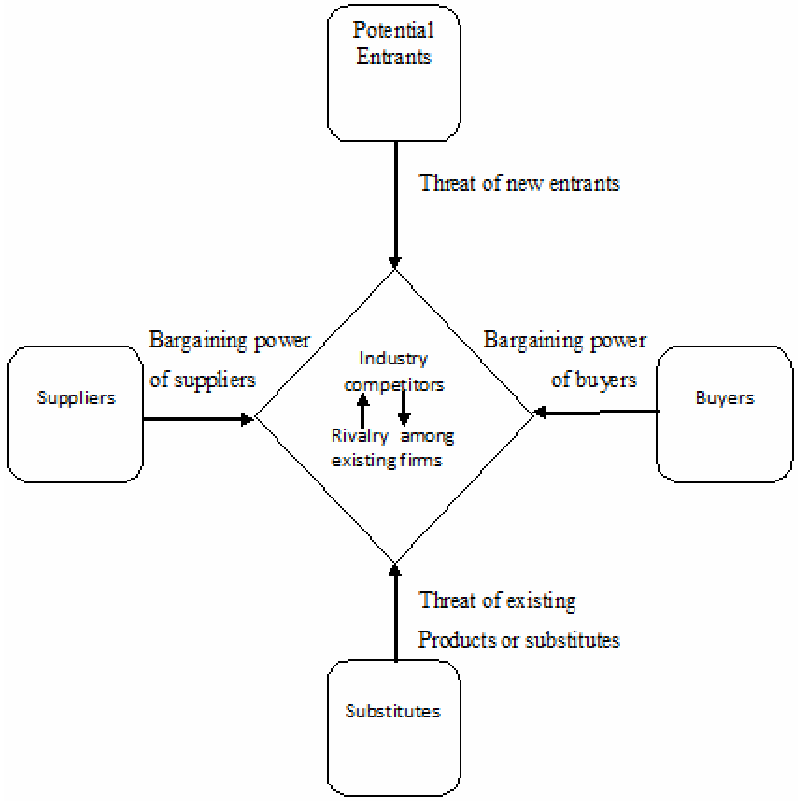


Figure 9.5 Forces Driving Industry Competition
(Porter, 1980)

The company faces challenges from all fronts. These can be compiled as under:

Competition in the similar offer category: Whenever a marketer tries to outdo the others by offering better benefits in terms of prices, better quality services, lower prices, adding more attributes to the product or even by improving the efficiency, it always faces competition from other players in the same field as they also try to outdo him.

Competition in the related product category: there are offers which are different but still they meet the same set of needs. Customers sometimes may prefer them because of the economy or better availability. E.g. airlines compete with surface and water transport, hotels compete with lodges, guest houses, cruises, etc.

Competition in different product categories: some offers are not from the same product category but still compete with the product.

9.5.4 Determining Marketing Objectives:

These are broad, long term, action-oriented areas of the marketer. These can be specified in terms of markets or products such as market penetration, market development, product development, and entering into new markets (Chaudhary, 2010). Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives (Kotler & Armstrong, 2002). Based on the company-wide goals and strategies, the goals at the marketing level are set. Sometimes company goals are so closely associated with marketing goals that these goals are translated to marketing goals directly. E.g. if the company plans to cut down the expenditure then this cannot be done by cutting the advertising and sales promotion budget so in this scenario cutting down on incentives or revising the pay structure may be two of the several options which the company may consider. So we can say that the strategic aims are defined in specific objectives so that during planning we can focus on them. For E.g. the term market share can be converted into the number of tourists and then be more precise the number of tourists can be converted to the number of potential tourists to be contacted (depending on the conversion rate of the particular segment). Most of the time, the choice of the option depends on the external environment in which the organization is operating. E.g. during recession tour operators try to sustain themselves by launching small and economical packages as people have little time and lesser money to be spent on leisure.

9.5.5 Select Target markets and measure market Demand:

The company targets a particular market after doing a thorough analysis of segment size and growth, segment attractiveness and the company's objective and resources. The company first analyses the expected sales growth of different segments and then evaluates it with the current target segment. Based on the resources available with the company target market(s) is/are chosen.

The largest and the fastest-growing segment may not be the choice for all the companies as small companies prefer smaller segments due to resource and skill limitations. A company's objective also has a very important role in deciding the target segment. E.g. if Union Beverages enters into budget hotels it may be difficult for them to make a mark as the company has always been targeting higher segment, while it if does so in luxury hotels their target market will easily be trapped by them, as they have been catering and have a good rapport with them. If the company is new then the company needs a thorough analysis of the markets in detail to identify the potential market that it would like to trap in the future. In the case of the firms which have been in the market for a while, the management should keep on reassessing its choice of the target market to ensure that they are still profitable and have the capacity and demand to survive for the future too. Firms may also reassess their target market to ensure that they are worthwhile the resources of the company concerning the profitability of the company spends its same resources on some other target market. If the firm is targeting more than one market then it needs to forecast the sales for all these markets separately and need to include this sales forecast in its planning process.

9.5.6 Implementation:

If not implemented properly even the best of the plan would not give the desired results. Planning of marketing decides what and why of the marketing while implementation focuses on who, where and when of it. Marketing implementation is the process that turns marketing plans into marketing action to accomplish strategic marketing objectives. Implementation involves day-to-day, month-to-month activities if that effectively put the marketing plan to work.

Effective implementation gives a competitive advantage to the company. Implementation is tougher than planning. It requires coordination between thousands of people inside and outside the organization regarding a day –to –day decisions. Marketing managers decide target segments, branding, packaging, pricing, promoting and distributing. They connect with people elsewhere in the company to get support for their products and programs. They also connect with outside people, such as advertising agencies to plan ad campaigns and the media to obtain publicity support (Kotler et al 2002).

9.5.7 Control:

Since the future is always unexpected, irrespective of the best of our predictions, we need constant marketing control. It involves evaluation of the results of marketing strategies and plans and taking corrective measures, if necessary. Management checks the performance on the parameter of goals set then finds out the causes of any differences between expected and actual performance. Finally, the corrective measure is taken to reach the goal. This may require changing the action or if required the entire goal may also be changed.
Control is of two types:

- Operating Control
- Strategic Control

Operating Control: checking ongoing performance against the set goal. The purpose is to achieve the sales, profits, and other goals set out.

Strategic Control: checking the strategies set by the company against the opportunities available. It is usually done through market audit and helps to prevent the marketing programs from becoming outdated. The market audit is usually conducted by an objective and experienced outside party. These four steps of designing and developing a marketing mix are related to each other as under:

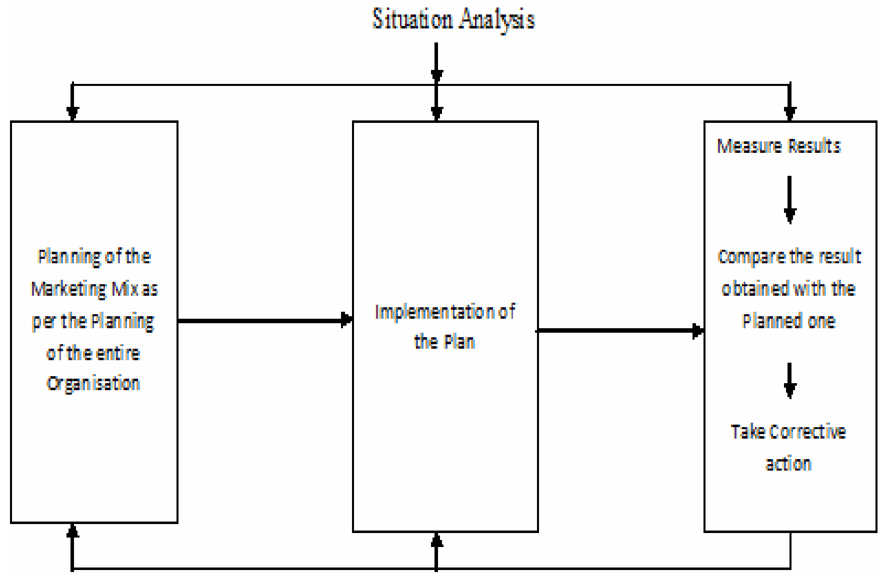


Fig 9.6: The relationship between situation analysis, planning, implementation and control of marketing mix

9.6 Self–Assessment Questions (Saq):

1. What are the 7Cc and 7Ps of the marketing mix?
2. How the marketer responds to the changing market environment by making changes in his marketing mix? Explain with the help of an example.
3. With the help of an example explain all four levels of a tourism product.
4. What are the means of cost savings?
5. You plan to open up a travel agency selling tickets and domestic tours to the local market. Do a comparison of any three places you are considering for opening your Travel Agency and decide the final place giving reasons why you zero down on that?
6. "People" is an important element of the marketing mix in tourism. Why?
7. What are different pieces of physical pieces of evidence used by tour operators while marketing their products?

9.7 Lets us Sum Up:

To sum up we can say that marketing mix helps in gaining the right offers to the right buyers at the right time with the right prices under the right environment and using the right system. It is used to achieve the marketing objectives. We have also learnt that a marketing mix is a combination of company controlled elements in response to the external uncontrolled environment. The marketing mix is developed by following a well-planned strategy and the company keeps on changing it if the environment requires doing. Environmental analysis is an important preliminary step in developing the marketing strategy. This follows the sequence Situation Analysis, Deciding competitive rivals, Determining Marketing Objectives, Select Target markets and measure market demand, Implementation and Control.

9.8 Glossary

- **Marketing Mix:** It is a combination of controllable generating variables, which are manipulated by the company to obtain the desired response from its target market.
- **Product:** A product is anything that can be offered to the market for attention, acquisition, use or consumption that might satisfy a want or need.
- **Core Product:** It is the essential benefit designed to satisfy the identified needs of the target customer segment.
- **Facilitating Product:** Facilitating products make Core products accessible to the consumer.
- **Supporting Product:** These are extra offerings that are offered to add value to the core product and help to differentiate it from the competition.
- **Augmented Product:** The Augmented product comprises all the forms of added value producers built into their core product to make them more attractive.
- **Price:** It is the monetary value of the product and includes discounts, allowances, credit terms, payment period, etc.
- **Place:** Place includes all the activities done by the company to make its product available to the target customers at a convenient time and place.
- **Promotion:** It comprises all the tools used to communicate the offer to the customers.
- **People:** The human element involved in the manufacturing and consumption of service is the "People" element of the marketing mix.
- **Process:** It includes the procedures, task schedules, mechanisms, activities, and routines by which a product or service is delivered to the customer.
- **Physical Evidence:** Tourism products being intangible need physical evidence to create tangibility. Examining all the criteria which create a positive moment of truth is essential so that the right combination of physical pieces of evidence can be presented.
- **Operating Control:** checking ongoing performance against the set goal. The purpose is to achieve the sales, profits, and other goals set out.
- **Strategic Control:** checking the strategies set by the company against the opportunities available.

9.9 Reference Books:

- Kotler P., Bowen J., Makens J (2011), Marketing for Hospitality and Tourism, Dorling Kindersley India Pvt. Ltd, New Delhi, p. 229 - 498

- Chaudhary M. (2011), Tourism Marketing, New Delhi, OUP, p. 62-347
- Kitchen P.J. and Proctor T.(2001), The informed student guide to marketing, London, Thomson learning, p. 174-184
- Kotler & Armstrong (2002), Principles of Marketing, New Delhi, Prentice-Hall of India, p. 69 -75, 291-512
- Evans N., Campbell D., and Stonehouse G. (2003), Strategic Management for Travel and Tourism, Oxford: Butterworth –Heinemann
- http://www.netmba.com/marketing/mix/
- Porter M. (1980), Competitive Strategy, New York, Free Press
- Fyall A. and Garrod B. (2010), Aspects of Tourism Marketing, New Delhi, Viva Books Pvt. Ltd
- www.nadf.org/upload/documents/your-marketing-plan-template.doc
- Drummond G and Ensor G. (1999), Strategic Marketing: Planning and Control, Oxford: Butterworth –Heinemann
- Dasgupta D. (2011), Tourism Marketing, Pearson Education, New Delhi, p. 73-90.

9.10 Suggested Readings:

- Kotler P., Bowen J., Makens J. (2011), Marketing for Hospitality and Tourism, New Delhi.
- Dorling Kindersley India Pvt. Ltd
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press
- Stanton J.W., Etzel M.J., Walker B.J., Fundamentals of Marketing, IX edition, McGraw –Hill, Inc.
- Kotler & Armstrong (2001), Principles of Marketing, New Delhi, Prentice-Hall of India.
- Rajan Saxena - Marketing Management, Tata - McGraw Hill.
- Ramaswamy & Namakumari - Marketing Management, McMillan.
- Kotler Philip and Keller; Marketing Management, PHI, New Delhi.
- Kotler Philip, Kevin Keller, A. Koshy an M.Jha, Marketing Management in South Asian Perspective, Pearson Education, New Delhi.

9.11 Terminal and Model Questions:

- Identify 4C's and 4 Ps of a destination of your choice.
- Why do we need to expand the marketing mix for services like tourism?
- Explain the need and importance of situation analysis in developing a marketing mix.
- What are the components of the marketing mix of India?
- Which neighbouring country of India do you find is the competition to India in leisure tourism? Justify your answer.

Unit-10
Competitive Differentiation and Product Positioning

Structure:

10.1 Introduction:

Differentiation and Positioning are two very important aspects of marketing. While differentiation tells the features to focus on, positioning tells us how the offer is to be placed in the consumer's mind. All business units want an answer to achieving the goals. Michael Porter (1980) argues that companies can do so through overall cost leadership, differentiation and focus. Here in this unit, we will discuss competitive differentiation, positioning and frequently happening positioning errors.

10.2 Objectives:

This Unit-10 aims at explaining the concepts in competitive differentiation and Product Positioning as a prerequisite for explaining the designing of Marketing Strategies.

1. To understand the concepts of "Competitive Differentiation" and "Product Positioning".
2. To understand the concept of product differentiation.
3. To understand how competitive product differentiation can be done.
4. To understand the stages of differentiation.
5. To understand how differentiators are chosen.

10.3 Competitive Differentiation:

This involves differentiating the product from competitor's product or services as well as doing the same from one's products and services too. In this, the company focuses on achieving better market performance by concentrating on an important customer benefit area valued by a large part of the market. A hospitality and tourism company must always differentiate their offerings from those of other providers in the market. The marketers must differentiate only on those benefits which are valued by the customers. The term **"Unique Selling Proposition"** means the communication of the product's differentiation. Each company tries to achieve monopolistic competition which is only possible through successful differentiation.

So the ultimate motive of differentiation is to achieve a unique position in the mind of the customer. Many marketers argue that differentiation is used to charge higher money from the buyer. However, the fact is that since customers value the offer by the company, they do not give high value to the price feature of the product.

10.4 Product Differentiation:

It can be done by following ways
- Differentiation through physical attributes
- Differentiation through service delivery

- Differentiation through better accessibility (location)
- Differentiation through an image makeover

10.4.1 Differentiation through physical attributes:

Underwater submarine restaurants, Raffles in Singapore, Ice and snow hotels, Houseboats in India and elsewhere, etc. are some of the examples of the products which have created their benchmark in the market through differentiation in their physical attribute. Differentiation that excites the customer and offers something new can lead to excellent public relations opportunities, customer loyalty, and greater profits.

Unfortunately, many companies lack physical attribute differentiation. When the chances of repeated clientele are not very high and depend a lot on the availability of the product then companies need to pay much attention towards making a special physical attribute. Companies prefer to do this when they know that their customers would not mind paying extra and taking extra pain to buy their product only and their decision will not be subject to convenience in terms of availability.

10.4.2 Differentiation through service delivery:

This is the most commonly used differentiation technique in the tourism and hospitality industry. In check-in service, reducing the waiting time, similarly in restaurants by making a slot booked through a phone call made from home, free home delivery, etc. are some of the examples through which most of the tourism and hospitality companies try to create a niche market for themselves. Ease of use, comfort, efficiency and practical feature are some of the features which buyers want in the products they buy.

Marketers keep on incorporating these features in their products so that they can stop their products from becoming obsolete and unwanted in the market. When the company keeps on providing unwanted and low-quality services to the customers then this creates an undesirable differentiation for their product. Friendly staff, recognition of guests by their first names, assistance in making product decisions, opportunities to socialize, and no pressure to leave are some of the services which are appreciated by the customers.

Since most of the companies do not understand and hence are not able to inculcate these service qualities in their employees, therefore those which can do so, make a lasting impression and niche for themselves in the market.

10.4.3 Differentiation through competent and skilled personnel:

If Singapore Airlines has a good reputation in the market, it is largely because of its employees. Therefore we can conclude that hiring and retaining quality candidates is very important to gain a competitive advantage. It is only possible if the company selects and trains the front line staff very carefully. This staff must be competent and possess the required quality in terms of knowledge as well as skills.

As per Kotler (2011), "they (employee) need to be courteous, friendly, and respectful. They must serve customers with consistency and accuracy, and they must make an effort to understand their customers, communicate clearly with them, and respond quickly to customer requests and problems".

10.4.4 Differentiation through better accessibility (location):

Location plays a very important role in deciding the success or failure of a company. The benefit created by the location is subject to change. Factors such as a new highway bypass or criminal activity in a neighbourhood can quickly turn an advantage into a problem. E.g. hotels close to Indira Gandhi International Airport in New Delhi or Centaur Hotel in Mumbai have a strong competitive advantage over any hotel in a suburban area.

Before expanding and increasing the number of locations, tourist companies must analyze the factors in terms of location which have been conducive for the development of the company.

10.4.5 Differentiation through an image makeover:

The tourism companies try to differentiate from their competitor by making an image in the market which is different from their competitors. When the offers are the same the customers perceive the difference by checking on the image in the market. The marketer must keep in mind that the image is communicating the same message in the market which the product's major benefits and positioning also communicate.
Destinations work hard to develop an image for themselves. Brazil has an image that communicates Powdery white-sand beaches, lined with palm trees and fronting a deep blue Atlantic, music-filled metropolises and enchanting colonial towns. Similarly, Thailand has an image of having an irresistible combination of breathtaking natural beauty, inspiring temples, outstanding hospitality and superb cuisine.

10.5 Stages of Differentiation:

This three-step process is done as under:

10.5.1 Enlisting the factors valued:

Based on market research done the company first enlist all the factors valued by the customers so that a customer–value model can be prepared.

10.5.2 Deciding value hierarchy:

A hierarchy model should be prepared in which the factors have to be classified under categories like the basic, expected, desired and unanticipated.

10.5.3 Preparing a customer value package:

After preparing the list of hierarchies the company chooses the combination of factors that will outperform the competitors' offers and will achieve customer loyalty through customer delight.

10.6 Deciding The Differentiators:

Only those differentiators must be chosen which satisfies the following criterion
10.6.1 Important– the difference delivers a highly valued benefit to target buyers.
10.6.2 Distinctive– the difference which is either not available with the competitor or may not be in such a distinctive way in which the company can offer it.
10.6.3 Superior– the difference is superior to the benefit which the customer might obtain from other benefits.
10.6.4 Communicable– the difference is communicable and visible to the buyer.
10.6.5 Preemptive– competitors cannot easily copy the difference.
10.6.6 Affordable– buyers can afford to pay for the difference.
10.6.7 Profitable– the company can introduce the difference in the market profitably.
Principles

Not every difference is worth focus and every difference cost some resources as well as create profit for the company. Therefore the differentiators must carefully be selected. The image of the hotel is a meaningful differentiator but the number of the storey in the building of the hotel may not be so, in fact, it may turn off some of the customers.

Similarly, for destinations, the security of the tourists is one the most important differentiator.

10.7 Positioning:

"A product's position is how potential buyers see the product or service and is expressed relative to the position of competitors".
"Without a position, it is almost impossible to achieve a meaningful and sustainable point of differentiation. (http://www.createwanderlust.com/marketing-tourism-defining-a-brand-positioning)".

E.g. Malaysia is positioned as a heritage tourist destination, Dubai is positioned as a shopper's paradise and Kerala is positioned as a health tourism destination etc.

To establish and communicate the package/programme's distinctive features to the target market. Positioning is a communication strategy that is the natural follow-through of market segmentation and target market (Dasgupta, 2011).

Repositioning involves changing the identity of a product or a service, relative to the identity of competing products or services, in the collective minds of the target market.

As per Dasgupta (2011) De –positioning involves attempting to change the identity of competing products or services, relative to the identity of your product or service, in the collective minds of the target markets.

The consumers of today are overloaded with unwanted and untimely information so they have developed a tendency to discard all the information received. Jack Trout in his book Positioning: The Battle for Your Mind, defined positioning as an organized system for finding a window in the mind. It is based on the concept that communication can only take place at the right time and under the right circumstances.

Sometimes products are positioned against other product classes too. E.g. cruise liners place themselves against all-inclusive package tour operators and destination resorts, Conference centres compete with hotels with conference services, etc.

If the competition for a particular product increases then the companies must try to further differentiation. E.g. business hotel in the heart of the city and business hotel close to the airport, etc. This sub –positioning is also called a niche market. E.g. Hi –seas cruise liners have developed a niche for themselves in the cruises market. As per Chaudhary (2011), product positioning has the following features:

- It is relative.
- It is focused and clear.
- It is perceptual that may or may not be similar to the projected image of the marketer.
- The position is influenced by multiple forces such as the background of the buyers and the competitor's and marketer's position efforts.
- Communication helps in building a position. It may be projected at par, below, or above the real image depending upon the nature of its target market.
- It is a continuous process. Position may change with new entrants in the market or with the efforts of old competitors or the firm may decide to reposition its products.

10.8 Components of Product Positioning:

The Positioning concept has four basic concepts. These are

1. Product market or the structure of the market
2. Consumer segmentation
3. Consumer perception of our brand concerning that of the competitors

4. The attributes or the benefits offered by the brand

All these four components of the positioning are very closely connected therefore, must be considered together while deciding the brand positioning.

10.8.1 Product Market or Product Class:

It is a set of products and brands which are perceived as substitutes to satisfy some specific consumer needs. Product class is also known as a product category. The categorization done by consumers based on consumer judgments of similarity and substitution is more reliable than the one done by the industry itself. E.g. in India, low–cost tours would undoubtedly be grouped with higher-priced outbound tours in the category of OBT (Out Bound Tours). There is little doubt, however, that these low–cost tours have also been positioned by consumers against the high–end USA, Australia and New Zealand tours and have been perceived by them as substitutes for such tours.

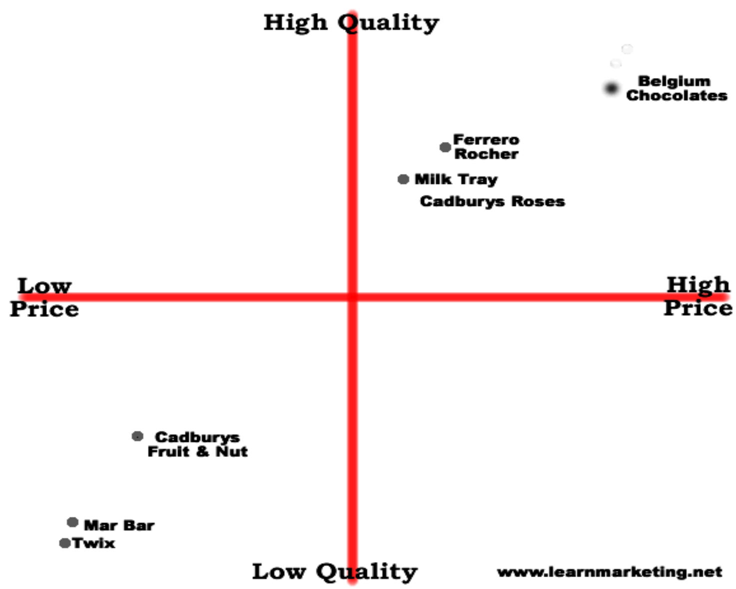
10.8.2 Consumer Segmentation:

Positioning a product or brand is always done about a particular target segment. Here we need to understand that positioning a brand and its target segment must be an integrated part of a strategy. The closure our product is to another product in terms of its usage, the lesser is the possibility of clear market segmentation, hence the positioning of both the products will more be similar and lesser distinguishable from each other. A very practical example of this we find tours to Mauritius.

10.8.3 Perceptual Mapping A Method Of The Measurement Of Brand Positioning:

Perceptual mapping is a tool that is used to measure brand positioning. Usually, two–by–two perceptual mappings are done as it provides an easy read picture, but then to obtain a good feel of the market one is required to study multiple maps. One needs to understand, that in this type of map the positions are essentially neutral; that is, one spot on the map does not inherently have to be better or worse than another (Dev et al, 1995).

FIG. 10.1 two–dimensional configurations of six chocolate brands



(Figure courtesy: Google Images)

We have studied in this unit earlier that a consumer's perceptual space forms the theoretical basis of positioning. Although perceptual mapping has its theoretical basis for brand positioning it cannot be substituted for consumer judgments. The information on consumer judgments can only be collected through field research.

Various techniques are available for perceptual mapping. Profile charts are one such technique which very common in India. Some of the other used techniques are hierarchical cluster analysis, multiple discriminant analysis conjoint analysis, etc. MARG is one of the few market research organizations in India which has acquired the software and has used MDS techniques to analyse market structures and study positioning opportunities.

10.8.4 Benefits Offered by the Product:

The attribute is the manufacturer's views of the brand. Here we need to understand that these attributes have to be translated into consumers' benefits to make a mark on the mind of the consumer. Brands that are similar in their attributes are considered to be in the same competitive set.

10.9 Positioning Through Value Prepositions:

Before selecting the competitive differences on which the company can lay the foundation of product differentiation the company must consider those on which it can build its positioning strategy. The company needs to answer the following questions first:

How many differences should focus on… i.e. identifying the attributes. Not all differences are worthwhile so which differences to concentrate on… i.e. evaluating and selecting the attributes.

Fig. 10.2 Possible value prepositions

		Price: More	Price: The same	Price: Less
Benefits	More	1. More for More	2. More for the same	3. More for less
	The same			4. The same for less
	Less			5. Less for much less

Selecting the overall positioning strategy depends on the value proposition chosen. The full positioning of a brand is called the brand's value proposition –the full mix of benefits upon which the brand is positioned. It answers the customers on the question "why should I buy it"? Figure 10.2 shows some of the possible value prepositions used by the companies. Block 1 to 5 shows the winning combination. These are more for more, more for the same, the same for less, less for much less, and more for less (Kotler, 1999).

10.9.1 More for More:

It means charging a higher price for an upscale product. Ritz –Carlton Hotels, United Airlines, FIT packages, etc. are some of the examples of it. It symbolizes status and a high-end lifestyle. Most of the time, the price difference is more than the actual increment in the quality, so it is used for niche marketing and increases profit percentage. Therefore, more for more brands attract me-too imitators. Besides this during economic turn down these high-end products and services are the first ones to get worse affected.

10.9.2 More for the same:

Companies attack competitors' more for more strategy by offering more for less strategy. The companies which have a larger market share can afford to imply more for the same strategy. Non–branded tour operators, those vendors who keep less profit margin, dot com companies have lesser fixed costs, etc are some of the examples who use more for the same strategy.

10.9.3 The same for less:

It is a power-packed model. They don't claim to offer different or better products. Sometimes they offer many of the same brands as department stores and speciality stores. Tour operators who can sell tours in the grey market are some of the examples who use more for the same strategy.

10.9.4 Less for much less:

There is always a market for products that offer less and hence cost also less. There are very few customers who can afford the very best at a higher rate. Customers usually prefer a no-frill offer or even let some services go by if they can in such a deal. Motel 6 and Southwest Airlines are using this positioning strategy. Motel 6 does not offer pool, cable television, attached restaurant, etc and charges less accordingly. Southwest offers hour flights, without amenities, no first-class section, only three-across seating in all its planes. No reserved seats, all seats on a first come first serve basis. Southwest refuses to take itself seriously. Its employees amuse and entertain passengers.

10.9.5 More for less:

Theoretically, this looks like one of the best winning propositions. Although it is the "Winning Mantra" only for the short run. Continuing and sustaining the growth in the long run and still maintaining the best of both positioning is very difficult. The fall of Indian retail stores Subhiksha and Vishal is a very relevant example of it. Marketers should focus to promote only one benefit at a time. Developing USP (Unique Selling Proposition) and sticking to it will help the marketers in the long run. Thus SOTC promotes itself as "Expect more" which means delivering more than the promised, Kingfisher promotes itself as India's leading carrier, etc.

What are those prepositions on which a company can rely? These can be the best quality, best service, lowest price, the best value, and best location. Some authors argue that in today's over the communicative and competitive world the company cannot rely on only one value that's why the hotels advertise themselves as "Delivering best value at the best location", a restaurant may claim that "it delivers tasty food with the best of services", etc. Motel 6 consistently promotes itself as the lowest–priced American chain.

Through this companies try to broaden their positioning strategies to appeal to more segments. However, if companies do so to a large extent they may lose the focus that may result in mispositioning.

10.10 Positioning Errors:

Usually, companies do three types of positioning errors

- Under positioning
- Over positioning
- Confused positioning
- Doubtful positioning

10.10.1 Under–positioning:

Many tour operators, DMOs (Destination Management Companies), and Airlines plan to capture international markets through strategic alliances. They perceive that these alliances have international exposure as well as resources to approach therefore only by being a part of that alliance they can trap the international market. But they forget that international buyers have very little or no idea about them. This is a typical example of under positioning.

10.10.2 Over positioning:

In this companies give too narrow an image about the product in the market. As a result of which, the potential buyers remain too less and the market does not remain viable.

10.10.3 Confused positioning:

Buyers might have a confused image of the brand resulting from the company's making too many claims or changing the brand's positioning too frequently.

10.10.4 Doubtful positioning:

Buyers may find it hard to believe claims because of products feature, price or manufacture. Good positioning helps to convert a customer to a brand loyal customer, therefore, helping in brand loyalty.

10.11 Positioning of Uttarakhand:

With Jim Corbett National Park, Valley of Flowers, Nainital, Mussoorie, Almora, Kausani, Bhimtal and Ranikhet being there Uttarakhand can certainly be positioned as a nature-based destination. Certain surveys suggest that tourists visit Uttarakhand for 4-7 days. So it is evident that Uttarakhand can certainly be positioned as a weekly destination by offering various activities. It requires a differentiation strategy to be used by offering religious tourism, trekking, mountaineering, bungee jumping, rafting and other various adventure sports.

10.12 Strategies:

Marketers usually position their products on specific product attributes. This is a perilous stage in tourism and hospitality because these products are highly associated with service delivery and there are several moments of truth. Products can also be placed against other product classes. It has already been discussed n this unit earlier too that how cruise liners place themselves and Conference centres compete with hotels with conference services, etc. Both Hong Kong and Singapore serve more or less the same kind of tourism destination –image and that too in the close geographical regions. Once they were competitors, therefore, slowly and gradually they started developing their niche markets by differentiating themselves. While Singapore is paying a lot of attention towards developing itself as a medical tourism destination, Hong Kong still maintains the same status of a luxury filled, the urban destination which is an amalgamation of western and Chinese culture.

10.13 Implementing the Positioning Strategy:

The company must always compare its offerings and prices to that of its competitors and continuously look for possible improvements. It must keep on doing this to the extent that it becomes better than its competitors; this is where the company gets a competitive advantage.

Tourist destinations are using local festivals to position themselves. Brazil and Colombia have done so by marketing the carnival, Goa is also following the same league.

Positioning is not just about including the services and making a product. Sometimes companies become reactive too and unbundle the components of their products to suit the market needs. E.g. until the early 1970s, many destinations use to offer all meals inclusive packages (American Plan or AP), but gradually they realize that the lunch is not on the wish list of the customers so they omitted it. Then the preferences further changed and owners started offering accommodation with only breakfast included (European Plan). This same positioning strategy may not work for all-inclusive cruises while high-end cruises with good options of dining may offer MAP (Modified American Plan).

10.14 Communicating the Positioning Decision:

After choosing characteristics on which the company wants to lay down its foundation of product positioning the company must divert all its marketing mix efforts to support its positioning strategy. E.g. if the company decides to focus on the attributes of the product then it must do a thorough survey of the needs and perception of the target market before launching the product or doing any major change in the product. This is usually done when tour operators offer low-cost group tours to a highly competitive price-conscious market. The same may not be the case if the company plans to get a competitive advantage through better services, then the company must hire service-oriented employees, keep on providing rigorous pieces of training on regular basis, reward employees for providing good services, and develop sales and advertising messages to broadcast its service superiority.

The positioning strategy must be consistent. Frequent changes in positioning strategy confuse the target market and result in mis–position. Building and maintaining a consistent positioning strategy are not easy tasks. Usually, companies face the following problems in developing a good positioning strategy

- Advertising or other professional agencies hired by the company to facilitate positioning may not like the selected position and may work against it.
- New management may want to change the positioning strategy.
- Budgetary restraints for required pieces of training and sales or another type of promotion.

Consistently successful positioning requires a long-run program, continuous support by the management, employees and vendors. E.g. KFC repositioned itself three times in 2004. "It's 7 Up, it's Uncola (1975)", "we're only No. 2 so we try harder" are the positioning statements used by 7up and Avis Auto Rental respectively. These two positioning statements clearly state the products as well as the differentiation.

While deciding a positioning strategy the company must review its competitive strengths and weaknesses as a company's positioning statement decides who its competitors will be.

10.15 Delivering the Positioning:

Crowne Plaza has introduced "switch off calls" for its business travellers. All checking in guests is asked if they ask to switch off calls and at what time. Guests are also offered a fresh mint or ginger tea to follow their switch off the call. These teams have been selected for their calming properties. This experiment is taking place in the UK and if successful it will be implemented around the world.

Above is one of the examples of how Crowne Plaza tries to deliver the position of being a business hotel with differentiated services. Positioning is enhanced and supported by creating memorable customer experiences. The MGM Hotel and Casino in Las Vegas awakens its guest with the voices of celebrities who have performed there.

A similar kind of experience can be taken at a very grass root level if one travels from Delhi to Rajasthan on luxury buses. They also awaken their passengers in the morning by playing some authentic Rajasthani songs in the morning. Most of the services provided by tourism and hospitality companies become a routine for them, therefore are indistinguishable from the competitors. The key to creating memorable and differentiating customer experiences is not simply to improve them but to layer an enjoyable/memorable experience on top (Gilmore and Pine, 2002).

10.16 Self–Assessment Questions:

1) What is competitive differentiation?
2) What are the criteria for deciding the differentiators?
3) What is positioning? Describe its salient features?
4) How can a successful positioning be achieved through value prepositions?
5) What are common positioning errors? Explain with the help of examples?
6) Critically analyze the positioning of Uttarakhand.

10.17 Let Us Sum-Up:

After this unit, we have understood the concept of competitive differentiation and the role that it plays in the successful positioning of the product. We have understood how differentiation can be achieved. We have understood that effective positioning is very important as it influences the consumers and reinforces the marketing mix strategy in the mind of the consumer. We have also studied that implementing and communicating the positioning of the customers are also equally important.

In the next units, we will study how a new product can be developed and every product has a life cycle and more or less the same life stages. It is like a human life where we take birth, grow, become older and then die. As we need medicines during illness to improve the health similarly our products also a change in the marketing mix and marketing strategy to keep maintaining its good commercial health.

10.18 Glossary:

- **Competitive differentiation–** In this, the company focuses on achieving better market performance by concentrating on an important customer benefit area valued by a large part of the market.
- **PositioninG–** A product's position is how potential buyers see the product or service and is expressed relative to the position of competitors.
- **Product market or product class–** It is a set of products and brands which are perceived as substitutes to satisfy some specific consumer needs. Product class is also known as the product category
- **Perceptual mapping–** Perceptual mapping is a tool that is used to measure brand positioning. Usually, two–by–two perceptual mappings are done as it provides an easy to read the picture.
- **Benefits –** Attributes offered by a product have to be translated to the values they offer to the customers. Till the marketer do not make the customer understand the values or benefits offered the real sale will not be done.

- **Under positioning–** When the product is positioned without checking the resources and accessibility of the firm it is called under positioning.
- **Over positioning–** In this companies give too narrow an image about the product in the market, which results in a very limited market size hence capsizing the profit.
- **Confused positioning–** Buyers might have a confused image of the brand resulting from the company's making too many claims or changing the brand's positioning too frequently.
- **Doubtful positioning–** Buyers may find it hard to believe claims because of products feature, price or manufacture.

10.19 References:

- Kotler K., Bowen J. T., Makens J.C., Marketing for Hospitality and Tourism, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011, p. 213-223
- Porter M.E., Competitive Strategy: Techniques for Analyzing Industries and Competitors, New York Free press, 1980, Chapter 2
- Dasgupta D., Tourism Marketing, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011, p. 136 -139, 143 -144, 218 -219
- Dev C.S, Morgan M.S. and Shoemaker S, A Positioning Analysis of Hotel Brands, The Cornell Hotel and Restaurant Quarterly, Vol.36 No. 6
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press, p. 150 -158
- http://www.lonelyplanet.com/brazil
- http://www.thailandholidaydestinations.com/
- http://www.studymarketing.org/articles/Home/Positioning_Strategy.html
- http://www.createwanderlust.com/marketing-tourism-defining-a-brand-positioning
- http://en.wikipedia.org/wiki/7_Up
- Gilmore J.H. and Pine B.J., II, Differentiating Hospitality Operations vis Experiences, Cornell Hotel and Restaurant Administration Quarterly43, no. 3 (2002), p 88
- Kotler P., Kotler on Marketing, Upper Saddle River, NJ: Prentice-Hall, 1999, p 59 - 63
- Kotler & Armstrong (2002), Principles of Marketing, New Delhi, Prentice-Hall of India, p 243 -284
- Robert C. Lewis. “Advertising Your Hotel’s Position,” Cornell and Restaurant Administration Quarterly, Vol.31, No. 2 (Aug 1990), p.85
- Sengupta S. (2009), “Brand Positioning”, Tata Mc-Graw-Hill Publishing Company Ltd., New Delhi, p 21-52

10.20 Suggested readings:

- Dorling Kindersley India Pvt. Ltd
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press
- Kotler & Armstrong (2001), Principles of Marketing, New Delhi, Prentice-Hall of India.
- Kotler Philip and Keller; Marketing Management, PHI, New Delhi.
- Kotler Philip, Kevin Keller, A. Koshy an M.Jha, Marketing Management in South Asian Perspective, Pearson Education, New Delhi.
- Kotler P., Bowen J., Makens J(2011), Marketing for Hospitality and Tourism, New Delhi,
- Rajan Saxena- Marketing Management, Tata - McGraw Hill.
- Ramaswamy & Namakumari - Marketing Management, McMillan.
- Sengupta S. (2009), "Brand Positioning", Tata Mc-Graw-Hill Publishing Company Ltd., New Delhi,
- Stanton J.W., Etzel M.J., Walker B.J., Fundamentals of Marketing, IX edition, McGraw–Hill, Inc.

10.21 Terminal End Model Questions:

1) How competitive differentiation can be achieved?
2) What is Perceptual Mapping? Why is it done?
3) How positioning strategy can be communicated? Explain with the help of an example.

Unit-11
New Product Development Strategy

Structure:

11.1 Introduction:

You have already learnt about the product in Unit 9 that product can be anything that can be offered to a market for attention, acquisition, consumption and satisfies a want or need. It can be an organization (FHRAI or IATA) or can be even an idea too. E.g. Travel consultants, insurance agents, tour managers, tour guides, etc. Products are not developed abruptly. The firms carefully diagnose the gaps in the market and then launch a product for filling that gap after a lot of planning and testing.

11.2 Objectives:

This unit aims at explaining the concept and development of new products. After reading this unit the learner will be able:

1. To understand what a new product is.
2. To understand different approaches used by corporate for developing and acquiring new products.
3. To understand the needs and conveniences provided by package tours to marketers and consumers.
4. To understand the reasons for the development of new products.
5. To understand the process for new product development.

11.3 New Product–What Is It:

A new product can be any offer incorporating new elements into it, new services included or some services unbundled from it, it can be an innovation, it can be a new product for the company (means the company was not offering it earlier) or it may be altogether a new product in the market itself. A new product can be any product improvement or product modification.

The company can make some minor/major changes in an already existing product and then can relaunch it as a new product or it can introduce an altogether a non-existing new product in the market after a lot of research work is done.

11.4 Approaches to New Product Development:

As per Chaudhary (2011), the following are the few approaches through which a new product can be developed.

11.4.1 Major innovations:

These are entirely new products and services that are launched in the market. These result from new inventions or market expansion i.e. the products were available in some other market and are now introduced to new markets. E.g. space hotels, space tourism, manmade coral reefs in India, Palm Island in Dubai, etc.

11.4.2 Minor innovations:

New products and services are offered for a market that is already served by existing products that meet the same generic needs. E.g. service launched by airlines to book tickets on SMS or issuance of a boarding pass on a phone call, etc.

11.4.3 New services for the currently served market:

It means that the company offers a service to the existing customers that were previously not offered by the company but were offered by other companies. E.g. when Kingfisher entered into aviation the aviation facility was available with other companies but for Kingfisher, it was a new service.

11.4.4 Product–service line extensions

This can be done by augmenting the existing service line. E.g. launch of budget hotels by Indian Hotels Company Ltd., the owners of Taj Hotels Resorts and Palaces.

11.4.5 Product service improvements:

E.g. Addition of a new theme restaurant, upgrading a hotel from 3 stars to 5 stars.

11.4.6 Style changes:

These are highly visible but these do not have high significance to the customers. E.g. a different uniform, a new office layout, a new LCD screen monitor for reservation and sales staff, etc.

11.5 How New Products are Developed:

Every product passes through definitive life cycle phases. It is introduced, passes developmental and maturity phases and eventually dies as newer products are launched to serve the new changed needs of the customers. The firm replaces its dying or ageing products with new ones. Therefore, the firm needs to understand how the products age and then manipulate the marketing strategy to prolong the age of the product as much as possible. Developing a new product through research and development is an expensive process so sometimes companies try to obtain the product through acquisition rather than creating a new one. E.g. Accor acquired Motel 6, Choice acquired Rodeway, Econo Lodge, and Friendship Inns, and Carnival acquired Holland America, Windsor, Costa, and Seabourn. So products can be developed through:

11.5.1 Acquisition:

If the company cannot afford or gets an opportunity to buy a whole company, a patent or a license to produce on some other company's behalf etc then it does so. These are some of how a product can be produced without a new product development process and still the company can acquire a new product.

11.5.2 New product development through research:

We will study in detail how to develop a new product through the development process in the subtopic "Systematic Approach Of A New Product Development" in this unit itself.

11.6 Tourism Product–A Packaged Product:

Tourism products are a combination of different elements (four "As" of tourism i.e. attraction, accessibility, accommodation, and arrangements) compiled along with customized services offered by agents. Each of these elements can be bought and consumed separately, from different suppliers. But it will be time taking and un-convenient process for consumers. So these elements are bundled or packaged together by intermediaries of the industry. These four elements of tourism further have sub-elements which are as under.

11.6.1 Attraction:

It is the very reason for a tourist to choose a destination. Wild –life, flora, natural beauty, resorts, sports events, water parks, museums, etc.

11.6.2 Accessibility:

This means of transportation. E.g. air, road, rail and water transport. It may also be a combination of all or some of these.

11.6.3 Accommodation:

Hotels of different categories and supplementary accommodation like Country clubs, holiday inns, holiday villages, traveller's lodge and inns, etc.

11.6.4 Arrangements:

Visa facilitation, tour escort/manager, travel insurance facilitation, foreign exchange availability, passport facilitation, contingency back–up, ticketing, pick and drop. This method of offering the product gives the following conveniences to the tourists.

11.6.5 Value for money:

Packages provide a one-stop shop so they offer time-saving, convenience, lesser prices and functional facilitation (Visa, insurance, passport, etc facilitation) to the customers. Had the customer tried arranging all these through different vendors he would have ended up spending more money as well as a lot of his time would have gone wasted?

11.6.6 Economy in purchasing:

Due to the economy of scale while purchasing elements from the suppliers the marketer gets them at a very economical rate. As a result of which the cost of making a production of the product goes very low as compared to the prices of these elements if purchased separately. So customers avail the same services along with convenience at an economical cost.

11.6.7 Reliable word of mouth:

Packages are usually operated in groups, so the potential customer can get feed–back from consumers, who have already used them, very easily. In this way, the customer gets a general idea about the experience as a whole as well as the quality of each service separately too.

11.6.8 Efficient:

Some activities like gala dinner or a customized night–out on demand are only possible with package tours. It offers a lot of benefits to the marketer too.

11.6.9 More Accessibility to the Market:

Low prices and one-stop shopping make packages an attractive offer to avail. Therefore the marketer gets good market accessibility as his product is preferred by the customers.

11.6.10 Good ROI (Return on Investment):

Because of the economy of scale in purchasing the elements and sales, it provides a good return on investment to the marketers too. Although, it seems like tour packages have all good only actually have drawbacks too. These are:

- Not all the packages are all inclusive there are hidden costs too.
- Usually, packages are highly packed means they cover more than the number of destinations that can be covered comfortably. Hence they are hectic and tiresome. So aged customers and those who want relaxed holidays do not appreciate them.
- Usually, the market is competitive so packages run on low margins.
- Customized tours are tailor-made so give more satisfaction and privacy.

- Customized packages leave a higher profit for the marketers too as the profit margin per unit of the product is high.

11.7 Essential Requirements In Product Development:

These can be compiled together as under (Dasgupta, 2011):

11.7.1 Gap analysis:

Each region has its peculiar socio-cultural feature, as well as flora and fauna. These can be combined and adding on a few inputs can be developed into a destination. Besides, the likes and preferences of outgoing tourists give lead about the taste of the domestic tourist. If this can be made available in the country itself then we can cater to the domestic market in a better way. Need Gap analysis is an ongoing process as the needs and the wants of the customers keep on changing, so the company must keep on updating its product based on the findings of the Need Gap Analysis to prolong the age of its product.

11.7.2 Changing behaviour analysis:

Tourist generally wants to explore different local cuisines and understand the local language. Indian tourists are an exception here as Indian tourists want to eat Indian food (in most of the meals) irrespective of the destination they are in. So the anticipation of demand through a behavioural variable is very crucial for developing appropriate tourism products. This reveals the current behaviour and expectations of tourists and helps in augmenting the potential components of the products.

11.7.3 Profiling the targeted segments:

No destination or tour operator can cater to all the markets. So finding out trends followed by tourists (in inbound, outbound and domestic) is crucial. Based on this the profiling is done. It is also used for forecasting, outlining customers' characters and motivations. Knowing the characters of the destination the tour operators and travel agents can make products as per the leads of the tourist hence reducing the risks of taking the wrong decisions.

Tourist profiling is done on four factors demographic, psychographic, behavioural, and geographic.

- **Demographic Factors–** These are age, gender, occupation, family status, education and income. Every destination has something special to offer. Some offer scenic beauty, some education, some spiritual satisfaction, etc. in India the population genre for visit is religious tourism among domestic tourists and cultural tourism among inbound tourists.

- **Psychographic Characters–** These are associated with personality traits like value, lifestyle and interest. Tourists who have the same set of demographic factors may differ in psychographic characters and hence may show different preferences.
- **Geographic Factors–** These give information about the origin and destination of the tourists. People living in the metro may prefer going to natural places while people living in mountains may want to visit coastal areas during winter, etc. Since the tourism market is massive it is more dynamic and cost-effective to identify several minor groups of people with singular attributes. The chosen segment becomes the target markets segment (Dasgupta, 2011).

11.7.4 Supply analysis:

The tourist destinations must assess and ascertain the supply of their key product attributes. Characteristics (advantages) and benefits of the product should meet the expectations of the tourists. A successful tourist product considers demand characteristics and incorporates them into products features, advantages and benefits offered. That is how the destinations will augment their product.

11.8 Systematic Process of a New Product Development:

A new product can change the future of a company or it may let the money and precious time of the company go in vain. Therefore, a new product must always be developed through a systematic approach.

4.8.1 Idea generation:

A system is developed in all progressive organizations where many ideas can flow in. These ideas should be systematic and compatible with its type of business. The idea should start with what products and markets to focus on. It should also be clear about the expectations of the company from the product which can be profit, market share, snatching the competitor's market or it may be even entering with innovation and developing a market for it, even if it is not profitable.

Sources of New ideas: To obtain new ideas the companies usually use the following sources:

- **External Environment:** Recession, inflation, changing demographic profile of the customers, economic status and purchasing power of the customers affect the ideas e.g. during recession tour operators usually come out with economical, short duration tours. Security of the destination hotels etc. are some of the factors which affect the ideas.
- **Internal Sources:** Most of the ideas come from the company within. Brain storming sessions, sales person, guest contact employees, management can ask the employees to share their observations.

- **Customers:** Watching and listening to the customers provide good ideas. Needs and wants are better explained through customer surveys. A salesperson can collect suggestions from the customer. Sometimes, customers make their products. The company has to only think of innovative methods of collecting these ideas. Marketers must try to do a casual chat with frequent travellers.
- **Competitors:** Companies observe competitors, products, advertisements, communication to collect clues about the new products but the marketer must take care that they are not using any unethical means to collect the information. Often these copied products are superior or inferior in quality concerning the original ones. In both cases, the original marketer has to cope. In case of the copiers has inferior quality then the company has to overcome the bad image perceived about the product, if the copiers have good quality then the original marketer has to compete with an already established product. The annual reports of publicly traded companies are an excellent source of information.
- **Distributors and Suppliers:** They are a good source of information about consumer problems, new products possibilities, new concepts, techniques, trends, competitive strategies and to meet important contacts.
- **Other sources:** Trade shows/magazines, government agencies, seminars, marketing research firms, new product consultants, inventors, etc. are good sources of information.

11.8.2 Idea Screening:

This is the reverse of idea generation. In idea generation, we try to collect as many ideas as we can, while in screening, we try to drop as many (bad) ideas as we can, so that we can spot the good ones. In the later stages of the product development, the cost of production increases so the company wants to proceed only with

→ Profitable ideas.
→ The product idea is compatible with the company's objective and product lines.
 Kotler argues that compatibility is checked on the following parameters as to how the product assists us (Kotler, 2011)
→ Fulfil the mission?
→ Meet corporate objectives?
→ Protect and promote core business?
→ Protect and please core customers?
→ Better use existing resources?
→ Support and enhance existing product line?
 Common mistakes done at this stage are
→ Dropping good ideas.
→ Continue working on bad ideas.

11.8.3 Conceptualization:

The blueprints of the past ideas are prepared and the unique features of the proposed ideas are listed. A development plan for each idea is prepared separately. Ideas with more problems are dropped again after screening and are not processed further while profit sounding ideas are sent for testing the concept.

11.8.4 Testing the Concept:

Consumers are also sometimes invited for product screening. But this technique also sometimes fails because people do not always carry out their stated intentions. Some companies do professional concept testing. Incorrect new product decisions do little damage in case of a tactical product decision such as hotel room amenities or providing dinner in a different restaurant every night for the same destination.

But when product decisions involve heavy expenditures e.g. adding a new destination in the itinerary of an existing cruise which needs either a lot of sailing to reach there or is too close a destination to be added, a new incorrect destination resort.

11.8.5 Prototype Development:

If the product concept passes the business test, it moves into product development and a prototype. A small model of the given concept is prepared. E.g. models of development of the destinations, virtual tours, computer simulation of property, etc. As per Koter, a good prototype meets the following criteria (Kotler, 2011)

→ Consumers perceive it as having the key features described in the product statement.
→ It performs safely under normal use.
→ It can be produced at the budgeted costs.

11.8.6 Marketing Strategy:

A marketing strategy is prepared for launching the product in the market. It states the target market, expected share and initial profit goals. It also states the planned price, distribution and marketing budget for the initial years. After giving details for the initial years, it states the sales, profits and marketing–mixes in the long–runs.

11.8.7 Business Viability Testing / Market Testing /Test Marketing:

The future market size and profitability is tested. The sales volume is estimated. Market size is estimated based on costs that occurred and prices offered. Even if the product is technically sound and appreciated if it cannot produce the required market size, its idea will have to be dropped. E.g. commercial tours to outer space, long-duration air tours.

It is done to evaluate the product and marketing program in real-life market situations to predict the problems in advance. The results of the test marketing are used for better sales and profit forecasts. These are also used to modify the planned marketing strategy if required.

Test marketing gives required to do changes before the product is launched at the larger level. So the damage is predicted and rectified, but it has a drawback too. The competitor can get access to the details of the product and the marketing strategy. Another drawback is the costs of market tests are high (but are often small as compared to the cost of making a major mistake).

11.8.8 Launch or Commercialization:

During this stage four decisions are taken –when, where, to whom, how. Tourism being a seasoned industry, the companies wait for the right time, to launch the product. Most of the companies choose peak season for launching their products. Very few companies have the capital and the confidence to launch the product into full national distribution. Most of the companies do so at the regional or local level. Now the company targets potential clients based on profiles preplanned during the testing stage. The company usually develops an action plan for the launch of the product.

11.9 Experiences Vs. Activities:

Here, the learners need to understand that a tourism product can be an experience or an activity. Activities are more focused on physical actions. They are minimally connected to the place where they are offered. The cultural significance or the historical background of the place does not affect much activity. E.g. site seeing, bush walking, swimming, etc. an experience that provides a higher level of engagement with a sense of place and local people and access to a greater depth of involvement with an understanding of both.

Experiences apply at all levels of tourism / from products, businesses and destinations to the role of local government and regional tourism bodies. Therefore, companies have now shifted their marketing from destinations to experiences developed across destinations.

11.10 Destination As A Product:

As we have already discussed each element of a tourism product can separately be sold and consumed as a product. A destination is the first “A” of a tourism product. It is tangible as well as intangible. It gives the following experiences to the consumer

11.10.1 As A Tangible Experience:

Some parts of a destination like physiography, historical past etc. are experienced by the tourist as a tangible product. E.g. Chamarel in Mauritius, Champs Elysees in Paris.

11.10.2 As A Cultural Experience:

Some cultural elements of society also attract tourists like the carnival of Rio de Janeiro, Goa, Durga Pooja of West Bengal, Dussehra of North India, Holi of Vrindavan, etc are some of the examples where the cultural experience of a very specific kind is sold.

11.10.3 It Portrays an Image in the Mind:

All the destinations work hard to make and maintain an image in the mind of their travellers. Mauritius portrays a beach destination, Las Vegas is the casino, gambling and night life, Malaysia is a destination of cultural tourism but it is different from Thailand although both are famous for cultural tourism, Europe more for country side beauty, etc are the images which come in the mind when we think about a particular destination.

11.11 Product/Destination Development Based on Sustainable Tourism:

During tourism season the tourists and local community compete with each other for the utilization of resources. So we can conclude that tourism has the potential to affect the socio-economic and ecological foundations of destinations. Destinations should, therefore, keep the principles of environmental sustainability in mind while developing tourism products. Environmental sustainability principles include protecting life–support systems (air, water and land), enhancing and protecting biodiversity, and using natural resources carefully and efficiently. Following these principles will help ensure that the historic monuments and places are preserved for their own sake, and they will be enjoyed by future generations of tourists as well (Dasgupta, 2011).

11.12 Why Do Products Fail:

Although there is a well-developed product development process still a lot of products fail. Following are some of the major reasons for the same-

→ Sometimes a high-level executive pushes his idea without enough feasibility testing.
→ The market is over estimated during the research and the actual size of the market is not so big.
→ Improper designing or ill-developed designing of the product.
→ Incorrect positioning.
→ Prices are higher than customers' expectations.

→ In-effective advertising.
→ Suppliers of the raw material for the product are not able to give ample supply.
→ Competitors are giving a good fight as a result of which the advertising cost increases and to make the product competitive the prices have to be slashed.

Therefore, we can conclude that the planning of the product has to be very systematically done.

11.13 Check Your Progress:

1) What is the meaning of a new product?
2) What are the approaches to developing a new product?
3) What are how the company can acquire a new product?
4) Why do customers prefer packaged tourism products instead of unpackaged ones?
5) Under what circumstances require a company to go for a new product?
6) What are the needs of profiling the target segments?
7) Explain different factors of profiling target segments? Explain each in detail.
8) Explain the process of new product development in detail.
9) What are the different reasons for the failure of a product?

11.14 Summary:

In this unit we have learnt that new products are when we add or remove services from an existing product, it can be an innovation, it can be new to the company even if a similar product was available earlier in the market, etc. products can be developed through research or acquisition. Testing the need for a new product through gap analysis is crucial. We have also learnt that ideas for a new product can be collected from the external as well as internal environment of the organization. A destination gives tangible and cultural experiences to a tourist. The destination works hard to leave a particular image of the destination in his mind. New product development is a multiple-step process that starts from collecting the ideas, then screening them, passes through conceptualization and testing phases, then undergoes market testing and finally is launched in the market. We have also learnt that if any of the developmental phases is not taken seriously or if the marketing mix does not communicate the image which the company wants to portray in the mind of its tourists. Once the products are launched in the market they pass through certain life stages. This is called Product Life Cycle (PLC). In the next unit, we will study about Product Life Cycle and different strategies used by the marketers to keep up the performance of their products.

11.15 Glossary:

- **New product**– It is a product that has new or improved features for its markets or sellers.

- **Major innovations–** These are entirely new products and services that are launched in the market.
- **Minor innovations–** New products and services are offered for a market that is already served by existing products that meet the same generic needs.
- **New services for the currently served market–** It means that the company offers a service to the existing customers that were previously not offered by the company but were offered by other companies.
- **Product–service line extensions–** This can be done by augmenting the existing service line.
- **Package–** When components of a product are taken from different suppliers adding certain services to be offered by the company itself and then offering this entire bundle to the market as a single unit product is called a package.
- **Gap analysis**– Need Gap analysis is an ongoing process as the needs and the wants of the customers keep on changing, so the company must keep on updating its product based on the findings of the Need Gap Analysis to prolong the age of its product.
- **Idea screening**– is the dropping off as many bad ideas. As a result, we get the good ones only.
- **Supply analysis–** The assessment and ascertaining of the supply of the key products' attributes from the side of the package marketer is called supply analysis
- **Idea generation**– A system is developed in all progressive organizations where many ideas can flow in. These ideas should be systematic and compatible with its type of business.
- **Prototype**– A small model/miniature of the given concept is called a prototype.
- **Business viability testing/Market Testing/Test Marketing**– In this the future market size and profitability is tested. The sales volume is estimated. Market size is estimated based on costs that occurred and prices offered. Even if the product is technically sound and appreciated if it cannot produce the required market size, it has no commercial value for the company.

11.16 References:

- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press, p. 162 -202
- Kotler K., Bowen J. T., Makens J.C., Marketing for Hospitality and Tourism, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011, p. 227 -261
- Dasgupta D., Tourism Marketing, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011, p.153 -170
- Porter M.E., Competitive Strategy: Techniques for Analyzing Industries and Competitors, New York Free press, 1980, Chapter 2

- Dev C.S., Morgan M.S. and Shoemaker S., A Positioning Analysis of Hotel Brands, The Cornell Hotel and Restaurant Quarterly, Vol. 36 No. 6
- Kotler & Armstrong (2002), Principles of Marketing, New Delhi, Prentice-Hall of India, p 243 -284
- Gilmore J.H. and Pine B.J., II, Differentiating Hospitality Operations vis Experiences, Cornell Hotel and Restaurant Administration Quarterly43, no. 3 (2002), p 88
- Kotler P., Kotler on Marketing, Upper Saddle River, NJ: Prentice-Hall, 1999, p 59 -63
- Robert C. Lewis. "Advertising Your Hotel's Position," Cornell and Restaurant Administration Quarterly, Vol.31, No. 2 (Aug 1990), p.85

11.17 Bibliography:

- Kotler P., Bowen J., Makens J(2011), Marketing for Hospitality and Tourism, New Delhi,
- Dorling Kindersley India Pvt. Ltd.
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press.
- Stanton J.W., Etzel M.J., Walker B.J., Fundamentals of Marketing, IX edition, McGraw –Hill, Inc.
- Kotler & Armstrong (2001), Principles of Marketing, New Delhi, Prentice-Hall of India.
- Rajan Saxena - Marketing Management, Tata - McGraw Hill.
- Ramaswamy & Namakumari - Marketing Management, McMillan.
- Kotler Philip and Keller; Marketing Management, PHI, New Delhi.
- Kotler Philip, Kevin Keller, A. Koshy an M.Jha, Marketing Management in South Asian Perspective, Pearson Education, New Delhi.

11.18 Terminal End Model Questions:

- What are the different sources of getting ideas for a new product? Why does the company need to use more than one source for collecting ideas?
- What is the significance of test marketing in product development?
- Choose a place your choice in Uttarakhand. Make a plan of developing it into a new destination.
- Choose a destination your choice which has developed itself into a new destination through image makeover when it was on the verge of fading out from the market.

Unit-12
Concept Of Product Life Cycle And Related Strategies

Structure:

12.1 Introduction:

We have studied in the previous unit how tiresome and rigorous is the process of product development? It needs a lot of resources in terms of time, money and human resource of different departments (Planning, Product development, Human Resource, Finance, Research and Development, etc.) therefore, the wants to gain as much profit from each product as possible, so that the resources that have been applied can be compensated. But here we need to understand that every product also has a life span. As we have different life spans for each human similarly different products also have different life spans.

Humans take birth, grow, become mature and then become sick and aged. We need medicines at this time of our lives to regain our health and survive further. If we do not get medicines we may die too out of sickness. Similar is the case with products too. Products are also introduced (launched), then they grow, become mature, reach the stagnation stage and slowly and gradually decline. As humans fall sick and revive with medication, products also become sick (bad performance in the market), the company is required to change the marketing strategy (medicine) to rejuvenate them further.

12.1 Objectives:

After completing this unit the learner will be able to

- Understand the concept of the product life cycle.
- Understand and apply the concept of PLC on destination thus knowing the concept of Tourism Area Life Cycle (TALC).
- Know the features of PLC and TALC.
- Understand the concept of Butler's Model of PLC and its different stages.

12.3 Concept of Product Life Cycle (Plc):

After the launch of the product, the management wants the life of the product enough to earn profit to compensate for the efforts and risks. As the external environment changes the marketing strategy of the product is also modified to maximize the profit.

Tourism products are called dying products. The life cycle begins as soon as the products development ends. As per Chaudhary (2011), "Product life cycle is the status of a product on a time scale from introduction to end in terms of its sales and profits". The product life cycle (PLC) is useful for describing how products and markets work. But using the PLC concept for forecasting the product performance or for marketing strategies presents some practical problems. E.g. managers usually find it difficult to find out the current life cycle stage and ensure the factors which will affect them in different life stages. Although the PLC concept is there in most of the marketing books still are a few managers who claim that they use this concept in practical life. The reasons for this are that although they do not mention the stage of the life cycle of the product based on the features shown by them, during a particular time managers take decisions and implement them. Secondly drawing the correct PLC curve for a particular product is very difficult. The PLC is not a predictive tool to determine the length of a product's useful life. It is instead, a means of conceptualizing the effect of the market, the environment, and competition and understanding how that product may react to various stimuli. Once the marketer understands the concept that the products have similar life stages it becomes easier for him to lengthen the stages of the life thus making more profit from each stage.

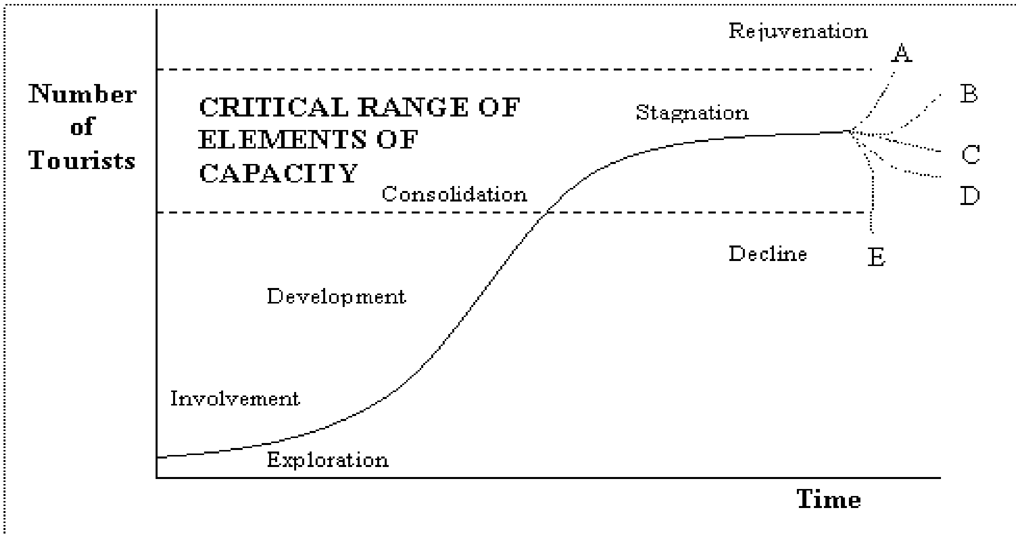
McDonald's has been able to extend by modifying the product concept. The McDonald's of today is a different concept than the McDonald's of the 1960s. The menu and the store design are different. McDonald's has evolved from stands with no seating into fast-food restaurants with attractive indoor seating areas and playgrounds for children. The company has also changed its location strategy. In addition to its traditional suburban locations, McDonald's developed international, urban, and institutional locations such as hospitals and colleges. The McDonald's restaurant in Zurich McDonald's Hotels has a bar serving beer, wine, and mixed drinks. One cannot expect this similar menu in India. In India, we have Mc Veggie, Chicken Maharaja Mac, and Chocolate and Strawberry Milkshakes in beverages (instead of wine like Switzerland). One may find Big Spice Paneer wrap to satisfy more of the Indian palette.

12.4 Concept of Tourism Area Life Cycle (Talc):

As per Chaudhary (2011), "Destination is defined as a place that has some form of actual or perceived boundary, such as the physical boundary of an island, political boundaries, or even market created boundaries".

Like most products, destinations have a lifecycle. A destination begins as relatively unknown and visitors initially come in small numbers restricted by lack of access, facilities, and local knowledge, which is labelled as Exploration. As more people discover the destination, the word spreads about its attractions and the amenities are increased and improved (Development). Tourist arrivals then begin to grow rapidly toward some theoretical carrying capacity (Stagnation), which involves social and environmental limits. The rise from Exploration to Stagnation often happens very rapidly.

Figure 12.1 Product Life Cycles (Plc)

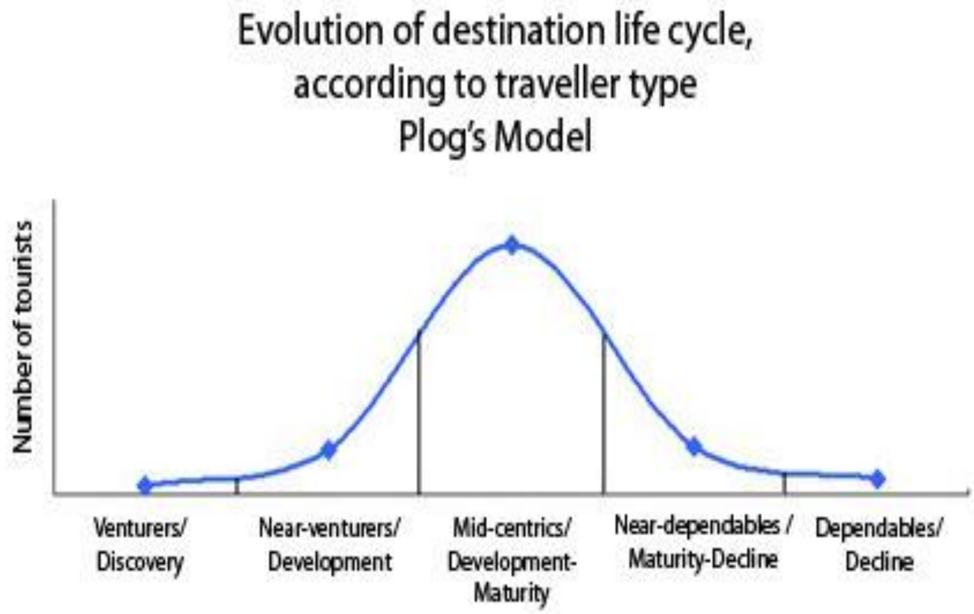


Source:http://surfeconomics.blogspot.in/2008/05/life-cycle-of-santosha.html

When Product Life Cycle (PLC) is applied to a tourism destination it is called Tourism Area Life Cycle (TALC). Several tourism destinations lost their growth due to a lack of expert analysis and advice. The tourists stop going to that destination as a result of which the unemployment increases in the region and further creates social problems. Butler (1980) introduced the TALC concept by applying the PLC model to tourism. He determined six states under his model these are exploration, involvement, development, consolidation, stagnation and the sixth stage is either decline or rejuvenation.

The duration of these stages depends on competition, marketing strategies, external environmental factors, etc.

Figure 12.2: Plog's Model of destination Life cycle



12.5 Features of Product Life Cycle:

Where new product development ends a product life cycle begins. A standard life cycle is a bell-shaped curve as shown in figure-12.2. A typical product life cycle shows the following features-

→ Most of the products follow "Bell Shape" (or as some authors say "S Shape") Product Life Cycle. It is also called growth, slum and maturity pattern. As growth picks up then slums or goes down a bit and then again picks up.
→ Some products are short-lived (Fashions, fads, trendy nightclubs) and do not follow the standard bell or S-shaped pattern.
→ The shape of the PLC curve is independent of the life span of the product which may be from a couple of days, weeks, to as long as 100 years or maybe more.
→ The steep curve represents a short life cycle.
→ Some products may stay in the mature stage for a very long time. E.g. McDonald's Burgers, Nirula's thalis, multi-destination European package tours, etc. These are those products which give good value for money to the tourist.
→ Through proper marketing strategy, the life of the product can be prolonged.
→ A life cycle can be for a generic product, a specific product or a brand.

12.6 Different Types of Life Cycles:

12.6.1 Cycle–Recycle Pattern:

E.g. destinations like Goa and Kerala

12.6.2 Scalloped Plc:

E.g. Delhi

12.6.3 Stable Maturity Plc:

E.g. Europe

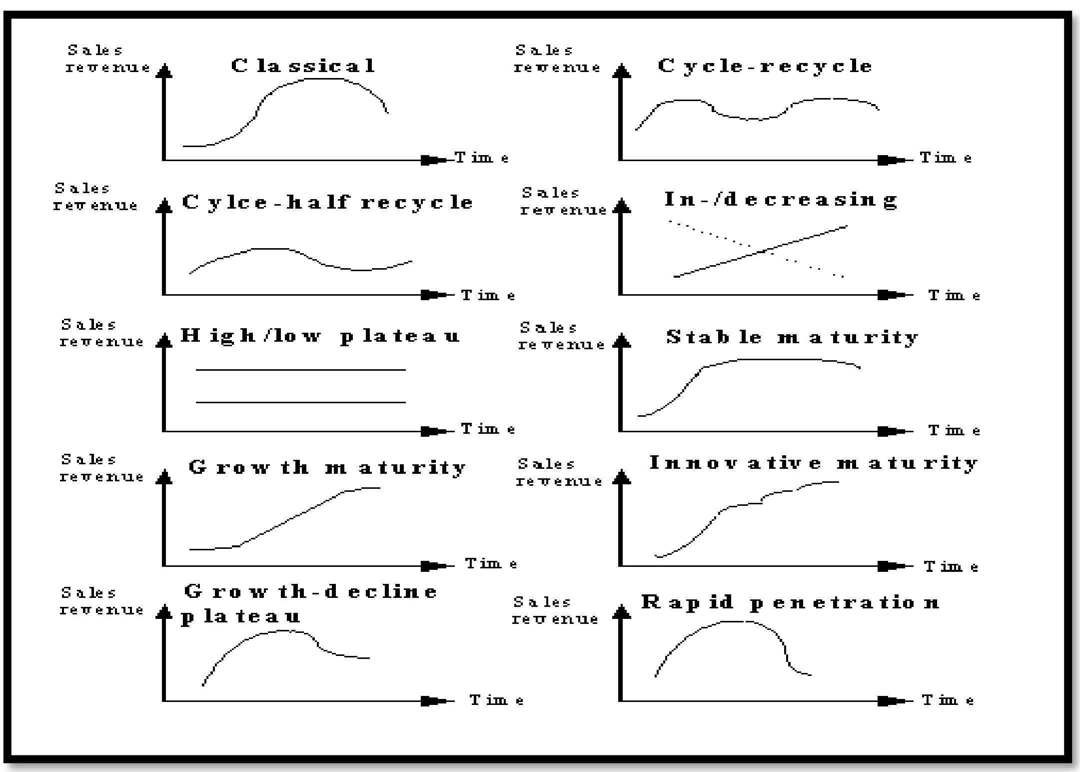
12.6.4 Growth Maturity Plc:

E.g. the USA

12.6.5 Cycle–Half Recycle:

E.g. Bali in Indonesia

Figure-12.3: Different Types of Lifecycle Curves



(Image Courtesy Google Images)

12.7 Butler's Model of Product Life Cycle:

The concept of PLC or TALC (for destinations) is very important for explaining the process of growth in product sales and profit levels. The marketing strategy followed during the introductory period determines the success of the product and the marketing strategies followed during the subsequent period. Different companies having varying leverage ratios tend to behave differently in terms of marketing strategies for their product. E.g. companies having a high debt to equity ratio are found to follow more aggressive marketing strategies during each life cycle stage of the product (Dasgupta,2011).

Each stage of PLC shows certain specific features based on that the firm can identify its stage and can modify the marketing strategy and plan for the future accordingly.

12.7.1 Stage-1: Exploration:

Features:

- During this stage, a very small number of visitors, especially those who are exploratory by nature and are ready to take risks, reach the destination accidentally.
- These visitors seek unspoiled and unexplored destinations.
- Tourism facilities at this stage hardly exist, so the tourist uses the facilities provided by the locals.
- As a result of which the contact with the locals is very high and the information sharing is of good quality about the history, culture and topography of the region.
- But the economic return from tourism is insignificant as the economy of scale cannot be achieved through the scale of operation.

12.7.2 Stage-2: Involvement or Introduction:

Features:

- As the destination is liked by the tourists, so the number of incoming tourists keeps on increasing.
- This increases the interest of the local community in tourism-related activities and increases the number of professionally maintained facilities.
- But most of the businesses remain family-owned.
- The quality and frequency of visitor–local interactions remain the same as it was in the previous stage.
- At this stage, some tour operators enter the market and start marketing the product (destination) for free individual travellers.
- Companies focus on selling to buyers who are ready to buy which are usually from the higher-income group.

12.7.3 Stage-3: Development or Growth:

Features:

- At this stage, the product awareness and acceptance increased.
- More tourists flow in.
- The local community is now not able to cope with the demands of the tourists due to the lack of exposure and training required to handle them.
- Due to lack of exposure and skills the local ownership and control is taken over by domestic and overseas companies.
- Local attractions are marketed specifically.
- As new firms enter the local market, money flows in and new infrastructural and building development takes place, resulting in the change of landscape and venues.

12.7.4 Stage-4: Consolidation or Maturity:

Features:

- The rate of increase in the number of tourists decline, but the market still keeps on growing.
- The facilities and infrastructure start showing signs of becoming old.
- This stage normally lasts longer than the previous stages.
- Real sales growth is about the same as population growth.

12.7.5 Stage-5: Stagnation or Saturation:

Features:

- This stage comes when the number of visitors for many variables crosses the peak capacity level, resulting in environmental, social and economic problems.
- The region is known and established among its market but it is no longer that explorers would like to visit there.
- So to maintain the visitor's numbers a lot of firms shifts from leisure tourism to business, conferences and conventions.

12.7.6 Stage-6: (A) Decline or Product Deletion:

Features:

- As the quality of the product goes down (due to saturation), the market loses interest in the products.
- Entry of new unexplored destinations, technology and changing taste are some of the factors due to which the market loses its interest in the destination.
- Those visitors who are interested in economical–day trips will continue going to the destination.
- Some of the commercial players want to take their money out from the market and slowly and gradually the destination fades out from the tourism map.

12.7.6 Stage-6: (B) Rejuvenation:

Features:

- If the management understands the loss of interest of tourists and the reasons for it, then the management takes the actions needful to diversify the destination. E.g. if the destination is nature-based and loses attraction then the management will develop man-made attractions such as casinos or try to take advantage of previously untapped natural resources.
- This attracts other interest (special–interest) groups to the destination and business again starts pouring in. E.g. when the Department of Tourism, Government of Kerala realized that Kerala is losing its attraction of beaches and the beaches no more can attract the tourists, then they changed the very nature of their product from beach destination to health, healing and beaches destination. That's how Karala was able to revive its market.

12.8 Marketing Strategies During Different Stages Of Product Life Cycle:

Once the product is launched, the management wants to take as much profit from it as possible. The management tries to do this by prolonging the age of the product. Managers know that they cannot expect the product to sell forever so they want to earn a profit enough to compensate for the efforts done on the product during its development phase. To do this, the strategy is changed several times as per the requirements of the market and external environmental conditions as the product moves through the different phases of the product life cycle.

Following are the strategies used by marketers during PLC to outsmart the competitors:

	Segment	Needs/risks
1.	No frills	Likely to be segment-specific
2.	Low price	Risk of price war and low margins; need to be a cost leader
3.	Hybrid	The low-cost base and reinvestment in low price differentiation
4.	Differentiation **a)** Without price premium **b)** With price premium	Perceived added value by user, yielding market share benefits Perceived added value sufficient to bear price premium
5.	Focused differentiation	Perceived added value to a particular segment, warranting price premium

6.	Increased price/standard value	Higher margins if competitors do not follow; risk of losing market share
7.	Increased price/low value	Only feasible if monopoly position
8.	Low value/standard price	Loss of market share

12.8.1 During Exploration Stage:

- Practically only a few adventurous tourists, known as early adopters, have visited the destination and there are least tourist facilities, so there are no commercial products available at this stage.
- At this stage, the commercial activities are operated by local communities for the use by local communities only and these facilities are only shared by tourists too.
- Marketing is at a local level as the business is largely handled by the local communities who do not have resources to advertise products at the regional, national or international levels.

12.8.2 During Involvement or Introduction Stage:

Since the product is first offered at the commercial level, therefore, it is a very new offering and not many similar matching offers are available in the market. At this stage:

- It is a slow phase. Some products may stay in this phase for years before maturing. E.g. all-suite hotels. The companies who do not take the risk at this stage and wait for the market to mature may see others becoming the pioneer and taking a larger pie. Proactive players always secure their market share in a better way as compared to latecomers.
- The sales growth is slow as the product is not known to the buyers.
- The pioneer gets an excellent market share of the total market available.
- Being a new product, the production cost is usually high.
- Economies of scale cannot be achieved due to the limited scale of operation.
- Sales volume and profits are low.
- There is hardly any competition in the market.
- Advertising costs are very high as a lot of advertising is required to promote the product.
- Communication is to educate and inform the consumers about the product.
- Initial product may require some changes as and when these are consumed certain components may not fit in as per the nature of the product or may not be liked by the targeted customers.
- If the initial investment is heavy then it acts as a deterrent and the pioneer can enjoy a monopoly for longer than expected.

- Setting a pricing strategy at this stage is very difficult. The firm may go for premium prices the recover the cost earlier or may go in for low introductory prices which acts as a deterrent for new entrants. But usually, prices tend to be on the higher side.
- Usually, distribution channels are selected keeping in mind the convenience of the customers.
- The only basic version of the product is launched as the market is not ready for a refined product.
- Heavy sales are promotional to try to build product trials. This can be done by giving freebees, discounts as a motivation for using the product. With the type of incentives, the product trials are introduced and the product is also well introduced.

12.8.3 During Development or Growth Stage:

- Sales start climbing quickly. More competitors enter the market.
- If there is a positive word of mouth then more and more buyers keep on purchasing the product.
- Few competitors start entering the market.
- As competitors also start advertising their products, the awareness about the destination increases.
- Promotion costs are still high but the strategy shifts from “only spreading awareness” to “fighting with the competition” too.
- Sales, as well as profits, go high.
- Value addition in the product is done and new features are added to gain an upper hand in the market.
- Prices have to be made competitive so either will fall only slightly, keeping in mind the image which the company wants to portray of the product. If the competition also enters with a higher or the same price then there may not be any fall in the prices.
- Few channels may be dropped and more may be added, keeping in mind the easy access to the market.
- Processes are standardized to make them convenient to the customers.
- More physical pieces of evidence, especially those of real consumers, are added to magnify the product.
- Profit increases as economic companies start achieving economy of scale and sales more efficient systems are developed so miscellaneous costs go down.
- Newmarket segments are entered.
- Advertising starts focusing on product conviction and purchase from product awareness.
- At this stage, the company is required to choose between a higher market share and higher current profit. The company usually sacrifices profit so that it can reach the next level.

- To capture a dominant position in the market company invests a lot in product improvement and product promotion.
- The average cost per customer goes down as expenses go up it is distributed to a large number of customers.
- The objective is to maximize the market share.
- Product extensions are offered to the market to give more choice to the consumers.
- Sales promotion is reduced and advertising is increased.
- The company goes for intense distribution instead of selective distribution which was followed during the introduction stage.
- Marketers start taking interest in the mass market.
- The advertising budget is now directly associated with sales profit. As sales increase the budget for advertising also increases.

12.8.4 During Consolidation or Maturity Stage:

- Sales and profits are maximum at this stage.
- Intense competition can be seen during this stage.
- Marketers try to extend this maturity stage as much as possible.
- Marketers diversify their products by giving more add on packages and optional tours.
- More distribution channels are added to reach those customers too who are not in reach so far.
- Sales promotion focuses on brand switching.
- Modification and value addition becomes the need of the hour as the competition intensifies with every passing moment.
- Market awareness is done so the focus of communication shifts from fighting with the competition by communicating Unique Selling Prepositions (USPs).
- Prices are reduced further as the economy of scale is achieved.
- Prices are reduced to make the product competitive too.
- To increase the reach to the market and to outplay the competition more channels are added.
- Promotion costs are still very high as the company wants to increase visibility to beat the competition.
- The focus of promotion shifts from awareness to the total experience.

12.8.5 During Stagnation Stage:

- The market is saturated with players.
- Due to cut-throat competition, the profit margin per unit is less.
- Due to saturation and low-profit margin, new competitors don’t enter the market at this stage.

- Sale is usually stable and the growth in sales is the same as that of the population.
- Only laggards (10 to 12% of all the customers) are left to be trapped.

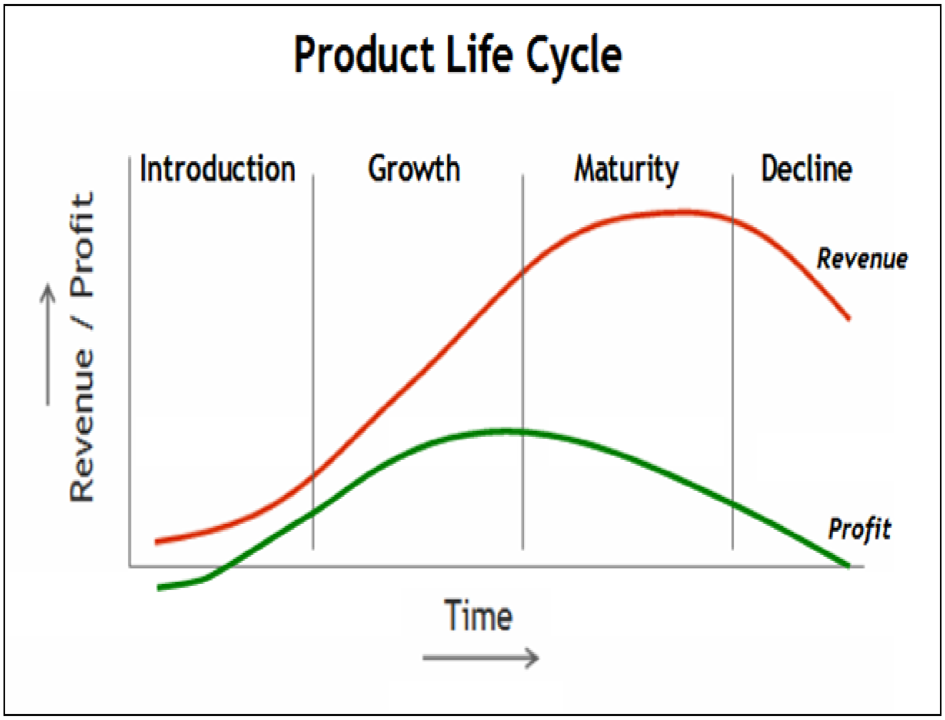
12.8.6 During Decline or Product Deletion Stage:

- The market loses interest in the product.
- Better options suiting the changing taste enter the market.
- Companies cut down on their profit margin further to attract more customers and increase sale, therefore, gross profit decrease further.
- Despite price-cutting, sales decline further.
- Some marketers start planning to exit from the market.
- Companies having big market share still stay in the marketing hoping that the exit of competitors may increase their sales. These companies sometimes see an increase in profit.
- Usually, Research and development are stopped at this stage to cut the expenditure. Companies accept whatever revenue is generated.
- Like other previous stages, promotion costs are high at this stage too. This is so that the market share can be maintained.
- If the decline stage comes earlier then the marketers do not get the return for the efforts and resources he has put into the development and launch of the product that is why companies try to delay this stage as much as they can.
- Expenditure per customer is reduced to reduce the costs.
- Sales promotion is reduced further as most of the customers have already used the product.

12.8.7 During Rejuvenation Stage:

- Some marketers enter into new markets to sell their products. This strategy increases the market share and gross profits.
- Some marketers start finding new uses of the product to increase sales. E.g. Goa Tourism has started promoting its churches too (Culture Tourism) beside beaches (Nature-Based Tourism).
- A product may be at different stages of its life cycle in different markets.
- If the product finds its new use then a new life cycle begins and passes through all the phases of the life cycle once again. This is called a second life cycle. It is usually not so good as the first one.

Fig. 12.4 Revenue and profit generated during different stages of life cycle



(Image courtesy Google Images)

These strategies can be summarized as under:

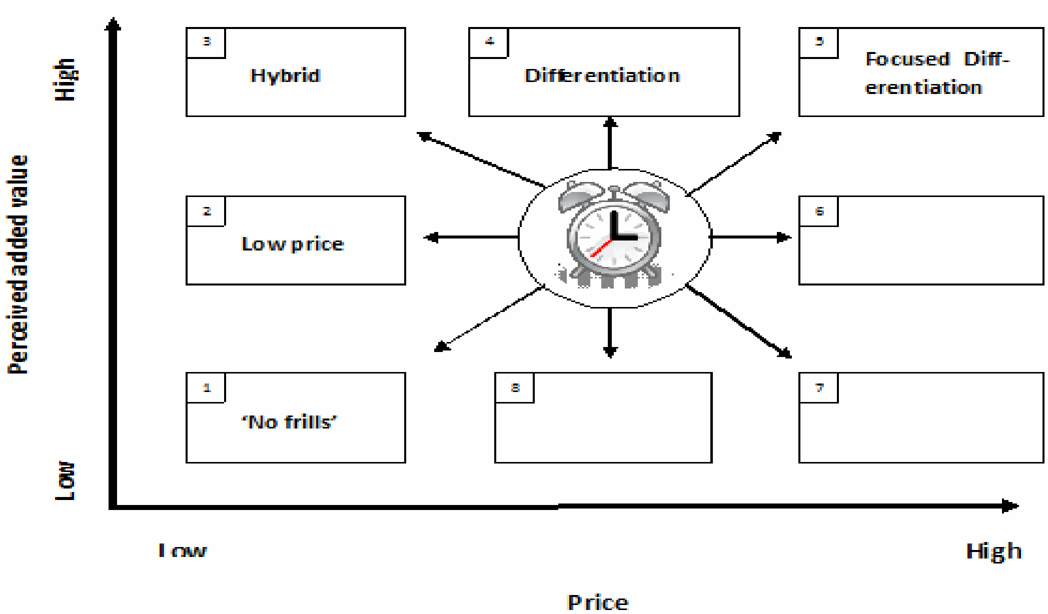
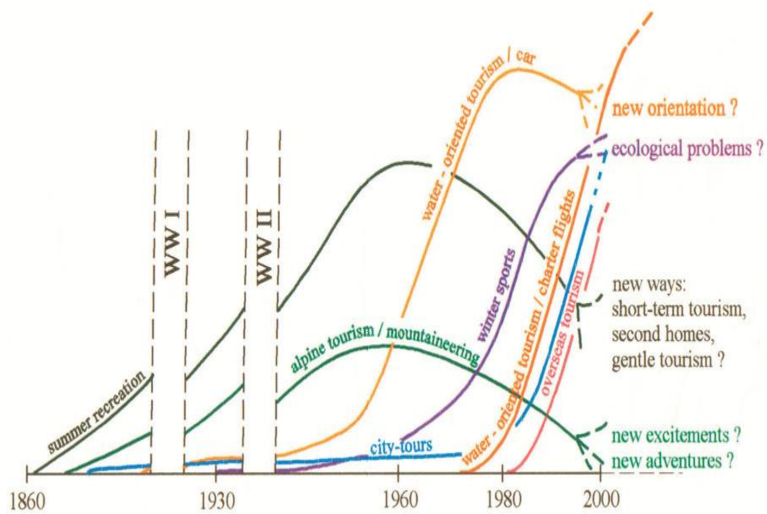


FIGURE 12.5: RELATIONSHIP BETWEEN PRICE AND THE SERVICES OFFERED

12.9 Implications of Talc Theory:

Most of the small entrepreneurs live under the impression that the tourism destination growth potential is unlimited as the population is increasing and the economy is also under progression. This notion is however grossly misplaced as every resort area has a limited life span. This is because as the resort area starts to progress there comes a need for skilled human resources resulting in structural unemployment. As more and more people (local as well as tourists) start sharing resources (transportation, banking, hospitals, etc.) there comes a need for spatial adjustments. The local community becomes more tolerant towards alien cultures thus resulting in social adjustments too. So we can conclude that touristic activities start local communities depriving them of their freedom and somewhere the local community start feeling restricted. This is bound to happen as the local financial investment eventually dries up leading to a decrease in construction developments.

Fig. 12.6: European Tourism Products – A Product Life Cycle Approach (Zimmermann 1997)

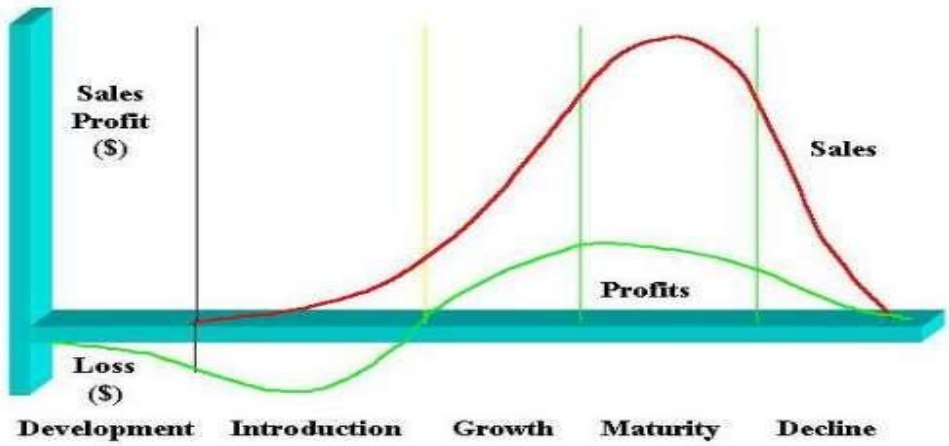


(Image courtesy: Tourism Area Life Cycle, R.W. Butler, Emeritus Professor Strathclyde Business School, University of Strathclyde)

If local communities and investors start understanding the implications of the Product Life Cycle on the destination, then they can take the needful actions for more sustainable tourism.

We can summarize the sales and profit relationship on the timeline in the following curve.

Fig. 12.7: Sales and Profit on different stages of life cycle



(Image Courtesy Google Images)

12.10 Tourist Life Cycle:

Cohen (1972) classified tourists into four categories namely Drifter, Explorer, Individual mass tourist, Organized mass tourist.

12.10.1 Drifter:

They usually avoid services provided by the industry suppliers. They are usually independent and get mixed up with the host community very well. They prefer to use or share services provided and used by the host community for their food and lodging. They adapt to the host community culture very easily. If they need money they take up work and earn it. They do not follow any preplanned schedule for travelling / touring. E.g. the Hippy travellers of the 1960s and 70s are good examples of it. They like to explore new destinations and usually invent new destinations. They live and travel places for a long duration as compared to other tourists. Usually, they use the very basic standard of services and live in close association with the local community. They contact the local community during their visit which is planned tentatively.

12.10.2 Explorer:

They are much like drifters in their travel arrangements. They like to get off beaten tracks as much as possible. But as compared to drifters explorers like to stay in more comfortable accommodations and use a better quality of transport. They also want to know more about local culture and language although may not adapt them as much as drifters do.

12.10.3 Individual Mass Tourist:

They use the services provided by travel agents to make their arrangements. They prefer to travel in their familiar territory and travel outside it occasionally only. Their itinerary is planned but not rigid. They do not travel in groups.

12.10.4 Organized Mass Tourist

They are the least adventurous of all types of tourists. They always travel with people of their own culture and prefer to travel in groups. They remain in their cocoon do not interact much with the host community and stay at a psychological distance from the host community. They are more interested in sightseeing only and travel locally with air-conditioned coaches. They prefer accommodation also in air-conditioned hotels with an environment of their origin country. They need an interpreter and do not communicate much with the host community. They like to shop also from the shops where the culture is the same as that of their community.

12.11 Reasons For The Decline Of Tourism Regions

As per Cooper following reasons can be the cause of failure

- Growth in low–status.
- Competition from holidays abroad.
- Over-dependence on the long–holiday market.
- Limited appeal to overseas visitors.
- Highly seasonal destinations.
- Outdated, poorly maintained accommodation and amenities.
- Local opposition to tourism as resorts' residential roles increase.
- Lack of professional, experienced staff.
- Local government reorganization creates amalgams of resorts and dilutes the political power of resorts in larger authorities.
- Demands for increased operational efficiency and entrepreneurial activity in local government.
- Shortage of research data.

12.12 Self-Assessment Questions:

1) **"Product life cycle is the status of a product on the time scale from introduction to end in terms of its sales and profits". Explain this.**

____

____

____

2) **Sales promotion is more during the introduction and growth stages as compared to the maturity stage. Why?**

3) **What changes in the marketing strategies are required to take the product from stagnation to rejuvenation stage instead of decline stage.**

12.13 Let Us Sum Up:

In this unit, we have studied about life stages of a product and applied the same to a destination. We have also seen that as per the stage of the destination the marketing strategy of the product is designed. We have also learnt that although the PLC concept is very crucial to identify the life stage of a product practically most of the managers are not able to apply it theoretically instead they identify the stage of the product life through the features it shows and based on which the managers manipulate their marketing plans. So the concept is not applied by its name but is applied as its features.

We have also learnt that drawing a life cycle curve for a particular product is difficult. We have also studied that the destinations which do not mould their marketing strategies as per the life stage of their destination, fade out from the tourism map. So it is essential to understand the concept of product life cycle and tourism area life cycle and apply them in real life too. In the next block, we will study how marketing programs are planned and controlled.

12.14 Glossary:

- **Product life cycle-** Product life cycle is the status of a product on a time scale from introduction to end in terms of its sales and profits.
- **Tourism area life cycle-** Life cycle as a graphical tool, representing a succession of phases in a normally long period, can be a very relevant tool for monitoring several areas of knowledge.
- **Drifter–** These are the most individualistic and least institutionalized tourists. They are the one who usually discovers the destination.
- **Explorer-** They like to get off beaten tracks as much as possible. They are early adaptors.
- **Individual mass tourists–** They use the services provided by travel agents to make their arrangements. They prefer to travel in their familiar territory and travel outside it occasionally only.
- **Organized mass tourists–** They always travel with people of their own culture and prefer to travel in groups. They are more interested in sightseeing only and travel locally with air-conditioned coaches. They prefer accommodation also in air-conditioned hotels with an environment of their origin country. They need an interpreter and do not communicate much with the host community. They like to shop also from the shops where the culture is the same as that of their community.

12.15 References:

- Cooper, Chris (2002), "Sustainability and Tourism Visions", VII Congreso International del CLAD sobre la Reforma del Estado y de la Administracion Publica, Lisboa, Portugal, 8-11 Oct. 2002.
- Cooper, C.P. (1992), "The Life Cycle Concept and Strategic Planning for Coastal Resorts", Build Environment, Vol. 18, No.1, pp.57-66.
- http://surfeconomics.blogspot.in/2008/05/life-cycle-of-santosha.html
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press
- Kotler K., Bowen J. T., Makens J.C., Marketing for Hospitality and Tourism, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011

- Dasgupta D., Tourism Marketing, Dorling Kindersley (I) Pvt. Ltd., New Delhi, 2011
- Kotler P., Kotler on Marketing, Upper Saddle River, NJ: Prentice-Hall, 1999
- Kotler & Armstrong (2002), Principles of Marketing, New Delhi, Prentice-Hall of India
- Robert C. Lewis. "Advertising Your Hotel's Position," Cornell and Restaurant Administration Quarterly, Vol.31, No. 2 (Aug 1990)
- http://www.destinationrecovery.com/destinationlifecycle.html

12.16 Suggested Readings:

- Kotler P., Bowen J., Makens J(2011), Marketing for Hospitality and Tourism, New Delhi,
- Dorling Kindersley India Pvt. Ltd.
- Chaudhary M. (2011), Tourism Marketing, New Delhi, Oxford University Press.
- Stanton J.W., Etzel M.J., Walker B.J., Fundamentals of Marketing, IX edition, McGraw –Hill, Inc.
- Kotler & Armstrong (2001), Principles of Marketing, New Delhi, Prentice-Hall of India.
- Rajan Saxena - Marketing Management, Tata - McGraw Hill.
- Ramaswamy & Namakumari - Marketing Management, McMillan.
- Kotler Philip and Keller; Marketing Management, PHI, New Delhi.
- Kotler Philip, Kevin Keller, A. Koshy an M.Jha, Marketing Management in South Asian Perspective, Pearson Education, New Delhi.

12.17 Terminal End Model Questions:

- Apply the concept of PLC to a destination of your choice and critically analyse its marketing strategies.
- Explain different types of life cycles with their examples.
- Explain different stages of the life cycle of a product.
- Explain different strategies used by companies during various stages of the life cycle of a product?

Unit-13
Product Strategies, Product Levels, Product Issues, Brand Decisions

Structure:

13.1 Introduction:

Product is a key element in the market offering. Marketing planning begins with formulating an offering to meet the target customer's needs or wants, and this offering is in the form of an offering but a product can be more than that. A product is anything that can be offered to a market to satisfy a want or a need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas. Product is a focal element of the marketing mix.

13.2 Objectives:

After studying this unit, you will be able to understand:

- Meaning of product, product level
- Classification of product
- Brand decisions
- Packaging
- Labelling

13.3 Product Concept:

In marketing, the term "product" is often used as a catch-all word to identify solutions a marketer provides to its target market. This approach is followed to cover offerings that fall into one of the following categories:

13.3.1 Goods:

Something is considered good if it is a tangible item i.e. it is something that is felt, tasted, heard, smelled or seen. For example, bicycles, cell phones and soaps are all examples of tangible goods. In some cases, there is a fine line between items that affect the senses and whether these are considered tangible or intangible. We often see this with digital goods accessed via the internet such as listening to music online or visiting an information website. In these cases, there does not appear to be anything tangible or real since it is essentially the computer that is proving the solution. However, for our purposes, we distinguish these as goods since these products are built (albeit using computer code), are stored (e.g., on a computer hard drive), and generally offer the same benefits each time (e.g., quality of the download song is always the same).

13.3.2 Services:

Something is considered a service if it is an offering, a customer obtains through the work or labour of someone else. Services can result in the creation of tangible goods (e.g., a publisher of business magazines hires a freelance writer to write an article) but the main solution being purchased is the service. Unlike goods, services are not stored, they are only available at the time of use (e.g., doctor's visit) and the consistency of the benefit offered can vary from one purchaser to another (e.g., not the same prescription each time).

13.3.3. Ideas:

Something falls into the category of an idea if the marketer attempts to convince the customer to alter their behaviour or their perception in some way. The marketing idea is often a solution put forth by non-profit groups or governments to get targeted groups to avoid or change a certain behaviour. This is seen with public service announcements directed towards such activities as youth smoking, automobile safety and illegal drug use. While in some cases a marketer offers solutions that provide both tangible and intangible attributes; for most organizations, their primary offering (the thing that is the main focus of the marketing effort) is concentrated in one area. So while a manufacturer may offer intangible services or a service firm provides certain tangible equipment, these are often used as add-ons that augment the organization's main product.

13.4. Product Levels:

On the surface, it seems a product is simply a marketing offer, whether tangible or intangible, that someone wants to purchase and consume. In this case, one might believe product decisions are focused exclusively on designing and building the consumable elements of goods, services or ideas. For instance, one might think the key product decision for a manufacturer of floor cleaners is to focus on creating a formula that cleans more effectively. But, while decisions related to the consumable parts of the product are extremely important, the Total Product consists of more than what is consumed. The total product offering and the decisions facing the marketer can be broken down into three key parts, which the marketer needs to address at their respective level: Core Benefits, Actual Product and Augmented Product.

13.4.1. Core Benefits:

Consider why so much stress is given to people to make buying decisions that satisfy their needs? While many needs are addressed by the consumption of a product or service, some needs are not. For instance, customers may need to be perceived highly by other members of their group or need a product that is easy to use or need a risk-free purchase. In each of these cases and many more, the core product itself is the benefit the customer receives from using the product. In some cases, these core benefits are offered by the product itself (e.g.. floor cleaner) while in other cases the benefit is offered by other aspects of the product (e.g.. the can containing the floor cleaner that makes it easier to spread the product). Consequently, at the very heart of all product decisions is determining the key or core benefits a product will provide. From this decision, the rest of the product offering can be developed.

13.4.2 Actual Product:

The core benefits are offered through the components that make up the actual product that the customer purchases. For instance, when a consumer returns home from shopping at the grocery store and takes a purchased item out of her shopping bag, the actual product is the item she holds in her hand. Within the actual product is the consumable product, which can be viewed as the main good, service or idea the customer is buying. For instance, while toothpaste may come in a package that makes dispensing it easy, the Consumable Product is the paste that is placed on a toothbrush. But marketers must understand that while the consumable product is, in most cases, the most critical of all product decisions, the actual product includes many separate product decisions including product features, branding, packaging, labelling and more.

13.4.3. Augmented Product:

Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase. While these factors may not be key reasons leading customers to purchase (i.e. not core benefits), for some, the inclusion of these items strengthens the purchase decision while for others fail to include these may cause the customer not to buy. Items considered part of the augmented product includes:

a. Guarantee: This provides a level of assurance that the product will perform up to expectations and if not the company marketing the product will support the customer's decision to replace it, have it repaired or return for a refund.

b. Warranty: This offers customers a level of protection that often extends past the guarantee period to cover, repair or replacement of certain product components.

c. Customer Service: This consists of additional services that support the customer's needs including offering training and assistance via telephone or online.

d. Complementary Products: The value of some product purchases can be enhanced with add-on products, such as items that make the main product easier to use (e.g., laptop carry bag. enhance styling (e.g., cell phone faceplates) or extended functionality. (e.g., portable keyboard for PDAs).

e. Accessibility: How customers obtain the product can affect its perceived value depending on such considerations as to how easy it is to obtain (e.g., stocked at a nearby store, delivered directly to the office), the speed at which it can be obtained and the likelihood it will be available when needed.

13.5. Check Your Progress-1:

13.5.1. Fill in the blanks:

1. Something is considered good if it is an………..item.
2. Something is considered a ……….. if it is an offering a customer obtains through the work or labour of someone else.
3. Something falls into the category of an………….. if the marketer attempts to convince the customer to alter their behaviour.
4. ………………….. provides a level of assurance that the product will perform up to expectations and if not the company marketing the product will support the customer's decision to replace, have it repaired or return for a refund
5. …………………………. offers customers a level of protection that often extends past the guarantee period to cover, repair or replace certain product components.

13.6. Product Classification:

Marketers have traditionally classified products based on characteristics, durability, tangibility and use (consumer or industrial). Each product type has an appropriate marketing strategy.

13.6.1. Consumer Products Classification:

In addition to categorizing by type of offering, most products intended for consumers use can be further categorized by how frequently and where they are purchased.

a. Convenience Products: These are products that appeal to a very large market segment. They are generally consumed regularly and purchased frequently. Examples include most household items such as food, cleaning products and personal care products. Because of the high purchase volume, pricing per item tends to be relatively low and consumers often see little value in shopping around since additional effort yield minimal savings. From the marketer’s perspective, the low price of convenience products means that profit per unit sold is very low. To make high profits, marketers must sell in large volumes. Consequently, marketers attempt to distribute these products in mass through as many retail outlets as possible.

b. Shopping Products: These are products that consumers purchase and consume on a less frequent schedule compared to convenience products. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because these may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Examples include many clothing products, personal services, electronic products and household furnishings. Because consumers are purchasing less frequently and are willing to shop to locate these products, the target market is much

smaller than that of convenience goods. Consequently, marketers often are more selective when choosing distribution outlets to sell their products.
c. Specialty Products: These are products that tend to carry a high price tag relative to convenience and shopping products. Consumption may occur at about the same rate as shopping products but consumers are much more selective. In fact, in many cases, consumers know in advance which product they prefer and will not shop to compare products. But they may shop at retailers that provide the best value. Examples include high-end luxury automobiles, expensive champagne and celebrity hair care experts. The target markets are generally very small and outlets selling the products are very limited to the point of being exclusive.
In addition to the three main categories above, products are classified in at least two additional ways:
d. Emergency Products: These are products a customer seeks due to sudden events and for which pre-purchase planning is not considered. Often the decision is one of convenience (e.g., whatever works to fix a problem) or personal fulfilment (e.g., perceived to improve purchaser's image).
e. Unsought Products: These are products whose purchase is unplanned by the consumer but occur as a result of the marketer's actions. Such purchase decisions are made when the customer is exposed to promotional activity such as a salesperson's persuasion or purchase incentives like special discounts offered to certain online shoppers. These promotional activities often lead customers to engage in Impulse Purchasing.

13.6.2. Business Products Classification:

The amount spent on business purchasing far exceeds consumer purchasing. Products sold within the business-to-business market fall into one of the following categories:
a. Raw Materials: These are products obtained through mining, harvesting, fishing, etc. that are key ingredients in the production of higher-order products.
b. Processed Material: These are products created through the processing of basic raw materials. In some cases, the processing refines original raw materials while in other cases, the process combines different raw materials to create something new. For instance, several crops including corn and sugarcane can be processed to create ethanol which has many uses including as a fuel to power car and truck engines.
c. Equipment: These are products used to help with production or operations activities. Examples range from conveyor belts used on an assembly line to large buildings used to house the headquarters staff of a multi-national company.
d. Basic Components: These are products used within more advanced components. These are often built with raw material or processed material. Electrical wire is an example.
e. Advanced Components: These are products that use basic components to produce products that offer a significant function needed within a larger product. Yet by itself,

an advanced component does not stand alone as a final product. In computers, the motherboard would be an example since it contains many basic components but without the inclusion of other products (e.g., memory chips, microprocessor, etc.), it would have little value.

f. Product Component: These are products used in the assembly of a final product though these could also function as standalone products. Dice included as part of a children's board game would be an example.

g. MRO (Maintenance, Repair and Operating) Products: These are products used to assist with the operation of the organization but are not directly used in producing goods or services. Office supplies, parts for a truck fleet and natural gas to heat a factory would fall into this category.

Products can be classified into three groups, according to durability and tangibility:

1. **Nondurable goods:** Tangibles consumed in one or a few uses.
2. **Durable goods:** Tangibles that normally survive many uses. Durable goods require more personal selling and service, command a higher margin and require more seller guarantees.
3. **Services**: Intangible, inseparable, variable and perishable products that require more quality control, supplier credibility and adaptability.

13.7 Product Decision:

The actual product is designed to provide the core benefits sought by the target market. The marketer offers these benefits through a combination of factors that make up the actual product.

Below are discussed in detail the key factors that together help shape the actual product:

13.7.1 Consumable Product Features
13.7.2 Branding
13.7.3 Packaging
13.7.4 Labeling

13.7.1 Consumable Product Features:

Features are characteristics of a product that offer benefits to the customer. In most cases, the most important features are those associated with the consumable product since they are the main reason a customer makes a purchase. The benefits of consumable product features are of two types: functional and psychological.

a. Functional Benefits: Benefits derived from features that are part of the consumable product. For instance, a plasma television includes such features and benefits as durability and tangibility.

Table-1:

Features	Functional Benefit
Screen size	Offers greater detail and allows for more distant viewing
Screen resolution viewing	Provides clear, more elastic picture
Surround sound	Immerse all senses in the viewing experience
Remote control	Allows for greater comfort while viewing

These features are called functional because they result in a benefit that the user directly associates with the consumable product. For marketers, functional benefits are often the result of materials, design and production decisions. How the product is built can lead to benefits such as effectiveness, durability, speed, ease-of-use and cost savings to name just a few.

b. Psychological Benefits: Benefits the customer perceives to receive when using the product though these may be difficult to measure and may vary from customer to customer. These benefits address needs such as status within a group, risk reduction, a sense of independence and happiness. Such benefits are developed through promotional efforts that target customers' internal makeup.

In addition to determining the type of features to include in a product, the marketer faces several other decisions related to features:

- **Quantity and Quality vs. Cost:** For marketers, an important decision focuses on the quantity and quality of features to include in a product. In most cases, more features were included or the higher the quality level for a particular feature, the more expensive the product is to produce and market.
- **Is the product to be made better?** Even if the added cost is not a major concern, the marketer must determine if more features help or hurt the target market's perception of the product. A product with too many features could be viewed as too difficult to use. This was often the case when video cassette recorders (VCR) were the principal device for taping television programs and watching rented movies. Many of the higher-level features introduced in the 1990s as the product matured such as, advanced television recording proved too difficult for the average consumer to master.
- **Who Should Choose the Features?** Historically marketers determined what features to include in a product. However, technology and especially the Internet offer customers the opportunity to choose their features to custom build a product. For instance, companies offering website hosting services allow website owners to choose from a list of service options that best suits their needs. Also for traditional products

such as clothing, companies allow customers to stylize their purchases with logos and other personalized options.

13.7.2 Branding Decision:

Branding is a major issue in product strategy. On the one hand, developing a branded product requires a huge long-term investment especially for advertising, promotion and packaging. However, it need not entail actual production: many brand-oriented companies such as Sarah Lee subcontract manufacturing to other companies. On the other hand, manufacturers eventually learn that market power comes from building their brands. The Japanese firm's Sony and Toyota, for example, have spent liberally to build their brand names globally. Even when companies can no longer afford to manufacture their products in their homelands, strong brand names continue to command customer loyalty. Branding involves decisions that establish an identity for a product to distinguish it from competitors' offerings. In markets where competition is fierce and where customers may select from among many competitive products, creating an identity through branding is essential. It is particularly important in helping to position the product in the minds of the product's target market.

a. What is a Brand?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect and enhance brands. The American Marketing Association defines a brand as a name, term, sign, symbol or design or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

In essence, a brand identifies the seller or maker. Whether it is a name, trademark, logo or another symbol, a brand is essentially a seller's promise to deliver a specific set of features, benefits and services consistently to the buyers. The best brands convey a warranty of quality. But a brand is an even more complex symbol. The branding challenge is to develop a deep set of positive associations for the brand. Marketers must decide at which level(s) to anchor the brand's identity. One mistake would be to promote only attributes. First, buyers are not as interested in attributes as they are in benefits. Second, competitors can easily copy attributes. Third, today's attributes may become less desirable tomorrow. Ultimately, a brand's most enduring meanings are its values, culture and personality which define the brand's essence. Smart firms therefore craft strategies that do not dilute the brand values and personality built up over the years.

b. Brand Equity:

Brands vary in the amount of power and value they have in the marketplace. At one extreme are brands that are not known by most buyers. Then there are brands for which buyers have a fairly high degree of brand awareness. Beyond this brand with a high degree of brand acceptability. Next are brands that enjoy a high degree of brand preference. Finally, some brands command a high degree of brand loyalty. There are five levels of customer attitude towards a brand:

- Customers will change brands, especially for price reasons. No brand loyalty.
- The customer is satisfied. No reason to change the brand.
- The customer is satisfied and would incur costs by changing the brand.
- The customer values the brand and sees it as a friend.
- The customer is devoted to the brand.

Brand equity is highly related to the number of customers. It is also related to the degree of brand-name recognition, perceived brand quality, strong mental and emotional associations and other assets such as patents, trademarks and channel relationships. High brand equity allows a company to enjoy reduced marketing costs because of high brand awareness and loyalty, gives a company more leverage in bargaining with distributors and retailers, permits the firm to charge more because the brand has higher perceived quality, allows the firm to more easily launch extensions because the brand has high credibility and offers some defence against price competition.

c. Brand Names and Brand Marks:
At a very basic level, branding is achieved through the use of unique brand names and brand marks. The brand name which may be either the individual product name or a name applied to a group or family of products is important for many reasons including suggesting what the product is or does (e.g. Mop-and-Glow). The name is also what we utter when we discuss the product (i.e. word-of-mouth marketing). The brand mark is a design element, such as a symbol (e.g. Reebok/Adidas shoes), logo (e.g. Facebook! graphic), a character (e.g. Charlie Chaplin) or even a sound (e.g. IPL sound)

- **Advantages of Brands:**

A strong brand offers many advantages for marketers including:
1. Brands provide multiple sensory stimuli to enhance customer recognition. For example, a brand can be visually recognizable from its packaging, logo, shape, etc. It can also be recognizable via sound such as hearing the name on a radio advertisement or talking with someone who mentions the product.
2. Customers who are frequent and enthusiastic purchasers of a particular brand are likely to become brand loyal. Cultivating brand loyalty among customers is the ultimate reward for successful marketers since these customers are far less likely to be enticed to switch to other brands compared to non-loyal customers.
3. Well-developed and promoted brands make product positioning efforts more effective. The result is that upon exposure to a brand (e.g. hearing it, seeing it), customers conjure up mental images or feelings of the benefits they receive from using

that brand. The reverse is even better. When customers associate benefits with a particular brand, the brand may have attained a significant competitive advantage. In these situations, the customer who recognizes, he needs a solution to a problem (e.g. needs to remove stains from clothes) may automatically think of one brand that offers the solution to the problem (e.g., Ariel). This "benefit = brand" association provides a significant advantage for the brand that the customer associates with the benefit sought.

4. Firms that establish a successful brand can extend the brand by adding new products under the same "family" brand. Such branding may allow companies to introduce new products more easily since the braid is already recognized within the market.

5. Strong brands can lead to financial advantages through the concept of Brand Equity in which the brand itself becomes valuable. Such gains can be realized through the outright sale of a brand or licensing arrangements. For example, Company A may have a well-recognized brand (Brand X) within a market but for some reason, they are looking to concentrate their efforts in other markets. Company B is looking to enter the same market as Brand X. If circumstances are right, Company A could sell to Company B the right to use the Brand X name without selling any other part of the company. That is, Company A simply sells the legal rights to the Brand X name but retains all other parts of Brand X such as the production facilities and employees. In cases of well-developed brands, such a transaction may carry a very large price tag. Thus, through strong branding efforts Company A achieves a large financial gain by simply signing over the rights to the name. But why would Company B seek to purchase a brand for such a high price tag? This is so because by buying the brand, Company B has already achieved the important marketing goal of building awareness within the target market. The fact that the market is already familiar with the brand allows Company B to concentrate on other marketing decisions.

13.7.3. Packaging:

Nearly all tangible products (i.e., goods) are sold to customers within a container or package that serves many purposes including protecting the product during shipment. In a few cases, such as with certain produce items, the final customer may purchase the product without a package but the produce marketer still faces packaging decisions when it comes to shipping to the store. Thus, for many products, there are two packaging decisions: final customer and distribution. Final Customer Packaging relates to the package the final customer receives in exchange for their payment. When the final customer makes a purchase, he or she is initially exposed to the Primary Package: the outermost container that is seen and touched by the final customer. This primary package can be further divided into the following:

a. First-Level Package: This is packaging that holds the actual product (e.g., Dettol bottle).

In some cases, this packaging is minimal since it only serves to protect the product. For instance, certain frozen food products are sold to consumers in a cardboard box with the product itself contained in a plastic bag found inside the box. This plastic bag represents the first-level package. In other cases, frozen food products are sold in plastic bags that contain the product. In these cases, the plastic bag is both a first-level package and the primary package for conveying product information.

b. Second-Level Package: In some cases, the first-level package is surrounded by one or more outer packages (e.g, box holding the Dettol bottle). This second-level package may act as the primary package for the product.

c. Package Inserts: Marketers use a variety of other methods to communicate with customers after they open the product package. These methods are often inserted within or sometimes on the product's package. Insertions include information such as instruction manuals and warranty cards, promotional incentives such as coupons and items that add value (recipes and software).

Distribution Packaging is used to transport the customer package through the supply chain. It generally holds multiple customer packages and also offers a higher level of damage protection than that of custom packaging.

- **Factors to Consider When Making Packaging Decision:**

Packaging decisions are important for several reasons including:

a. Protection: Packaging is used to protect the product from damage during shipping and handling, and to lessen spoilage if the product is exposed to air or other elements.

b. Visibility: Packaging design is used to capture customers' attention as they are shopping or glancing through a catalogue or website. This is particularly important for customers who are not familiar with the product and in situations, such as those found in grocery stores, where a product must stand out among thousands of other products. Packaging designs that stand out are more likely to be remembered on future shopping trips.

c. Added Value: Packaging design and structure can add value to a product. For instance, benefits can be obtained from package structures that make the product easier to use while stylistic designs can make the product more attractive to display in the customer's home.

d. Distributor Acceptance: Packaging decisions must not only be accepted by the final customer, they may also have to be accepted by distributors who sell the product for the supplier. For instance, a retailer may not accept packages unless they conform to requirements they have for storing products on their shelves.

e. Cost: Packaging can represent a significant portion of a product's selling price. For example, it is estimated that in the cosmetics industry, the packaging cost of some products may be as high as 40% of a product's selling price. Smart packaging decisions can help reduce costs and possibly lead to higher profits.

f. Expensive to Create: Developing new packaging can be extremely expensive. The costs involved in creating new packaging include graphic and structural design, production, customer testing, possible destruction of leftover old packaging and possible advertising to inform the customer of the new packaging.

g. Long Term Decision: When companies create a new package, it is most often to have the design on the market for an extended period. Changing a product's packaging too frequently can have negative effects since customers become conditioned to locate the product based on its package and may be confused if the design is altered.

h. Environmental or Legal Issues: Packaging decisions must also include an assessment of its environmental impact especially for products with packages that are frequently discarded. Packages that are not easily bio-degradable could draw customers and possibly governmental concern. Also, caution must be exercised to create packages that do not infringe on intellectual property, such as copyrights, trademarks or patents held by others.

13.7.4 Labeling:

Most packages, whether final customer packaging or distribution packaging are imprinted with information intended to assist the customer which is referred to as labelling. For consumer products, labelling decisions are extremely important for the following reasons:

a. Labels serve to capture the attention of shoppers. The use of catchy words may cause strolling customers to stop and evaluate the product.

b. The label is likely to be the first thing a new customer sees and thus offers their first impression of the product.

c. The label provides customers with product information to aid their purchase decision or help improve the customer's experience when using the product (e.g. recipes).

d. For companies serving international markets or diverse cultures within a single country, bilingual or multilingual labels may be needed.

e. Labels generally include a universal product code (UPC) and, in some cases, radio frequency identification (RFID) tags, that makes it easy for resellers, such as retailers, to checkout customers and manage inventory.

f. In some countries many products, including food and pharmaceuticals are required by law to contain certain labels such as listing ingredients, providing nutritional information or including usage warning information.

13.8 Check Your Progress-2:

13.8.1. Fill in the blanks:

1. ____________________are generally consumed regularly and purchased frequently.

2. MRO products means____________________________

3. Strong brands can lead to financial advantages through the concept of___________in which the brand itself becomes valuable.

4. Nearly all tangible products are sold to customers within a container or__________

5. Marketers have traditionally classified products based on___________________and ____________________________

13.9 Summary:

In this chapter multifaceted concepts have been discussed regarding products, different types of product level, product planning and product life cycle. Uses of the product life cycle in formulating strategies concerning successful product launch and product diversification were highlighted. Product decisions are based on how much the organization has to adjust, the product on the standardization - adaptation range to differing market conditions. This results in the evolution of five basic strategic alternatives: extension, adaptation; adaptation, extension; adaptation and invention. The extension is nearest to a standardized product, communications strategy and invention at the other end of the variety, that is, an adaptation strategy. The more adaptive the policy, the more costly it will be for the organization. Ideas regarding different types of product levels and product issues were examined. Furthermore what is branding; how it helps in increasing sales are also discussed. How labelling is going to help the product has also been discussed in brief.

13.10 Glossary:

- **Product strategy**: Marketing plan for a product based on the characteristics of the target market, market share objectives, desired product positioning within the market and profit objectives.
- **Product Cannibalization:** Losing sales of a product to another similar product within the same product line.
- **Product Development Strategy:** The development of a new product/service aimed at the organization's existing market.
- **Product Positioning:** The consumer perception of a product or service as compared to its competition.
- **Market position:** The perception of a product or an organization from the view of the consumer.
- **Product differentiation**: positioning a brand in such a way as to differentiate it from the competition and establish a unique image.

13.11 Answers To Check Your Progress

13.5.1 Fill in the blanks:

1. Tangible
2. Service
3. Idea
4. Guarantee
5. Warranty

13.8.1 Fill in the blanks:

1. Convenience Products
2. Maintenance, Repair and Operating
3. Brand Equity
4. Package
5. Characteristics, durability, tangibility and use.

13.12 References:

- Charantimath. P., (2003). Total Quality Management. New Delhi: Pearson Education.
- Desai, V., (2004). Management of Small Scale Enterprises New Delhi: Himalaya Publishing House
- Gupta, C.B. & Nair N.R. (2009) Marketing Management. New Delhi: Sultan Chand & Sons
- Jain, S. (2000) Marketing: planning & strategy. Cincinnati: Thomson learning,
- Loken, B. and Roedder, D.J. (1993) Diluting brand beliefs: When do brand extensions have a negative impact? Journal of Marketing.
- McGrath, M. (2001). Product Strategy for High Technology Companies. New York: McGraw-Hill
- Nilson, T. (2000). Competitive Branding: Winning in the Marketplace with Value Added Brands. West Sussex: Wiley
- Mamoria, C.B., Suri, R.K., & Mamoria, S., (2011). Marketing Management. Allahabad: KitabMahal
- http://catarina.udlap.mx/u_dl_a/tales/documentos/bad/gartner_ak/capitulo3.pdf. accessed on 13.2.2012
- Taneja.G.,(n.d.) Entrepreneur Development New Venture Creation. 2nd edition Galgotia Publishing Company. Retrieved February 13, 2012
- Literature review (n.d.). Retrieved February 2, 2012, http://nccur.lib.nccu.edu.tw/bitstream/140.119/35162/6/51044106.pdf.

13.13. Suggested Readings:

1. Creating And Launching Superior: New Product, Product Leadership	Robert Cooper
2. Marketing Management	Mukesh Dhunna
3. Basics of Marketing Management	Dr R.B. Rudani
4. Marketing Management	R S Gupta
3. Principles Of Marketing	Philip Kotler

13.14 Terminal Questions:

1. What do you understand by-product? Explain in detail the different types of products?
2. What are the different types of product decisions that are used by the producer?
3. What is a product and why is it considered a key element in the market offering?
4. How does branding, packaging and labelling help in positioning the product?
5. Explain the key factors that help in shaping the product?

Unit-14
Pricing Strategies: Pricing Product, Considerations and Approaches

Structure

14.1 Introduction:

In the current chapter, we are going to discuss price distribution. Pricing is undoubtedly a vital decision area in marketing. Price is the only element in the marketing mix of a firm that generates revenue. All else generates only cost. Price and sales volume together decide the revenue of any business. As sales volume in itself is dependent to a considerable extent on price, the latter becomes key to the revenue of the business. Price is also the most important determinant of the profitability of the business. It is competition again that makes pricing a highly dynamic function. Pricing acquires its importance on account of yet another factor. It is a highly risky decision area and mistakes in pricing seriously affect the firm, its profits, growth and future.

14.2 Objectives:

After studying this unit, you will be able to understand:

- Meaning and definition of pricing
- Pricing objectives
- Pricing strategies methods
- Pricing procedures
- Approaches used in pricing

14.3 Meaning and Definition of Price Decision:

Price decisions are the most important decisions to be taken by business and industrial enterprises. These decisions determine the market share and competitive situation of an enterprise. These decisions also determine the total revenue and net profit of the enterprise.

In addition to this, advertisement and sales promotion programs are also affected by the decision. Therefore a decision of determining the price for a product must be taken only after considering all the relevant features.

Pricing decisions means a decision of determining the price product. Such price must be determined after considering many factors together such as cost of production, cost of transportation, cost of distribution, the demand of the product, the situation of competition in the market, the purchasing power of the consumer and the objective of enterprise etc.

14.4 Factors Influencing Pricing:

Two sets of factors: internal and external influence the pricing decisions of any enterprise. In each, some factors may be economic and some psychological; again, some may be quantitative and yet others qualitative.

14.4.1 Internal Factors:

In pricing, a firm has certain objectives. It seeks to recover its costs of manufacturing and marketing through the price. Pricing also has to be consistent with the overall objectives of the firm. The firm may also seek a particular public image through its pricing policies. All these constitute the internal factors that influence pricing. Pricing strategy has also to fit the overall marketing strategy of the firm. In this sense, the firm's marketing strategy is another internal factor that influences pricing.

14.4.2 External Factors:

In addition to the internal factors, any business firm has to encounter a set of external factors while formulating its pricing strategy. In the first place, the conditions of the economy have to be reckoned with. Second is the nature of competition. The purchasing power of the consumers has also to be taken into consideration. The bargaining power of customers and supplies are the other important considerations. Sometimes, the government exercises control over the price of certain products. All these constitute the external factors that influence pricing decisions.

14.5 Pricing Objectives:

A business firm will have several objectives in the area of pricing. Following are the various objectives of pricing:

- Profit maximization is the short term
- Profit optimization in the long term
- A minimum return on investment
- Achieving a particular sales volume
- Achieving a particular market share
- Deeper penetration of the market
- Entering the new market
- Target profit on the entire product line, irrespective of profit level in individual products
- Keeping competition out or keeping under check
- Keeping parity with competition
- Fast turnaround and early cash recover
- Stabilizing prices and margins in the market
- Providing the commodities at prices affordable by weaker section
- Providing the commodities/services at prices that will stimulate economic development

14.5.1 Different Permutations of Objectives Apply to Different Firms:

All of the pricing mentioned above may not be relevant to all firms. For example, the last two objectives in the list are relevant only to providers of essential commodities and public utility services; as regards commercial firms, these considerations enter the pricing decisions only in a subdued manner; their pricing cannot be principally based on such considerations.

The other objectives too apply only selectively, different firms adopting different permutations.

14.6 Pricing Strategies/Methods:

By pricing method or strategy, we mean the route taken by the firm in fixing the price. The method/strategy must be appropriate for achieving the desired pricing objectives. There are several methods of pricing. Each of them may be appropriate for achieving a particular pricing objective or a particular combination of pricing objectives. For example, skimming pricing is suited for achieving the objective of short-term profit maximization. The different methods of pricing can be grouped into a few broad categories as follows:

Broad Categories of Pricing Methods:
14.6.1 Cost-based Pricing
14.6.2 Demand Based pricing
14.6.3 Competition oriented pricing
14.6.4 Value pricing
14.6.5 Product line-oriented pricing
14.6.6 Tender pricing
14.6.7 Affordable based pricing
14.6.8 Differentiated pricing
14.6.9 Psychological pricing
14.6.10 Pricing in stages of life-cycle of the product

14.6.1. Cost-Based Pricing:

Under the cost-based category, the following approaches are the commonly used ones.

a. Mark-up pricing/Cost-plus pricing
b. Absorption cost pricing (Full cost pricing)
c. Target rate of return pricing
d. Marginal cost pricing

While these methods vary from one another in some respects, all of them are based on costs.

a. Mark-up Pricing: Mark-up pricing refers to the pricing method in which the selling price of the product is fixed by adding a margin to its cost price. The mark-ups may vary depending on the nature of the product and the market. Usually, the higher the value of the product (unit cost of the product) the large is the mark-up and vice-versa. Again, the slower the turnaround of the product, the larger is the mark-up and vice versa.

Mark-up pricing proceeds on the assumption that demand cannot be known accurately, but costs are known. A reasonable mark-up is added to the costs. And the price, as well as the mark-up, is adjusted by trial and error. The objective is to maximize profits in the short and medium run without sales being sacrificed due to the excessive price. Usually, distributive trade and marketing firms, which do not have any manufacturing of their own, prefer this pricing method.

b. Absorption Cost Pricing: Absorption cost pricing or full cost pricing rests on the estimated unit cost of the product at the normal level of production and sales. The method uses standard costing techniques and works out the variable and fixed costs involved in manufacturing, selling and administering the product. By adding the costs of these three operations, we get the total cost. The selling price of the product is arrived at by adding the required margin towards profit to such total costs. This method is also known as Ml cost pricing since it envisages the realization of fill costs from each unit sold.

The method has some merits and several limitations. Merits and demerits of absorption cost pricing: The main merit of this method is that as long as the market can absorb the production at the determined price, the firm is assured of its profit without any risks whatsoever. Firms preferring safety in their pricing may follow this method.

On the demerit side, it must be mentioned first that the method does not take cognizance of the demand factors at all; it simply assumes price to be a function of cost alone. In a competitive market, where demand for the firm's product at the determined price cannot be taken for granted, this method becomes ineffective. In fact, in a competitive market, if a firm swears by absorption cost pricing, it is most likely to lose a part of its sales. Second, the method relies excessively on standard costing and normal levels of production and sales. The calculations are upset if the actual production and sales fall short of the normal (assumed) level. Third, often variations occur in the cost of the inputs, between the time when the absorption costs were worked out and the time of actual production/sale of the product. So, frequent updating of the costs becomes necessary in this method and this may not be practicable in all cases. Fourth, absorption cost pricing is not a dynamic method of pricing. In certain situations, it may be advantageous for the firm to compete in the market and attract additional sales at prices that are lower than the absorption cost prices. But when a firm sticks to the policy of absorption of all costs on each unit of sale, it loses the opportunity of trying other pricing alternatives and benefiting from them.

c. **Target Rate of Return Pricing:** The target rate of return pricing is similar to absorption cost pricing. The rate of return pricing uses a rational approach to arrive at the mark-up. It is arrived at in such a way that the return on investment criteria of the firm is met in the process. The rate of return pricing too has its merits and limitations. It amounts to an improvement over absorption costs pricing since it uses a rational basis for arriving at the mark-up. Second, since the rate of return on the funds employed is a function of mark-up as well as turnaround of capital employed, the rate of return pricing constantly reminds the firm that there are two routes for profits-improvement in the capital turnover and increase in the markup. The main limitation of the method is that the rate of return is linked to the level of production and sales assumed. When these levels change, the rate of return also changes.

d. Marginal Cost Pricing:

Marginal cost pricing aims at maximizing the contribution towards fixed costs. Marginal costs include all the direct variable costs of the product. In marginal cost pricing, these direct variable costs are fully realized. In addition, a portion of the fixed costs is also realized. The main difference between absorption cost pricing and marginal cost pricing is that the latter gives the flexibility not to recover a larger share of the fixed costs from certain customers or a certain segment of the business and a smaller share from the others.

On the merits side, in the first place, the marginal cost approach takes into account cost aspects as well as demand aspects, though it is a cost-based method. Thus, under competitive market conditions, marginal cost pricing is more useful. Moreover, when a firm has some products/product lines, marginal cost pricing is useful. It gives the flexibility for realizing fixed costs through different products/product lines at different rates depending on market conditions while recovering all the marginal costs (i.e. direct variable costs) directly from the concerned product. The method may be particularly useful in quoting for competitive tenders and in export marketing. On the demerits side, marginal costing makes certain assumptions regarding cost and revenue behaviour which can turn out to be incorrect in some cases. Moreover, while marginal costing rests on a twofold classification of cost into fixed costs and variable costs, in reality, there can be a third class of costs: the semi-fixed, semi-variable costs or mixed costs. Marginal costing ignores this reality. As a result, some distortions can enter the picture and affect the validity of the marginal cost pricing. Again, marginal cost pricing can be employed only in the short run and under certain specific circumstances. No firm can afford to depend on this method as the sole or permanent method. In fact, in highly capital intensive industries, selling on a marginal cost basis may pose an additional problem as the difference between the marginal cost price and full cost price will be very large.

- **Common Merits and Demerits of all Cost-Based Methods of Pricing:**

Cost-based methods as a class have certain merits and demerits. The main merit is that so long as the method works, the firm is assured of the target profit. The risk involved is minimal. The main demerit is that the method assumes a level of demand for the product independent of price. Also, the profit percentage is often arbitrary. There is a chance that a much better opportunity for profits is lost by keeping the price too low; there is also the chance that the sales volume is lost because of instance on a higher level of profit which the market cannot return.

- **Break-Even Concept:**

An idea of the break-even concept is essential for correctly understanding most of the cost-based methods of pricing. In any business, costs, volume, price and profits are interrelated. At a level where the total costs exactly equal the total revenues, the breaking even of costs and revenues takes place. The number of units that are required to be produced and sold to reach a no loss-no profit position at the given level of unit price is known as the break-even point. This illustrates the break-even concept. Many business firms use the break-even concept in their pricing methods.

14.6.2 Demand/Market-Based Pricing:

The following methods belong to the category of demand/market-based pricing:

a. 'What the traffic can bear' pricing
b. Skimming pricing
c. Penetration pricing

The basic idea in all the demand-based methods is that sales and profits can be independent of costs but are dependent on the demand and hence pricing has to relate to demand.

a. 'What the Traffic can bear' pricing?

As per 'what the traffic can bear' pricing, the seller takes the maximum price that the customers are willing to pay for the product under the given circumstances. In effect, it is a variant of skimming pricing. It is not a sophisticated method and is used more by retail traders than by manufacturing firms. This method brings high profits in the short term.

But in the long run, what the traffic can bear is not a safe concept. Chances of errors in judgment are very high. Also, it involves trial and error. It can be used where monopoly/oligopoly conditions exist and demand is quite inelastic concerning price. Buyer opposition or consumerism is bound to set in overtime when a seller sets its prices based on what the traffic can bear. New competitors will also enter the industry and make the game difficult for the firm.

b. Skimming Pricing:

As the word skimming indicates, this method skims the market in the first instance through high price and subsequently settles down for a lower price. In other words, it aims at a high price and high profits in the early stage of marketing the product. It profitably taps the opportunity for selling at high prices to those segments of the market which do not bother much about the price. The method is very useful in the pricing of new products, especially those that have a luxury or speciality element. Skimming pricing will also help the firm feel the market/demand for the product and then make appropriate changes in the pricing decision.

c. Penetration Pricing:

Penetration pricing seeks to achieve greater market penetration through relatively low prices. When the new product is capable of bringing in a large volume of sales but is not a luxury item and there is no affluent/price insensitive segment backing it, the firm can choose the penetration pricing and make large-size sales at a reasonable price before competitors enter the market with a similar product. Here the quantity that can be sold is highly sensitive to the price level even in the introductory stage. Soon after introduction, the product may encounter stiff price competition from other broads/substitutes. Penetration pricing in such cases will help the firm have good coverage of the market and keep competition out for quite some time.

- **The Concept of Price Elasticity of Demand**:

In all demand-based pricing methods, the price elasticity of demand is taken into account directly or indirectly. Price elasticity of demand refers to the relative sensitivity of demand for a product to change in its price, in other words, how significantly the sales of the product are affected when the price is changed. If an increase or decrease in the price of the product results in a significant decrease in its off-take the product is said to be price elastic. Conversely, if the price change does not significantly affect the sales volume, a product is said to be price inelastic. Through the concept of price elasticity of demand, we can describe the changes in the buying responses of customers to changes in the price of the product. It is usually described as a ratio of the variation in demand to the variation in price.

14.6.3 Competition-Oriented Pricing:

In a competitive economy, in most industries, competition-oriented pricing methods are common. The methods in this category rest on the principle of competitive parity in the matter of pricing. Competition-based pricing or competitive parity, however, does not necessarily mean matching competition in price. Three policy options are available to the firm under this pricing method:

a. Premium pricing
b. Discount pricing
c. Parity pricing/Going rate pricing.

For all of them, a competitor's price serves as the reference point. Premium pricing means that pricing is above the level adopted by the competitors. Discount pricing means below such level and parity pricing means matching competitor's pricing. Where supply is more than adequate to meet demand and the market remains competitive in a stable manner; where the channel and consumers are well aware of their choices, parity pricing can be the answer.

14.6.4. Pricing to Value:

Pricing methods based on cost, demand and competition, which we have discussed so far, belong to the convention/standard category of pricing methods. Value pricing, in contrast, is a modern, innovative and distinctive method of pricing.

a. Relationship between Price and Value:
The crux is that price represents the exchange value of a product. In fact, like things, price revolves totally around value. Of course, price is related to the generic ability of the product to satisfy a need. Value is the worth the consumer attaches to it. It represents the quantum of money that he is willing to part with for owning the product. Pricing methods based on cost, demand and competition fail to recognize this vital fact adequately. Value pricing avoids this lacuna and fully exploits the natural linkage between price and value.

b. Essence of Value Pricing:
Value pricing rests on the premise that the purpose of pricing is not to recover costs but to capture the value of the product perceived by the customer.

The chief merit of value pricing is the recognition that the customer is interested only in the value or worth of the product and not in its costs. Value pricing will win customer loyalty to the marketer. And as long as the marketer can deliver value, over his costs, his profits are also ensured.

14.6.5 Product Line Pricing:

When a firm markets a variety of products grouped into suitable product lines, a special possibility in pricing arises. As the products in a given product line are related to each other, the sale of one influences that of the others. They also have interrelated costs of manufacturing and distribution. In such a situation, the firm need not necessarily fix optimal price for each product, independent of other products in the line. It can fix the prices of the different products in such a manner that the product line as a whole is priced optimally resulting in optimal sales of all the products put together an optimum total profit from the line. A set of interrelated prices for the various products in the line will be the outcome of such a policy.

The total costs and the total desired profits from the entire product line go into such pricing. A further refinement is that the tentative prices for the various products in the line are worked out and adjusted later, based on competitors' prices for similar products and the demand resorting to product line pricing. First, the joint cost and the joint revenue problems can be quite complex and formidable. Second, a price change cannot be initiated in respect of any one item in the product line without considering its effect on the line as a whole. No item can be treated as an independent product for pricing. The method is also sometimes referred to as the product line promotion method of pricing.

14.6.6 Tender Pricing:

Business firms are often required to fix the prices of their products on a tender basis. Tender pricing is of a special type. It is more applicable to industrial products and products/services purchased/contracted by institutional customers. Such customers usually go by competitive bidding through sealed tenders/quotations. They seek the best (the lowest possible) price consistent with the minimum quality specifications. His objective in tender pricing can only be to get the best possible price under the circumstances and to bag the order.

14.6.7Affordability Based Pricing:

The affordability based pricing method is relevant in respect of essential commodities which meet the basic needs of all sections of people. The idea here is to set prices in such a way that all sections of the population are in a position to buy and consume the products to the required extent. The price is set independent of the cost involved. Often an element of state subsidy is involved and the items are often distributed by the public distribution system. This method of pricing is also referred to sometimes as social welfare pricing.

14.6.8 Differentiated Pricing:

Some firms charge different prices for the same product in different zones/areas of a market. Sometimes, the differentiation in pricing is made based on customer class rather than marketing territory. Sometimes the differentiation is based on the volume of purchase which is the most commonly used method in this category.

14.6.9 Psychological Pricing:

Marketers often try to get around consumers' psychological barriers in respect of price through psychological pricing. For example, they put on a price tag of Rs. 295 instead of Rs. 300 or a tag of Rs. 9.990 instead of Rs. 10,000. In the earlier days, in India, this kind of pricing was known as Bata pricing as Bata used to price most of its footwear in this fashion. Now, manufacturers across product categories are resorting to this practice. It can be argued that a reduction of Rs. 1on a price of Rs. 100 will not make much difference to the consumers. The point is that while setting out to buy a product, most of the consumers draw a price band for it and as far as possible does not want to go beyond it. They often operate in price band for it and as far as possible do not want to go beyond it. They often operate in price bands, not at a price point that is predetermined by the last pie. While 99 is in the two-digit territory, 100 is in the three-digit territory. The consumer is comfortable with the thought that he has stayed within his preferred price band. Research indicates that consumers do not consider a price too high when it varies within the band that they are looking for but they react adversely the moment it crosses the band. Any price that suggests a lower price band seems to confer a benefit on the seller as it plays on the psychology of the buyer. It is a fact that in many cases, a small fractional difference in price does create the impression of a much larger difference.

Another point, though psychological again, is that it gives a good feeling to the consumers if they received back some change after a purchase. The strategy makes the product seem more affordable. The strategy provides yet another advantage to the seller. Supposing that based on costs and profit requirements, the product is to be priced at say, Rs. 9,800; the seller can price it at Rs. 9,900 or even 9,999, remaining below the price band preferred by the consumer. This way, he can make an additional profit.

14.6.10 Pricing in different stages of the Life-cycle of a product:

A product has six stages of its life cycle viz. **(i)** Introduction, **(ii)** Growth, **(iii)** Maturity, Saturation, **(v)** Decline **(vi)** Obsolescence. Different pricing policies are adopted at different stages of a product's life cycle. These policies can be explained as:

a. Pricing at introduction stage: At this stage, a new product is introduced into the market and an intensive advertising campaign is launched to make the public familiar with the product. At this stage of the product life cycle, either of the two strategies may be adapted: Skimming the cream icing and low penetration price strategy. Under the first strategy, a very high price is fixed for the products and under penetration pricing, a low price is fixed for the product depending upon the market conditions. If the market condition is competitive e.g., the .product is quite new or there is no substitute. Skimming the cream strategy may be adapted. If there is tough competition, a penetration strategy should be preferred.

b. Pricing undergrowth: At this stage of the product life cycle, the demand and sales volume of the product go up. The customer prefers the product to other products available in the market. The producer should be very careful at this stage in determining the price because it is the time when the firm can earn the maximum profits through maximum sales. The producer in determining the price at this stage must consider the pricing policy of the competitors. If the existing price may be reduced at this stage, maximum benefit can be taken from the increasing popularity of the firm. If the producer feels that there is no close competition, the price of the produced pay is raised slightly. Stress should be for intensive and extensive advertising.

c. Pricing under the stage of maturity: At this stage, the sales of the product continue to increase but at a lower rate. It is because, at this stage, new competitors enter the market with superior quality products. The customers shift their brand loyalty to other new and superior products. The popularity of the enterprise begins to fall. At this stage, the low price must be determined to check the customers shifting to the new brand. The enterprise must also stress upon marketing research and product research so that a new improved product may be introduced in the market. Efforts should also be made to develop new uses of the product so that some customers may be attracted to the product.

d. Pricing under the stage of saturation: Under this product life- cycle, the total sales volume becomes stagnant. At first, the price of the product should be kept lower or reduced to a great extent if possible. In addition to it, efforts must be made to change the physical and chemical attributes of the product so that it may look better.

e. Pricing under decline: In the declining stage, the sale of the product is continuously declining despite the best selling effort. The hope of future sales becomes almost negligible. At this stage, the producer must use break-even pricing. The policy of price-differentiation may also be adopted at this stage.

f. Policy under the Stage of Obsolescence: At this stage, demand and sales of the product are reduced to a minimum low and possibilities of future sales are also bleak. Continuance of such a product will harm the firm. At this stage of the life cycle, it is better to discontinue the product to avoid losses and use the resources for other profitable products. Different pricing policies are required to be adopted at different stages of a product life cycle. The main aim is to maximize or maintain the price of the product.

14.7 Check Your Progress-1:

14.7.1 Fill in the blanks:

1. ……………………means a decision of determining price product.
2. ……………………of the consumers should also to be taken into consideration before deciding price.
3. The method/strategy must be appropriate for achieving the……….…………..…………..
4. ………………..….refers to the pricing method in which the selling price of the product is fixed by adding a margin to its cost price.
5. Marginal cost pricing aims at maximizing the contribution towards...….………………

6. ………………..aims at a high price and high profits in the early stage of marketing the product.

7. Price elasticity of demand refers to the relative sensitivity of demand for a product to change in its…………………….

8. ……………………..is applicable to industrial products and products/services purchased/contracted by institutional customers.

14.8 Pricing Procedure:

The term pricing procedure refers to the actual process/mechanics of working out the price. The steps involved in the pricing procedure will vary depending on the pricing objectives and pricing methods chosen by the firm. Some of the steps are common for all methods while some are not relevant for some methods. The general steps involved in the pricing procedure are listed in the following manner.

14.8.1 Steps involved in pricing procedure:

a. Identify the target customer segments and draw up their profiles.

b. Decide the market position and price image that the firm desires for the brand.

c. Determine the extent of price elasticity of demand of the product and the extent of price sensitivity of target customer groups.

d. Take into account the life-cycle stage of the product.

e. Analyze competitor's prices.

f. Analyze other environmental factors.

g. Choose the pricing method to be adopted, taking all the above factors into account.

h. Select the final price.

i. Periodically review the pricing method as well as procedure.

- **Terms of Sale:**

Price remains vague unless all details about the terms of sale are spelt out. Price and terms of sale go as a package. Decisions of price cannot be dissociated from decisions regarding terms of sale and discounts/rebates.

14.9 Approaches in Pricing:

Firms having a proactive approach to pricing are usually way ahead of those with a reactive/reflexive approach in tapping market opportunities. The proactive approach helps the firm realize the full opportunity that is available in the pricing mechanism as also of the market forces. A proactive price need not necessarily be an initiator of price changes. Proactive prices seldom lose the business because of overpricing. They reduce prices where it is warranted and realize a better price wherever it is possible to do so. Proactive prices also try to separate some performance features and service features from the product make them available as special features and price them extra. They structure the price intelligently and make them appear competitive.

Proactive prices gather all relevant information and use them to their advantage in pricing.

14.9.1 Price Plays a Communicative Role:

Many firms use price as an index of quality, luxury, status or technical excellence of their products. Such products are usually sold on the exclusiveness of ideas. Firms also use price to communicate that the product is a common man's product. In other words, the price also involves psychological factors over and above the economic factors and transmits certain communication clues to the consumers. That is why consumers classify products as 'costly', 'reasonable' and 'cheap'. They process a price in their minds and judge whether it is high, low or reasonable.

14.9.2 Resale Price Maintenance:

Some firms believe in resale price maintenance while others leave it to the trade. Often there are statutory provisions on this. Where the matter is governed by law, the firm has very little freedom. Where there is no such restriction, the firm can have its policy. Again, some firms follow a policy of protecting the trade from the losses resulting from price reductions while others leave both the tosses and gains arising out of fluctuations in prices to the trade.

14.9.3 Judgment-a Key Factor in Pricing:

In making price decisions, judgment is as important as facts and formulae. The analytical and quantitative approach is no doubt a must in handling the pricing issue but pricing remains an area where judgment plays a vital role.

14.10 Check Your Progress-2:

14.10.1 Fill in the blanks:

1. The term…………….refers to the actual process/mechanics of working out the price.
2. Firms having a proactive approach to pricing are usually way ahead of their…………….
3. ………………..seldom lose the business because of overpricing.
4. In making price decisions………….is as important as facts and formulae.

14.11 Summary:

This chapter has presented key concepts regarding pricing in decisions, pricing policies and strategies. The pricing strategy portion of the marketing plan involves determining how you will price your product or service; the price you charge has to be competitive but still allow you to make a reasonable profit.

The keyword here is "reasonable"; you can charge any price you want to but for every product or service there is a limit to how much the consumer is willing to pay. Your pricing strategy needs to take this consumer threshold into account. This includes various factors affecting/influencing price. Various price procedures that must be followed for price are being discussed. Finally, what is the approaches that are needed at price are also discussed in detail.

14.12 Glossary:

- **Demand:** Amount and type of product, people would choose under specific price and quality conditions.
- **Market Distortions:** Market conditions that violate basic market principles such as consumer choice, cost-based pricing or economic neutrality.
- **Price:** It is direct, incremental costs that individual consumers trade-off in exchange for using a good or service.
- **Pricing Strategy:** The method and rationale used by an organization to find the optimum price for a product or service.
- **Product-Line Pricing:** Setting prices for all items in a product line relative to each other. This involves taking into account the difference between the lowest and highest priced products and the price increments between all products in between them.

14.13 Answers to Check Your Progress:

14.7.1 Fill in the blanks:

1. Pricing decisions
2. The purchasing power
3. desired pricing objectives
4. Mark-up pricing
5. Fixed costs
6. Skimming
7. Price
8. Tender pricing

14.10.1 Fill in the blanks:

1. Pricing procedure
2. Competitors

3. Proactive prices
4. Judgment

14.14 References:

- Cortes. A. E., "Good-Bye to Fixed Pricing?" Business Week, May 4, 1998, pp. 71–84.
- Desai, V.,(2004). Management of Small Scale Enterprises New Delhi: Himalaya Publishing House.
- Gupta, C.B. & Nair N.R., (2009). Marketing Management. New Delhi: Sultan Chand & Sons
- Jain, S., (2000) Marketing: planning & strategy Cincinnati: Thomson learning.
- Mamoria, C.B., Suri, R.K., &Mamoria, S., (2011). Marketing Management. Allahabad: KitabMahal
- Nair, N.R. & Nair, S.R. (1993). Marketing.New Delhi: Sultan Chand &Sons
- Rudani, R. B., (2009). Basics of marketing management. New Delhi: S. Chand & Company Ltd.
- Varshney, R. L. (2005). Marketing management. New Delhi: Sultan Chand & Sons.
- Ward. S., (n.d.). Marketing Plan Pricing Strategy. Retrieved March 25, 2012. http://sbinfocanada.about.com/cs/businessplans/a/bizplanmarkplan_2.htm

14.15 Suggested Readings:

1. Basics of Marketing Management	Dr. R.B. Rudani
2. Marketing Management	C.N. Sontakki
3. Marketing Management	Mukesh Dhunna
4. Principles of Marketing	C.N. Sontakki
5. International Marketing	R. Srinivasan

14.16 Terminal Questions:

1. Write a detailed note on factors influencing pricing.
2. What are the various steps involved in the pricing procedure?
3. Write short notes on:
  a. Demand-based pricing.
  b. Competition-oriented pricing.
  c. Value Pricing.
  d. Product line-oriented pricing.
  e. Tender pricing.
4. Differentiate between affordability based pricing and differentiated pricing.
5. What do you mean by?
  a. Proactive approach in pricing.
  b. Psychological pricing

Unit-15
Distribution Channel Strategies

Structure:

15.1 Introduction:

The primary objective of all business enterprises is to earn profit by selling goods and services to ultimate consumers or users. To bring goods from the place of manufacture to the place of consumers, the goods have to follow a path or route which is known as the channel of distribution or trade channel. A trade or marketing channel consists of producers, middlemen and consumers or users. The channel serves as a link between the producer and consumers. In the present lesson, we shall discuss the various aspects of channels of distribution.

The role of distribution is to provide a company with the accomplishment of the task of delivering the product at the right time, place and quantity at a minimum cost. Although the distribution problem was one of the first issues analyzed by marketing researchers at the beginning of the 20th century, the distribution problem has enormous importance in the marketing literature and managerial contexts today.

15.2 Objectives:

After studying this unit, you will be able to understand:

1. Meaning and definition of the channel of distribution.
2. Nature and importance of channels of distribution.
3. Steps involved in deciding the channels for distribution.
4. Factors affecting the selection of channels of distribution.

15.3 Channel of Distribution–Meaning and Definition:

15.3.1 Meaning:

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users. In other words, it is the distribution network through which a producer puts his product in the hands of actual users. The channel of distribution includes the original producer, the final buyer and any middleman; either wholesaler or retailer. The term middleman refers to any institution or individual in the channel that either acquires title to the goods or negotiates or sells in the capacity of an agent or broker. But facilitating agencies that perform or assist in marketing functions are not included as middlemen in the channel of distribution. This is because they neither acquire title to the goods nor negotiate purchase or sale. Such facilitating agencies include banks, railways, roadways, warehouses, insurance companies, advertising agencies, etc.

15.3.2 Definition:

"Any sequence of institutions from the producer to the consumer including one or any number of middlemen is called Channel of Distribution." —**Mc Carthy**
According to **Philip Kotler,** "Every producer seeks to link together the set of marketing intermediaries that best fulfil the firm' s objectives This set of marketing intermediaries is called the marketing channel, also trade –channel or channel of distribution."

William J. Stanton has defined a trade channel in these words, "A channel of distribution (sometimes called a trade channel) for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer or industrial users." Another writer **Richard Buskirk** has expressed the same idea in other words, "Distribution channels are systems of economic institutions through which a producer of goods delivers them into the hands of their users." After going through the above definitions, you can now summarize that channels of distribution are a very important tool of marketing. Channels of distribution are the means employed by manufacturers and sellers to get their products to the market and into the hands of users. Channels are management tools used to move goods from place of production to place of consumption. They are how title to goods is transferred from sellers to buyers. The process of transferring is not so simple in the present day marketing that is characterized by heterogeneity on both the demand and supply sides. The channel is, therefore, the vehicle for viewing marketing organization in its external aspects and for bridging the physical and non-physical gaps which exist in moving goods from producers to customers through the determination of price. In any developing economy, there is an increasing emphasis on specialization and the division of labour. As a result of this, a gap gets developed between producers and users. The primary purpose of a distributive channel is to bridge this gap by resolving spatial (geographical distance) and temporal (relating to time) discrepancies in supply and demand. For this certain essential functions need to be performed. These are:

(i) Transfer of title to the goods involved
(ii) The physical movement of goods from the point of production to the point of consumption
(iii) Storage function
(iv) Communication of the information concerning the availability characteristics and price of the goods in transit, inventory and on purchase.

15.4 Nature and Importance of Distribution Channel:

15.4.1 Nature:

Nothing prevents a producer from meeting his customers directly. If a seller does not use his privilege, he has to borrow the services of different middlemen to pass on the production to the actual users. Following are the nature of channels of distribution:

a) Provide Distribution Efficiency: In the first place, the channels bring together the manufacturer and the user in an economic manner and thereby provide distribution efficiency to the manufacturer.

b) Minimizes the Number of Contacts needed for reaching Consumers: In most cases, it will be impractical for a manufacturing firm to sell its entire production directly to the consumers. Resource constraint is the first hurdle in this regard. If resources can be found, the question arises whether it will be advantageous for the firm to sell its products directly and all by itself, totally avoiding external marketing channels. Analysis shows that in most cases, using external marketing channels/intermediaries is more advantageous to the firm than performing the distribution function all by itself. Channels minimize the number of contacts.

c) Breaks the bulk and cater to tiny requirements: Channels break the bulk and meet the small-size needs of individual consumers.

d) Provide Salesmanship: Marketing channels also provide salesmanship. In particular, they help in introducing and establishing new products in the market. In many cases, buyers go by the recommendations of the dealers. The dealers establish the products in the market through their persuasive selling and person-to-person communication. They also provide pre-sale and after-sale services to the buyers.

e) Help in Price Mechanism: In many cases, the channels also help to implement the price mechanism. They conduct price negotiations with buyers on behalf of the principals and assist in arriving at the right price; the price that is acceptable to the market as well as the user. This is vital for the consummation of the marketing process. The manufacturer would find it difficult to complete this step without the help of the channels.

f) Look after a Part of Physical Distribution and Financing: Channels also look after a part of the physical distribution functions like transportation, handling, warehousing, sub-distribution, order processing and inventory management. Channels also share the financial burden of the manufacturer by financing the goods flowing through the marketing pipeline. Often, they pay cash and lift the products. In the process, the manufacturer gets his money long before the products reach the ultimate users. In some cases, the channels provide substantive deposits to the principals. In several cases, the channels also extend credit to the subordinate levels in the channel and the consumers. This also relieves the principals' financial strain to an extent.

g) Assist in Merchandising: Merchandising is another important function performed by marketing channels. Through merchandising, they help reinforce the awareness about the product among customers. When a customer visits a retail shop, his attention can be allured by an attractive display. Merchandising complements the selling efforts of the company and acts as a silent salesman at the retail outlet.

h) Provide Market Intelligence: Channels provide market intelligence and feedback to the principal. Like things, channels are in a good position to perform this task since they are in constant and direct contact with the customers. They feel the pulse of the market all the time.

i) Act as Change Agents and Generate Demand: The marketing task involves the diffusion of some innovations among consumers. In such cases, the channels go much beyond the conventional functions of distribution and act as 'change agents' among consumers and generate demand for the product.

15.4.2 Importance of Decision Relating To the Channels of Distribution:

What should be the channel of distribution for a particular product? How many channels must be used for the distribution of a particular product? What will be the cost of distributing products through these channels? What changes should be made in the present channels of distribution? Are the questions, replies to which are called decisions, related to channels to distribution? Decisions relating to channels of distribution are very important because the success of marketing efforts of an enterprise depends to a large extent upon the accuracy and correctness of these decisions. The ultimate objective of every business and industrial enterprise is to earn heavy profit through maximum turnover. This objective can be achieved only if the goods and services produced by the enterprise are made available to their customers at the right time and place. No producer can distribute all the goods and services produced by him to the consumers. He cannot keep himself in constant touch with the frequent changes in the wants of customers. He cannot provide personal services to all the consumers. He cannot come to know about their problems. For these reasons, he has to depend upon the services of middlemen for the distribution of his product to his consumer. Channels of distribution solve all these problems of any producer and manufacturer. They make the goods and services available wherever it is required by the consumer. Thus it is very much desirable that a product must be distributed to its consumer through channels of distribution.

These decisions regarding channels of distribution are due to the following reasons:

(i) Distribution channel is an important element in the marketing mix of the firm. Other elements in the marketing mix are interdependent and interrelated with the decision of channels of distribution. The choice of channels of distribution affects the pricing, physical distribution mid- promotion decisions to a considerable extent. A mistake in the selection of distribution channels may upset the whole market mix.

(ii) Cost involved in the use of a distribution channel enters the price of the product that is ultimate to be paid by the consumers. If the cost is high, the sales will be adversely affected. Thus, if the decision regarding the channel is wrong, the cost of distribution will be very high and sales of the product might be limited. On the other hand, a sound channel decision will reduce the cost of distribution and ultimately the price of the product. It will maximize sales.

(iii) A product or service is really useful only when it is available to the end-users at the right time and right place. The channel decision determines where and when the product will be available to the consumers.

(iv) The channel decision involves the long term commitment of the firm. The relations between manufacturers and middlemen depend largely upon the choice of channel of distribution. Changes in the channel are not easy.

(v) The right choice of channels of distribution will reduce the fluctuations in the production due to continuous and effective distribution, The stability in demand and supply will ensure steady employment and proper budgetary control. The manufacturer can continuously monitor in sales and stock position of his middlemen to exercise effective control over the distribution network.

In this way, channel decision is very important in maximizing saint and profits. The decision is also important from consumers' point of view as they can get the required goods at the proper time and place, in the right quantity at a reasonable price. So, the producer should be very cautious in selecting the channels of distribution for his products.

15.5 Check Your Progress-1:

15.5.1 Fill in the blanks:

1. A……………………..or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users.
2. Any..……………………..from the producer to the consumer including one or any number of middlemen is called Channel of Distribution.
3. In any..……………………there is an increasing emphasis on specialization and the division of labour.
4. If a seller does not use his privilege, he has to borrow the services of different ……………to pass on the production to the actual users.
5. When a customer visits a..……………..his attention can be allured by an attractive display.

15.6 Channel Design Decision:

We have seen that a firm can take its product to the user in more ways than one. It can use different types of intermediaries; it can also structure its channel in different ways. For example, it can have a single-tier two-tier or three-tier channel structure. It can reach different market segments with different channel arrangements or with the same channel arrangement. It can also use different channel arrangements for reaching a single market segment. The options are indeed many.

- How does the firm make the choice? How does it determine which one is the best?
- Should it go for its channels, company showrooms and depots? Or prefer conventional intermediaries, i.e., the wholesale/retail trade?
- How many levels/tiers should there be in the chosen channel design?
- How many wholesale points should it have to ensure satisfactory market coverage? Where should they be located?
- How many retail points should it have? Which are the places where it should have them?
- What should be the relationship between the wholesalers and the retailers?

15.6.1. Following steps are involved in deciding the channels for distribution:

a. Formulating the Channel Objectives: Formulation of channel objectives is the first step in designing a channel system. The objectives clarify what is sought to be achieved by having the channels. All firms seek to realize certain common objectives by having the channel. In addition, they may also have some specific objectives depending on their unique circumstances. The common objectives which firms seek from channels are:

- Effective coverage of the target market
- Efficient and cost-effective distribution
- Ensuring that consumers incur minimum exertion in procuring the product
- Helping the firm to carry on manufacturing uninterrupted and confident that the channels will take care of sales.
- ‘Partnering the firm in financing and sub-distribution tasks

b. Identifying Channel Functions: Identification of the functions to be performed by the channel is the next step in designing a channel system. We have already discussed the channel functions in detail. Suffices to add here that channel design depends on the functions expected of the channel and that channel function must be identified in the specific context of the firm to get practical direction in designing the channel system.

c. Linking Channel Design to Product Characteristics: Different products require different channel systems. The firm should analyze the characteristics of the product and choose the channel system that matches the product best. Consumer and industrial goods, for example, need different channels. And within the category of consumer goods, different sub-categories such as convenience goods, shopping goods and speciality goods, may need different channel systems.

d. Evaluation of the Distribution Environment: While selecting the channel design, the firm should also take into account the distribution environment obtained in the country/territory. It should evaluate the vital features of the distribution environment and ensure that the proposed channel design is compatible with them. The distribution environment in the broader sense includes the trade-related legal environment as well. A mention of the legal environment relating to marketing and trade matters has been made in the chapter on The Marketing Environment. The legal implications of the channel design must be carefully examined before taking a final decision.

e. Evaluation of Competitor's Channel Designs: The firm should also study the competitor's channel patterns before deciding its channel design. While the firm may not necessarily follow the competitors in channel design, it should analyze the plus and minus of the channel patterns adopted by each of its major competitors. Quite some firms do settle down for a 'follow the leader' policy in channel design. They find it an easy route. But such an approach may deprive them of the chance to score an edge over the competition through the channel strategy.

f. Matching the Channel Design to Company Resources: Choice of the channel is also governed by the resources available with the organizations. Firms with limited resources settle for conventional channels. Firms with limited resources and a small volume of business will normally find it difficult and uneconomical to opt for their channels. For such firms, establishing branch showrooms/depots/retail outlets of their own will result in a high unit cost of distribution which they cannot afford. They are better off by depending on conventional channels. They are usually content with a small network of conventional intermediaries. Firms with larger resources have more options: Firms with larger resources and larger marketing operations can go in for varied distribution channels. In fact, in India, in several businesses, firms that are strong in resources, usually operate two parallel channels; one reaches out to the customer through company depots and showrooms and the other through conventional intermediaries. The textile business which we discussed earlier is a good example of this phenomenon. Firms like Reliance Industries, Bombay Dyeing and DCM have all gone for such a two-pronged channel design. In some cases, however, even large firms prefer a distribution arrangement wherein they will n6t be required to pump in much of their resources.

g. Evaluating the Alternatives and Selecting the Best: With the completion of the foregoing steps, the number of alternatives would have narrowed down considerably. The firm must evaluate these alternative designs and choose the best among them. Two distinct evaluations, an economic evaluation and a conceptual evaluation may be necessary.

- **Economic Evaluation; balancing cost, efficiency and risk**: Cost and efficiency are the main parameters in economic evaluation. Often, though not necessarily, the two are directly proportional. The firm has to rate the risk associated with the different alternatives. The firm's choice is a compromise among the three parameters.

The first step here is the determination of the sales volume that can be obtained through each alternative design. Second, the costs of selling that volume through that alternative have to be assessed. In other words, the firm determines the unit cost of selling in each of the alternatives. The firm chooses the one which is attractive from the cost efficiency angle and is also relatively less risky.

- **Conceptual Evaluation; flexibility and controllability:** Conceptual evaluation is also equally important. It has to be used for assessing the flexibility and controllability of the alternative. The economic evaluation may point to one particular alternative as superior while conceptual evaluation gives it a low rating.

After deciding the design of the channel and the number of tiers in the channel, the firm has to decide the number of members needed in each tier and their locations. It has to select suitable persons/establishments and appoint them as stockiest, distributors and dealers as the case may be. It has to administer them, service them and motivate them.

15.7 Factors Affecting the Selection of Channels of Distribution:

There may be many channels of distribution for a product and a manufacturer has to select any one or more of these channels. The selection of a particular channel is a decision upon which the success of all the marketing efforts of an enterprise depends. Therefore, a particular channel must be selected only after a careful study and consideration of all the relevant factors. Factors affecting the selection of channels of distribution can be divided into five parts:

15.7.1 Factors related to the manufacturer
15.7.2 Factors related to the product
15.7.3 Factors related to the market
15.7.4 Factors related to the middlemen and
15.7.5 Factors related to the environment.
The details in this regard are as follows:

15.7.1Factors related to manufacturer:

Following are the factors related to producer/manufacturer which affect the decision of selecting a channel of distribution:

a. Financial resources: The very first factor affecting the selection of a channel of distribution is the availability of financial resources with a manufacturer. If the manufacturer has sufficient financial resources, he may decide to sell his products directly to the consumers. If, on the other hand, a manufacturer does not have sufficient financial resources, he must decide to distribute his products with the help of middlemen.

b. Marketing experience and managerial ability: Marketing goods is an art. If the enterprise has sufficient marketing experience and managerial ability, the decision may be taken for distributing products directly to the consumers. If the enterprise lacks marketing experience and managerial ability, the enterprise must decide to distribute its products with the help of middlemen.

c. Goodwill: Selection of a particular channel of distribution depends upon the goodwill of the manufacturer also. If a manufacturer enjoys a high reputation in the market and his products are popular among consumers, he can select any channel of distribution according to his desire because every middleman wants to sell the products of such manufacturer. If a manufacturer does not enjoy such a reputation, he should take the advantage of the goodwill of middlemen and he should select the channel of distribution that enjoys a high reputation.

e. Size of the enterprise: If the size of an enterprise is large and it has sufficient financial resources, marketing experience and managerial ability, it may select any channel of distribution. It may also decide to distribute its products to the consumers directly. Otherwise, the manufacturer will have to depend upon the experience and ability of middlemen.

f. Desire to control: If the manufacturer wants to have complete control over all the marketing activities, he should select a short channel of distribution or he should distribute his goods directly to the consumers. If on the other hand, the manufacturer has no such desire, he may decide on a long channel of distribution.

15.7.2 Factors related to the product:

Following are the factors related to the product which affect the selection of channel of distribution:

a. Perishability of product: If the product is perishable, it must be distributed within the shortest possible time and therefore the shortest channel of distribution must be selected. If the product can be stored for some time, the longer channel of distribution may also serve the purpose.

b. Ordered products: If a manufacturer manufactures goods according to orders only, he usually decides to distribute these products direct to his consumers. If a manufacturer produces goods according to standards, he may decide for distributing these goods through a long channel.

c. Price per unit: It has been the experience that the channel of distribution for distributing the goods of low price unit is generally long and that for the goods of high price unit is generally short.

d. Weight: It also has been the experience that the goods of high weight are generally distributed directly by the manufacturers. On the other hand, the goods of lightweight are distributed through a long channel of distribution.
e. Technical nature of the product: If the product is technical, it becomes necessary for the manufacturer to provide after-sale services to the consumers. In the case of such products, it becomes necessary that these products must be supplied directly by the manufacturer or through the shortest possible channel of distribution.

15.7.3 Factors related to market:

Following are the factors related to the market which affect the selection of a particular channel of distribution:
a. Number of consumers: If the number of consumers of a product is very large, it must be distributed through a long channel of distribution so that it may be made available in all the segments of the market at all times. If, on the other hand, the number of consumers of a product is limited, it must be distributed through the short channel of distribution.
b. Regional concentration: If the consumers of a product are scattered all over the country, it will not be possible for the manufacturer to distribute such product directly. Therefore, it becomes necessary that such a product must be distributed through a long channel of distribution. If, on the other hand, the consumers of a product are scattered over a particular region, it can be supplied by the manufacturer himself or it can be distributed through a short channel of distribution.
c. Size of orders: If a product is bought by the consumers in large quantity, the manufacturer may decide to distribute it directly to the consumers. If a product is bought by the consumers in small quantity, the manufacturer will have to arrange to supply the product at all the places and at all times. Thus, such a product is distributed through a long channel of distribution.
d. Nature of the market: A very important consideration affecting the selection of a particular channel of distribution is the nature of the market or the product. If the product is industrial, it can be distributed directly by the manufacturers to the industrial users. On the other hand, consumer goods are generally supplied to the consumers through middlemen.
e. Policies of competitors: Marketing policies of competitors also affect the decision of an enterprise regarding the selection of a particular channel of distribution. If most of the competitors are distributing their products through middlemen, the enterprise should also decide to do so. If the competitors are supplying their goods directly to the consumers, the enterprise may also decide to do so.

15.7.4 Factors related to middlemen:

Following are the factors related to middlemen which affect the selection of a particular channel of distribution:

a. Availability of desired middlemen: If desired middlemen of desired experience and capability are available in the market, the manufacturer may determine to distribute his products through such middlemen. If, on the other hand, desired middlemen are not available for a particular product, the manufacturer will have to supply it directly.

b. Sales possibilities: If it is expected that the sales of a product can be increased, if it is distributed through middlemen, the manufacturer may take the help of these middlemen. If the increase in sales is not expected through middlemen, the manufacturer may decide to distribute his products directly.

c. Cost consideration: If the cost of distribution of a product through a channel of distribution is within the range of enterprise, a decision may be taken to adopt it; otherwise it is better to distribute the goods directly.

d. Marketing policies and strategies: Sometimes, a manufacturer adopts a channel of distribution for distributing his products because of his marketing policies and strategies to do so. The main reason for such a decision may be to get the advantage of the goodwill of middlemen.

e. Services provided by middlemen: A manufacturer should select a channel of distribution that may meet his requirements. So, a channel must be selected for the services it provides.

15.7.5 Environmental factors:

Some environmental factors also affect the selection of channels distribution for a product. Such as in the market condition of the slump, a channel of distribution must be selected to provide goods and services to the consumers at a lower rate. In addition to this, some legal restrictions also affect the selection of a channel of distribution. The channel selected by the enterprise must also meet the social expectation.

15.8 Check Your Progress-2:

15.8.1 Fill in the blanks:

1. Formulation of …………………is the first step in designing a channel system.

2. ……………………..….. are the main parameters in economic evaluation.

3. If the manufacturer wants to have………………………over all the marketing activities, he should select a short channel of distribution.

4. ……………..of competitors also affect the decision of an enterprise regarding the selection of a particular channel of distribution.

15.9 Summary:

This chapter has looked into the important concept of channels of distribution. A distribution channel can be as short as being direct from the vendor to the consumer or may include several interconnected intermediaries such as wholesalers, distributors, agents, retailers. Each intermediary receives the item at one pricing point and moves it to the next higher pricing point until it reaches the final buyer, also called the channel of distribution. Key ideas regarding meaning, nature and importance of channels of distribution were presented. The channel design decision was also explained in detail. Finally, factors that affect the selection of channels of distribution have been discussed in detail. The best channel structure is reflected in the design that offers the desired performance effectiveness at the lowest possible cost along each marketing function to be executed.

15.10 Glossary:

- **Channel marketing**- The commercial processes involved in promoting selling and distributing a product or service.
- **Distribution channel**- A way of selling a company's product either directly or via distributors.
- **Wholesale Sales Method**- Selling to distributors at significantly discounted prices who in turn sell to full service or self-service retail outlets.
- **Multiple-channel system**- A channel of distribution that uses a combination of direct and indirect channels where members serve different segments.

15.11 Answers to Check Your Progress:

15.5.1 Fill in the blanks:

1. Channel of distribution.
2. Sequence of institutions
3. Developing economy
4. Middlemen
5. Retail shop

15.8.1 Fill in the blanks:

1. Channel objectives
2. Cost and efficiency
3. Complete control
4. Marketing policies

15.12 References:

- Bharadwaj. S., (2006, December 14). Distribution and Channel Management. Retrieved March 1, 2012. http://www.nptel.iitm.ac.in/courses/IIT-MADRAS/Management_Science_II/Pdf/1_4.pdf
- Coughlan, A., Anderson, E., Stern, Ansary, A, (2001). Marketing channels. New York: Prentice-Hall.
- Channels and Distribution, (1997). South-Western College Publishing. Retrieved February 28, 2012. http://busman.nmmu.ac.za/busman/media/Store/documents/2nd%20Year/11SU10.pdf
- Channels of distribution. (n.d.) Retrieved February 22, 2012, from http://www.nos.org/srsec319/319-23.pdf.
- Desai, V.,(2004). Management of Small Scale Enterprises. New Delhi: Himalaya Publishing House.
- Gupta, C.B. & Nair N.R. (2009) Marketing Management. New Delhi: Sultan Chand & Sons
- Jain, S. (2000) Marketing: planning & strategy Cincinnati: Thomson learning,
- Mamoria, C.B., Suri, R.K., & Mamoria, S., (2011). Marketing Management. Allahabad: Kitab Mahal
- Martz, W. Marketing Channel Strategy and Management, (2012, March 26). Retrieved March 26, 2012, from http://homepages.wmich.edu/~wmartz/assets/08-distribution.pdf
- Nair, N.R. & Nair, S.R. (1993). Marketing. New Delhi: Sultan Chand &Sons
- Wilkinson, I., (2001 March 9). History of network and channel thinking in marketing in the 20th Century. Australian Journal of marketing. Retrieved March 15, 2012. http://homepages.wmich.edu/~wmartz/assets/08-distribution.pdf

15.13 Suggested Readings:

- International Marketing — R. Srinivasan
- Marketing Management — Mukesh Dhunna
- Basics of Marketing Management — Dr R. B. Rudani
- Marketing Management — C. N. Sontakki

15.14 Terminal Questions:

1. Define channels of distribution. Explain the importance of channels of distribution.
2. Name any three institutional retail outlets.
3. What factors should be considered in channels building decisions?
4. Explain the channels of distribution in detail.

Unit-16

Sales Promotions-Selecting, Developing, Implementing and Monitoring Sales Promotion Strategies

Structure:

16.1 Introduction:

In the previous chapter, you have learnt about distribution channel strategies - nature and importance of distribution systems; channel design decisions, channel management decisions. Every time distribution strategies are to be different in different circumstances to achieve the sales target formulated.

In the present chapter we will be discussing sales promotion, what are the strategies that are needed to promote sales, how we select, develop implement strategies to increase sales. Sales promotion is different from advertising and personal selling. The sales promotion technique is for the short run. On the other hand, advertising is used by any company in a long run, while in personal selling, there is personal contact being made by the company to sell the product.

16.2 Objectives

After studying this unit, you will be able to:

- Explain the meaning of sales promotion
- Describe the objectives and importance of sales promotion in business
- Describe the strategies used in sales promotion
- Explain the importance & functions of sales promotion in business
- Explain the limitation of sales promotion

16.3 Meaning of Sales Promotion:

In the current scenario, every businessman wants to increase the sale of goods that he is dealing in. He can use one of the several ways for that purpose. One might have heard about "win a tour to Europe/Australia etc", "crorepati bano", "50% extra on purchase of 2 kg products", "scratch and win a prize" etc. You might also have seen getting surprise gifts like a lunch box, pencil box, pen, shampoo pouch etc. offered free with products.

There are other offers, like in exchange for an existing model of mobile/fridge/washing machine etc, you can get a new model at a reduced price. You may have also observed in your neighbouring markets notices of "winter sale", "summer sale", "trade fairs" "Diwali offers", "discount up to 70%" and many other schemes to attract customers to buy certain products. All these are incentives offered by manufacturers or dealers to increase the sale of their goods. These incentives may be in the form of free samples, gifts, discount coupons, demonstrations, shows, contests etc. All these measures normally motivate the customers to buy more and thus, it increases sales of the product. This approach of selling goods is known as "Sales Promotion".

Sales promotion does not include advertising, personal selling and publicity that help to increase sales through non-repetitive and one-time communication. In other words, it includes marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as point of purchase displays, shows and exhibitions, demonstrations and various non-recurring selling efforts not in the routine.

Sales promotion adopts short term, non-recurring techniques to increase sales in different ways. These offers are not available to the customers throughout the year. During festivals, end of the seasons, year ending and some other occasion, these schemes are generally available in the market.

Therefore, sales promotion consists of all activities other than advertising and personal selling that help to increase sales of a particular product or commodity.

Sales promotion, a key ingredient in many marketing campaigns, consists of a diverse collection of incentive tools, mostly short term, designed to stimulate trial or quicker or greater purchase of particular products or services by consumers or the trade. Whereas advertising offers a reason to buy, sales promotion offers an incentive to buy.

Sales promotion includes tools for consumer promotion (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays and demonstrations); trade promotion (prices off, advertising and display allowances and free goods) and business and sales force promotion (trade shows and conventions, contests for sales representatives and speciality advertising).

In years past, the advertising-to-sales-promotion ratio was about 60:40. Today, in many consumer-packaged goods companies, sales promotion accounts for 65–75 percent of the overall promotional budget. Several factors have contributed to this trend; particularly in consumer markets. Internal factors include the following: Promotion is now more accepted by top management as an effective sales tool, more product managers are qualified to use sales-promotion tools and product managers are under greater pressure to increase current sales. External factors include: The number of brands has increased, competitors use promotions frequently, many brands are seen as being similar, consumers are more price-oriented, the trade demands more deals from manufacturers and advertising efficiency has declined because of rising costs, media clutter and legal restraints.

16.3.1 Definitions:

Sales promotion has been defined as under According to **Philip Kotler**, "those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as display, shows, demonstrations, expositions and various other non-current selling efforts, not in the ordinary routine."

In the words of **Robert C. and Scott A**., "Sales promotion consists of a diverse collection of incentive tools, mostly short- term, designed to stimulate quicker and/or greater purchase of particular products/services by consumers or trade."

According to **Harold Whitehead**, "Sales promotion includes the dissemination of information to wholesalers, retailers, customers (actual and potential) and to the salesman".

In the words of **Boone and Kurtz**, "Sales promotion can be defined as those forms of promotion other than advertising and personal selling that increase sales through non-recurrent selling efforts".

In the words of **McCarthy**, "Sales promotion is any method of informing persuading or reminding consumers, wholesalers, retailers about the marketing mix of product, place and price which has been assembled by the marketing manager".

According to **American Marketing Association**, "Those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as displays, shows and exposition, demonstration and various non-recurrent selling, not in the ordinary routine." In the words of **L. K. Johnson**, "Sales promotion consists of all those activities whose purpose is to supplement, to co-ordinate and to make more effective efforts of the sales force, of the advertising department and the distributors; and to increase sales and otherwise stimulate consumers to take greater initiative in buying." After going through the above definition, you can now summarize that sales promotion is a very important tool of marketing which includes samples, coupons, cash refund offers, prices off etc.

So, sales promotion refers to irregular and personal sales (leaving advertising and publicity) and all the marketing activities which stimulate the consumers to purchase more and the traders to increase their sales like decoration, fairs, exhibitions, displays etc.

16.3.2 Purpose of Sales Promotion:

Sales promotion tools vary in their specific objectives. A free sample stimulates consumer trial while a free management advisory service cements a long-term relationship with a retailer.

From the marketer's perspective, sales promotion serves three essential roles it informs, persuades and reminds prospective and current customers and other selected audiences about a company and its products. The relative importance of those roles varies according to the circumstances faced by a firm. The most useful product or brand will be a failure if no one knows it is available. Because distribution channels are often long, a product may pass through many lands between a producer and consumers. Therefore, a producer must inform middlemen as well as the ultimate consumers or business users about the product. Wholesalers, in turn, must inform retailers and retailers must inform consumers. As the number of potential customers grows and the geographic dimensions of a market expand, the problems and costs of informing the market increase.

Another purpose of sales promotion is persuasion. The intense competition among different industries puts tremendous pressure on the promotional programmes of sellers. In India, even a product designed to satisfy a basic physiological need requires strong persuasive promotion because consumers have many alternatives to choose from. In the case of luxury products, for which sales depend on the ability to convince consumers that the benefits of the product exceed those of other luxuries, persuasion is even more important.

Consumers also must be reminded about a product's availability and its potential to satisfy. Sellers bombard the marketplace units, with hundreds of messages every day in the hope of attracting new consumers and establishing markets for new products. Given the intense competition for consumers' attention even an established firm must constantly remind people about its brand to retain a place in their minds. Much of a firm's sales promotion may be intended simply to offset competitors marketing activity by keeping its brand in front of the market.

16.4 Check Your Progress-1:

16.4.1 Answer the following in brief:

a) What do you mean by sales promotion?

____

____

____

____

____

____

b) How can sales promotion be helped by advertising?

____

____

____

____

____

____

16.5 Objectives of Sales Promotion:

After discussing sales promotion, you must have learnt that the main objective of sales promotion is to increase sales. However, there are a few other objectives of sales promotion. The objectives are:

16.5.1 Introduction of new products
16.5.2 Attract new customers and retain existing ones
16.5.3 Maintaining sales of seasonal products
16.5.4 Meeting the challenge with competitors
16.5.5 To increase sales in the offseason
16.5.6 To increase the inventories of business buyers

Let us have a brief discussion about these objectives.

16.5.1 Introduction of New Products:

Have you ever heard about the distribution of free samples? Perhaps you know that many companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for consumption.

16.5.2 Attracting New Customers And Retaining Existing Ones:

Sales promotion measures help to attract or create new customers for the product. While moving in the market, customers are generally attracted towards the product that offers a discount, gifts, prizes, etc. These are some of the tools used to encourage the customers to buy the goods. Thus, it helps to retain the existing customers and at the same time, it also attracts some new customers to buy the product.

16.5.3 Maintaining Sales of Seasonal Products:

There are some products like air conditioner, fan, refrigerator, cooler, winter clothes, room heater, sunscreen lotion, glycerin soap etc. which are used only in a particular season. To maintain the sales of these types of products, normally the manufacturers and dealers give off-season discounts. For example, you can buy an air conditioner in winter at a reduced price. Similarly, you may get a discount on winter clothes during summer.

16.5.4 Meeting the challenge with competitors:

Today's business faces competition all the time. New products frequently come to the market and at the same time improvement also takes place. So, sales promotion measures have become essential to retain the market share of the seller or producer in the product market.

16.5.5 To increase sales in the offseason:

Buyers may be encouraged to use the product in off-seasons by showing them the variety of uses of the product.

16.5.6 To increase the inventories of business buyers:

Retailers may be induced to keep in stock more units of a product so that more sales can be affected.

16.6 Tools of Sales Promotion:

To increase the sale of any product, manufacturers or producers adopt various techniques like the sample, gifts, bonuses and many more. These are known as tools techniques or methods of sales promotion. Let us know more about some of the commonly used tools of sales promotion.

16.6.1 Free samples:

You might have received free samples of shampoo, washing powder, coffee powder, etc. while purchasing various items from the market. Sometimes these free samples are also distributed by the shopkeeper even without purchasing any item from his shop. These are distributed to attract consumers to try out a new product and thereby create new customers. Some businessmen distribute samples among selected persons to popularize the product. For example, in the case of medicine free samples are distributed among physicians, in the case of textbooks, specimen copies are distributed among teachers.

16.6.2 Premium or Bonus offer:

A milk shaker along with Nescafe, the mug with Bournvita, a toothbrush with 500 grams of toothpaste, 30% extra in a pack of one kilogram is the example of a premium or bonuses given free with the purchase of a product. They are effective in inducing consumers to buy a particular product. This is also useful for encouraging and rewarding existing customers.

16.6.3 Exchange schemes:

It refers to offering an exchange of an old product for a new product at a price less than the original price of the product. This is useful for drawing attention to product improvement. 'Bring your old mixer-cum-juicer and exchange it for a new one just by paying Rs.500' or 'exchange your black and white television with a colour television' are various popular examples of an exchange scheme.

16.6.4 Price-off offer:

Under this offer, products are sold at a price lower than the original price. 'Rs. 2 off on purchase of Dove soap, Rs. 16 off on a pack of 250 grams of Taj Mahal tea, Rs. 1000 off on Cellphone' etc. are some of the common schemes. This type of scheme is designed to boost up sales in the off-season and sometimes while introducing a new product in the market.

16.6.5 Coupons:

Sometimes, coupons are issued by manufacturers either in the packet of a product or through an advertisement printed in the newspaper or magazine or through the mail. These coupons can be presented to the retailer while buying the product. The holder of the coupon gets the product at a discount. For example, you might have come across coupons like, 'show this and get Rs. 16 off on purchase of 5 kg. of Annapurna Atta'. The reduced price under this scheme attracts the attention of the prospective customers towards new or improved products.

16.6.6 Fairs and Exhibitions:

Fairs and exhibitions may be organized at the local, regional, national or international level to introduce new products, demonstrate the products and explain the special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount. 'International Trade Fair' at Pragati Maidan which is held from 14th to 27th November every year is a well-known example of Fairs and Exhibitions as a tool of sales promotion.

16.6.7 Trading stamps:

In the case of some specific products, trading stamps are distributed among the customers according to the value of their purchase. The customers are required to collect these stamps of sufficient value within a particular period to avail of some benefits. This tool induces customers to buy that product more frequently to collect the stamps of the required value.

16.6.8 Scratch and win offer:

To induce the customer to buy a particular product, a 'scratch and win' scheme is also offered. Under this scheme, a customer scratches a specific marked area on the package of the product and gets the benefit according to the message written there. In this way, customers may get some item free as mentioned on the marked area or may avail of price-off or sometimes visit different places on a special tour arranged by the manufacturers.

16.6.9 Money Back offers:

Under this scheme, customers are given assurance that the full value of the product will be returned to them if they are not satisfied after using the product. This creates confidence among the customers concerning the quality of the product. This technique is particularly useful while introducing new products in the market.

16.7. Developing Sales Promotion Strategies:

A sales promotion is frequently used by a business to increase sales of a specific product or service. Successful sales promotions draw new customers as well as keep current customers. There are three sales promotion strategies: A "push strategy" pushes products through the distribution chain with the in-store consumer as the final link. Discounts and free trials are two examples of "push strategy" sales promotion tools.

In contrast to the "push strategy," the "pull strategy" focuses on stimulating the consumer to purchase the product directly from the manufacturer. Cash refunds and loyalty programs are two examples of "pull strategies." The third strategy is a combination of the first two and may offer a consumer incentive in addition to a dealer discount.

16.7.1 Instructions Developing Sales Promotion Strategies:

a. List Your Product's Attributes: Focus on the features that make your product different from similar products. Here are some examples: Your product possesses a specific benefit that competing products lack; your product comes in a popular larger size or your product has just been praised by a major celebrity. All of these positive qualities can be used to promote and increase sales of your product.

b. Examine Your Target Market: Identify those consumer groups likely to use your product. Depending on the product, you may have one target market (example: ladies' handbags); or you could have several markets (example: hiking boots with built-in antimicrobial insoles). List non-traditional markets that can also benefit from your product.

c. Analyze Your Competitors' Tactics: Before you can "pull away from the pack," you need to see where the pack is running. Look at local advertisements, point of purchase offers and other promotional tactics, your competition is using to sell similar products. If possible, make a few anonymous visits to gauge the product's sales for yourself.

d. Develop A "Win-Win" Sales Promotion: Using the information, you have gathered about your product, market and competitors; develop a sales promotion that benefits both the retailer and the customer. Here are two examples: Develop a customer loyalty card program with a truly exceptional reward for completing the loyalty card (e.g., a certificate for a free massage from a health product manufacturer). Another "win-win" sales promotion may offer a complete bicyclist clothing package with the purchase of a higher-end bicycle.

e. Inform And Enthuse Your Employees: A key element of a successful sales promotion is the contagious attitude of employees towards the product. If they use and love the product, they will be happy to communicate that value to the customers.

f. Conduct An Interactive Training Session About The Product: Provide a sample for all employees; if that's not feasible, ensure that everyone has time to try or study the product. Talk about the product's benefits for consumers and highlight the product's outstanding value when compared with similar products. Make the session fun and conclude it with a great prize for the winner of a product trivia contest.

g. Develop Criteria For The Promotion's Success: Before you implement the sales promotion, identify a quantitative measure of its success. This achievement might come in the form of higher sales dollars, new customers signed up for a long-term service plan or other objective criteria.

h. Implement The Promotion: First, ensure that you have plenty of the targeted products on hand. Next, highlight the product (and the promotional enticement) with store graphics and promotional supplies provided by the manufacturer. Make sure the product's benefits are communicated by the displays and by your employees. One unconventional tactic is to hire an outgoing costumed version of the product, station her in the parking lot and task her with waving customers into the store. To reach your target markets, put your advertising message into the media utilized by these markets. Here are two examples: For a golf product, advertise on golf websites, in regional golf publications and at local country clubs. For organic makeup products and cosmetics, advertise in organic and health magazines and at health and fitness centres.

16.8 Check Your Progress-2:

16.8.1 Fill in The Blanks:

(a) Sales promotion includes all promotional activities other than advertising, personal selling and________________________

(b) The basic object of sales promotion is to increase the buying response of ultimate________________

(c) The object of sales promotion is to improve_________________________ share.

(d) Sales promotion objective is to supplement and co-ordinate the efforts of advertising and_______________selling.

(e) Informing buyers about new brand and new package is the__________________of sales promotion.

16.8.2 State Whether True or False?

a. Discount on price is allowed only for those products of which sales tend to decline.

b. Sales promotion schemes are announced only when new products frequently come in the market.

c. Free samples are distributed to induce customers to try new products.

d. Customers want to buy air-conditioners in summer to get the benefit of an off-season discount.

e. Sales promotion helps to retain existing customers as well as create new ones.

16.9 Importance of Sales Promotion:

The importance of sales promotion in modern marketing has increased mainly on account of its ability in promoting sales and prepare the ground for future expansion. The main objective of sales promotion is to attract the prospective buyer towards the product and induce him to buy the product at the point of purchase. At the salesman's level, its objective is to achieve more sales. At the retailer's level, the purpose is to sell a particular product to a manufacturer. At the consumer's level, the main idea is to enable the consumer to buy more of a product more frequently and also to introduce new uses for the product. Thus, it is a "catch-all" method and is used as an effective tool of marketing.

16.9.1. From the Point of View of Manufacturers

Sales promotion is important for manufacturers because:

i. It helps to increase sales in a competitive market and thus increases profits

ii. It helps to introduce new products in the market by drawing the attention of potential customers

iii. When a new product is introduced or there is a change of fashion or taste of consumers, existing stocks can be quickly disposed of.

iv. It stabilizes sales volume by keeping its customers with them. In the age of competition, it is quite much possible that a customer may change his/her mind and try other brands. Various incentives under sales promotion schemes help to retain the customers.

16.9.2. From the Point of View of Consumers

Sales promotion is important for consumers because:

i. The consumer gets the product at a cheaper rate

ii. It gives financial benefit to the customers by way of providing prizes and sending them to visit different places

iii. The consumer gets all information about the quality, features and uses of different products

iv. Certain schemes like money back offer creates confidence in the mind of customers about the quality of goods; and

v. It helps to raise the standard of living of people. By exchanging their old items, they can use the latest items available in the market. The use of such goods improves their image in society.

16.10 Functions of Sales Promotion:

Various functions of sales promotions are explained briefly:

16.10.1 Low cost: Sales Promotion is always the outcome of large-scale production. Large-scale production itself is meant for a low cost. But this could be achieved only with appropriate methods of large-scale selling. Ultimately, therefore, sales promotion assures a low cost.

16.10.2 Effective sales support, sales promotion policies, supplement the efforts of personal and impersonal salesmanship (Advertising). It is found that good sales promotion materials make the salesman's effort more productive. The activities reduce his time spent in prospecting and reduce the turndowns.

16.10.3 Increased speed of product acceptance: Most of the sales promotion devices (contests, coupons, etc) can be used faster than the other promotion methods such as advertisement.

16.10.4 Better control: The management has effective control over the various methods used and in their effectiveness. The financial aspects also could be sales promotion and could be compared with the profit per unit of the product sold.

16.11 Check Your Progress-3:

16.11.1 Fill in the blanks:

a. Free samples are given to customers to introduce a new………………….
b. A coupon is a certificate that reduces the ………………….of the product.
c. Price-off gives a temporary …………………………to the consumers.
d. Producers of garments often organize …………………shows to promote their products.
e. Retail demonstrations are supplied by manufacturers for preparing and distributing the products as retail……………………………

16.12 Reasons for Increasing use of Sales Promotion:

Sales promotion activities have become increasingly popular among business firms due to the following factors:

16.12.1 Brand proliferation: As companies are increasingly using branding to identify a product from competing products the number of brands has increased tremendously. Brands become less distinctive and product features cannot be advertised very effectively. Companies adopt sales promotion to ensure their share of the limited space with the retailers.

16.12.2 Trade pressure: There is now greater pressure on manufacturers to provide support and allowances due to the growth of the super market, chain assist retailers and thereby secure their cooperation.

16.12.3 Growth competition: When one manufacturer adopts an aggressive promotional strategy to create a brand image, the sales of other manufacturers are affected. To maintain their sales, other manufacturers also start sales promotion activities leading to virtually a promotion war.

16.12.4 Recession: During a recession, consumers can be persuaded to wait as, during a recession, business comes to zero. Therefore, manufacturers make use of these activities to reduce inventory and to improve cash position.

16.12.5 Quick returns: Sales promotion activities are launched quickly and yield faster. These activities also motivate the overburdened and lethargic sales force. Therefore, there is widespread use of sales promotion schemes.

16.12.6 Competent staff: Due to specialisation, new staff positions have been created in several companies. Executives with specialised qualifications have greater faith in modern techniques of sales promotion.

16.12.7 Change in attitudes: Earlier, senior managements were of the view that sales promotion spoiled the image of their brand. But the success of competitors in sales promotion has made sales promotion more acceptable to such managements.

16.13 Limitation of Sales Promotion:

- To improve the public image of the firm sales promotion, however, suffers from the following limitations:
- There is a feeling that such seasonal sales promotional activities are mainly intended to sell an inadequate product.
- The second criticism is that such discounts are not real, since the prices of the products are already inflated.
- These activities are short-lived, so the results realized are also short-lived. As soon as these concessions are withdrawn, the demand also falls.
- It is a short-run tool used to stimulate an immediate increase in demand.
- The producer provides the quality information, uses, different uses of products and their price etc, to the consumers while introducing their products.
- Sales promotion is also helpful in increasing the number of new customers. The producers give the customers different concessions such as purchase two and getting one as "free".
- For sales promotion, advertisements are given to the leading magazines which ultimately result in more goodwill for the company.
- The main purpose of sales promotion is to increase the sales of the product of the company. Promotional activities like gifts induce the customers to purchase. Thus, sales increase.
- One of the objectives of the sales promotion is to keep the memory of the product alive in the minds of the present customers.
- The intensive competition has necessitated the sales promotional activities to educate their customers.
- Most of the sales promotion devices (such as content, premium coupons etc) can be used faster than the other methods such as advertisements.

16.14. Check Your Progress-4:

16.14.1 Given below are some wrong statements. Correct them in the space provided below each.

a. "Money back offer" helps customers to improve their status in the society and so it is important to them.

b. Existing stock can be quickly disposed of by sales promotion when dealers want to compete in the market and that is why it is important to them.

c. The importance of sales promotion is appreciated by consumers because they cannot change over to the new brand of goods.

d. Dealers consider sales promotion to be important because it involves cheaper rates being offered to customers.

____

____

____

____

____

____

e. For consumers, sales promotion has no importance even if it provides information about improvement in quality of goods because that does not bring monetary benefit.

____

____

____

____

____

____

16.15 Summary:

In this chapter, we have discussed the meaning of Sales promotion, its objectives and how to select, develop and implement sales promotion strategies. More than any other element of the promotional mix, sales promotion is about "action". Sales promotion is the final marketing mix element. It is about stimulating customers to buy a product. It is not designed to be informative; a role which advertising is much better suited. Sales promotion consists of short-term incentives to encourage purchase or sales of a product or service whereas advertising and personal selling offer reasons to buy a product or service, sales promotion offers reasons to buy now. Promotional strategy is the function of informing, persuading and influencing a consumer decision. It is as important to non-profit organizations as it is to a profit-oriented company like Colgate-Palmolive. Some promotional strategies are aimed at developing primary demand, the desire for a general product category.

Sales promotion activities may be used singly or in combination, both offensively and defensively, to achieve one goal or a set of goals. Sales promotion tools vary in their specific objectives. A free sample stimulates consumer trial whereas a free management-advisory service aims at cementing a long-term relationship. Today, many marketing managers first estimate what they need to spend in trade promotion, then what they need to spend in consumer promotion. Whatever is left they will budget for advertising. There is a danger, however, in letting advertising take a back seat because advertising typically acts to build brand loyalty. The question of whether or not sales promotion weakens brand loyalty is subject to opt for different interpretations. Sales promotion with its incessant price off, coupons, deals and premiums may devalue the product offering in buyers' minds. Buyers learn that the list price is largely fiction. However, before jumping to any conclusion, we need to distinguish between price promotions and added-value promotions.

16.16 Glossary:

- **Sales promotion:** It consists of short-term incentives to encourage the purchase or sale of a product or service.
- **Samples:** Special offer of a trial amount of a product.
- **Coupons:** Certificates that offer buyers savings when they purchase specified products.
- **Seasonal products:** Those products whose demand varies in a regular pattern, season to season.
- **Market share:** Ratio or area of a market controlled by a particular company or product.
- **Dealer outlets:** A place where business for retailing goods is done.

16.17 Answers to Check Your Progress:

16.8.1 Fill in the blanks:

(a) Publicity
(b) Consumers
(c) Market
(d) Personal
(e) Objective

16.8.2 State Whether True or False?

(a) False
(b) False
(C) True
(d) False
(e) True

16.11 Fill in the blanks:

(a) Product
(b) Price
(c) Discount
(d) Fashion
(e) Sample

16.18 References:

- Greene, F. (n.d.). How to Develop a Sales Promotion. Retrieved January 12, 2012, from eHow.com: http://www.ehow.com/how_6054727_develop-sales-promotion.html
- Gupta, C.B. & Nair N.R. (2009) Marketing Management. New Delhi: Sultan Chand & Sons
- Kour, P. (2009, October 28). Sales Promotion-Meaning and Definitions. Retrieved January 20, 2011, from www.excellentguru.com: http://www.excellentguru.com/index.php?option=com_content&view=article&id=196:sales-promotion-meaning-and-definitions-&catid=43:marketing-management&Itemid=59
- Mamoria, C.B., Suri, R.K. &Mamoria, S. (2011). Marketing Management. Allahabad: KitabMahal
- Nair, N.R. & Nair, S.R. (1993). Marketing. New Delhi: Sultan Chand &Sons
- Rudani, R. B. (2009). Basics of marketing management. New Delhi: S. Chand & Company Ltd.
- Varshney, R. L. (2005). Marketing management. New Delhi: Sultan Chand & Sons.
- Wisest (2011, June 29). Selecting Sales-Promotion Tools. Retrieved January 25, 2011, from www.ideatodays.com:http://www.ideatodays.com/miscellaneous/selecting-sales-promotion-tools.html

16.19 Suggested Readings:

• Principles of Marketing	C.N. Sontakki
• International Marketing	R. Srinivasan
• Marketing Management	Mukesh Dhunna
• Basics of Marketing Management	Dr R.B. Rudani
• Marketing Management	C.N. Sontakki

16.20 Terminal Questions

1. Explain the meaning of 'Sales Promotion'. Why is Sales Promotion necessary? Describe the purpose served by sales promotion?

2. Explain briefly the objectives of sales promotion. What are the criteria for setting the objectives of sales promotion? Explain the factors to be considered in developing these criteria.

3. Explain the importance, functions and limitations of sales promotion.

4. What are sales promotion strategies? How are sales promotion strategies developed?